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RELATIONS
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UNITED
STATES

1969–1976

VOLUME XXXVII

ENERGY CRISIS,
1974–1980



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Washington



Foreign Relations of the United States, 1969–1976

Volume XXXVII

Energy Crisis, 1974–1980

Editor Steven G. Galpern
General Editor Edward C. Keefer

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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 USC 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 Presidents Richard Nixon and Gerald R. Ford. However, because of the thematic approach taken to document the energy crisis,

this volume covers U.S. policy across administrations from August 1974 through the end of the Carter administration in January 1981. Volume XXXVI, *Energy Crisis, 1969–1974*, documents energy issues from early concerns within the Nixon administration about high oil imports through the crisis of the 1973 Arab oil embargo and the February 1974 Washington Energy Conference.

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

This is one of a growing number of *Foreign Relations* volumes that document global issues instead of a bilateral relationship, reflecting the changing nature of U.S. foreign policy in response to an increasingly interrelated world. The documentation in this volume focuses primarily on the Ford and Carter administrations' strategies to mitigate the damage to the U.S. and global economy of rising oil prices imposed by the OPEC cartel and reduced availability occasioned by the Iranian Revolution in 1979. U.S. policy was primarily multilateral, and U.S. diplomats were active participants in the development of the International Energy Agency's program of energy cooperation. The Economic Summits of the period brought together the heads of state of the richest industrialized countries in Rambouillet, London, Bonn, and Tokyo to devise a common strategy to deal with the impact of high oil prices on the global economy.

The volume also documents both administrations' bilateral efforts to reach agreements with Mexico, the Soviet Union, and Iran to supply oil and natural gas to the United States. Both administrations also undertook broad-based domestic initiatives to increase energy conservation and reduce oil imports.

Editorial Methodology

The documents are presented chronologically according to Washington time. Memoranda of conversation and reporting telegrams are placed according to the time and date of the meeting, rather than the date a document 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. 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. In telegrams, the telegram number (including special designators such as Secto) is printed at the start of the text of the telegram.

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.

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 13526 on Classified National Security Information, 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 February 2009 and was completed in March 2011, resulted in the decision to withhold 6 documents in full and to excise 11 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 U.S. policy toward the global energy crisis from August 1974 to the end of the Carter administration in January 1981.

Acknowledgments

The editor wishes to acknowledge the assistance of officials at the Gerald R. Ford Presidential Library at Ann Arbor, Michigan, and the Jimmy Carter Presidential Library in Atlanta, Georgia. John Earl Haynes and Ernest Emrich expedited access to the Henry A. Kissinger Papers and the James Schlesinger Papers housed at the Library of Congress and carried out extensive copying on the editor's behalf. The editor was able to use the Henry A. Kissinger Papers with the kind permission of Henry Kissinger. The editor wishes to thank the History Staff of the CIA for invaluable assistance in arranging full access to the files of the Central Intelligence Agency.

Steven G. Galpern collected the documentation, made the selections, and annotated the documents for this volume under the direction of Edward C. Keefer, General Editor of the *Foreign Relations* series. Chris Tudda coordinated the declassification review under the direction of Susan C. Weetman, Chief of the Declassification and Publishing Division. Rita Baker and Renée Goings performed the copy and technical editing. Do Mi Stauber prepared the index.

Bureau of Public Affairs
October 2012

Stephen Randolph
The Historian

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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 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 of the Department's central files for 1974-1980 have been scanned onto the Central Foreign Policy File system and are available through the National Archives and Records Administration (Archives II) at College Park, Maryland. Many of the Department's decentralized office files, 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 Presidents Ford and Carter and other White House foreign policy records. Presidential papers maintained and preserved at the Presidential libraries 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. Henry Kissinger and James Schlesinger have approved access to their papers at the Library of Congress. These papers are key sources for the Nixon-Ford subseries of *Foreign Relations*. Department of State historians also have full access to records of the Department of Defense,

particularly the records of the Joint Chiefs of Staff and the Secretary of Defense as well as their major assistants. The Central Intelligence Agency has provided full access to its files.

Research for this volume was completed through special access to restricted documents at the Ford Presidential Library, the Carter Presidential Library, the Library of Congress, and other agencies. While all of the material printed in this volume has been declassified, some of it is extracted from still classified documents. The staffs of the Ford and Carter presidential libraries are 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 XXXVII,
Energy Crisis, 1974–1980

To prepare this volume, the editor made extensive use of records from the administrations of both Gerald R. Ford and Jimmy Carter. Because the National Security Council—led by Henry Kissinger until November 1975, and then by Brent Scowcroft until January 1977—was deeply involved in the conception of foreign energy policy, the editor found the files of the National Security Adviser, held at the Ford Presidential Library in Ann Arbor, Michigan, to be an essential starting point. Within this collection, the files that best reveal how the Administration's foreign energy policy was conceived and executed are the National Security Council Meetings File, the National Security Study Memoranda and Decisions File (folders on "NSSM 237: U.S. International Energy Policy"), the Presidential Files of NSC Logged Documents (folders on "Oil Price Increase"), the NSC Institutional Files (folders on "NSSM 237"), the NSC Staff for International Economic Affairs: Convenience Files (particularly the Presidential and Institutional Subject Files on "Energy," "Oil," and "OPEC"), the Presidential Subject File (the folders on "Camp David Meeting of Foreign and Finance ministers on Energy, Sept. 28-29, 1974," "Energy," and "OPEC"), and the Kissinger-Scowcroft West Wing Office File (folders on "Energy"). These contain the highest level memoranda, minutes of meetings, and papers on the fundamental issue of how the Administration sought to control the high price of oil. While not quite as useful, the Presidential Agency File contains 12 installments of the CIA's "International Oil Developments" series, which analyzes trends in the international oil industry from January 1976-January 1977, and also has energy-related documents from the Federal Energy Administration, the Council of Economic Advisers, the Council on International Economic Policy, and the President's Foreign Intelligence Advisory Board.

Next, one should explore the files that concern the major oil consuming and producing countries, U.S. relations with which were critical to the Ford Administration's efforts to control oil prices. The con-

suming nations that, along with the United States, led efforts to reduce petroleum consumption among the advanced industrialized democracies were France, Germany, the United Kingdom, and Japan, while the producing nations that the Administration most lobbied to restrain oil prices were Saudi Arabia, Iran, and Venezuela. As a result, the memoranda of conversations between leading U.S. officials and their counterparts in the aforementioned countries, as well as the Presidential correspondence with the leaders of those countries, are particularly useful. Furthermore, the Presidential Country Files, grouped into regions such as Africa, East Asian and Pacific Affairs, Europe and Canada, Latin America, and Middle East and South Asia, are replete with the most relevant Department of State telegrams to and from the leading consuming and producing countries. Such telegrams can also be found in the NSC Staff Convenience Files, the working files of the NSC staff members responsible for analyzing information on the regions under their purview. These files contain valuable memoranda, papers, and letters, and the material is divided into the same regional categories as the Country Files. Finally, the Presidential and Institutional Subject files within the NSC Staff for International Economic Affairs: Convenience Files also has documents concerning the major oil producing countries.

Other collections within the Ford Presidential materials also include documents related to foreign energy policy. The papers of Arthur F. Burns of the Federal Reserve Board has material on the September 1974 Camp David Energy Meeting as well as oil in general, while the papers of Frank G. Zarb of the Federal Energy Administration contain documents on Ford's energy program. Finally, the records of the U.S. Council of Economic Advisers include material on Energy, OPEC, and the International Energy Review Group.

For the Ford era, the records of the Department of State—Record Group 59—at the National Archives and Records Administration (NARA) are essential to understanding how the Administration's foreign oil policy was conceived. Most important are the transcripts of Kissinger's Staff Meetings, which provide a valuable window into the sometimes contentious back-and-forth between the Secretary and his senior staff as well as into Kissinger's thinking on energy issues. Also essential are the records of the Bureau of Economic and Business Affairs, which, along with the Under Secretary for Economic Affairs, helped formulate U.S. foreign energy policy in both the Ford and Carter eras. Since most of the Lot Files for the Bureau's Office of Fuels and Energy have been destroyed, the relevant papers and memoranda should be located on P-Reel, as should the records of the regional Bureaus that contributed to foreign energy policy, not to mention those of the Under Secretary for Economic Affairs. Of course, Department tele-

grams are available on P-Reel as well, but the majority of the ones cited in this volume were found on the State Archiving System (SAS). For the details of International Energy Agency meetings, including the Governing Board and the various subcommittees, these telegrams are essential.

The records of the Department of Defense and the Central Intelligence Agency, and the papers of Henry Kissinger at the Library of Congress, are useful to greater and lesser degrees, but it should be noted that the latter two are closed to the public. For both the Ford and Carter Administrations, the records of the Secretary of Defense, his deputy, and his assistants are at the Washington National Records Center and contain oil field and pipeline vulnerability studies that are also available in the National Security Adviser files at the Ford and Carter Libraries. The CIA records, which are in Agency custody, contain various international oil studies and research related to particular countries but, as with the DoD material, the highest-level documents are in the Ford and Carter National Security Adviser files. Finally, there are the Papers of Henry Kissinger at the Manuscript Division of the Library of Congress. The collection was available, by permission of Kissinger himself, to the staff at the Office of the Historian for use in the *Foreign Relations* series and is useful for obtaining occasional material not found—or not easily found—at the Ford Library or in Record Group 59 at NARA.

For the Carter period, research should begin at the Carter Library in Atlanta, Georgia. As with the Ford Administration, the editor found the records of National Security Adviser—in this case Zbigniew Brzezinski—the best place to start. The part of the collection that best reveals how the Administration's foreign energy policy was conceived and executed is the Staff Material. In particular, Henry Owen's Special Projects File (Collection 19), Rutherford Poats' Chronological File within the International Economics File (Collection 29)—the Subject File within the Middle East File (Collection 25), and the Robert Pastor File within the North/South File (Collection 24) are extremely valuable for documents on broader foreign energy policy and on relations with the most important oil producers. Within the Subject File, the "Oil" folders in Box 48 are critical for NSC memoranda on the Carter Administration's efforts to control petroleum prices and other energy-related matters. The H-Files (Collection 132) contains the minutes of the Presidential Review Committee and Special Coordination Committee meetings on oil—as well as the papers and memoranda related to those meetings. An alternative place to look for such documents is in the Staff Material Office File (Collection 17), which helps to fill in the gaps that appear in the H-Files.

Except in the context of the annual G7 Economic Summits, the Carter Administration did not focus its foreign energy policy on the in-

dustrialized consuming nations as much as the Ford Administration did, but instead concentrated on the producers. Mexico was of particular interest as a non-OPEC source of energy that the United States could exploit to offset its dependence on OPEC sources. The best material on efforts to reach an oil and gas deal with Mexico are in the aforementioned Pastor File. For documents related to the major producers—such as Venezuela, Iran, Saudi Arabia, and others—the aforementioned Staff Material Files, the Country File (Collection 6), the folders containing Memoranda of Conversation within the Subject File, and the President's Correspondence File (Collection 3) are the most fruitful. As with the Ford era, Department of State telegrams to and from these countries are in Record Group 59 at NARA.

Much of the interaction between the United States and the major consuming countries on energy issues involved U.S. officials explaining the Carter Administration's strategy to limit domestic energy consumption. Administration officials discussed these efforts in the context of the annual Economic Summits, IEA Governing Board meetings, and bilateral conversations. The largest collection of economic summit material is in Henry Owen's aforementioned Special Projects File, while accounts of the IEA Governing Board meetings and bilateral discussions with consuming country representatives are in Department of State telegrams at NARA. Of course, in the records of the National Security Adviser at the Carter Library, the Memoranda of Conversation within the Subject File and the President's Correspondence File are also a good source for documentation on bilateral communication between the United States and consuming countries. Less helpful in this regard are the Staff Material regional files, such as Europe, USSR, and East/West (Collection 23), and the aforementioned Country File.

Records unique to the Carter Administration include those of the Department of Energy and the James Schlesinger Papers at the Manuscript Division of the Library of Congress, both of which are closed to the public. The former contains the valuable Executive Secretariat Files, material from which is often unavailable elsewhere. These include important memoranda of conversation as well as memoranda to and from the Secretary of Energy, the Assistant Secretary of Energy for International Affairs, and the Deputy Secretary of Energy. Likewise, Schlesinger's papers at the Library of Congress contain memoranda and memoranda of conversation not found in other repositories.

Unpublished Sources

Department of State

Central Files. *See* Record Group 59 under National Archives and Records Administration below.

Lot Files. *See* Record Group 59 under National Archives and Records Administration below.

National Archives and Records Administration, College Park, Maryland

Record Group 59, Files of the Department of State

Central Foreign Policy Files

Lot Files

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

Lot 91D414, Records of Henry Kissinger

Lot 80D212, S/S-NSC Files

Lot 82D85, S/S Files

Lot 84D241, S/S Files, Records of Secretary of State Cyrus Vance, 1977–1980

Gerald R. Ford Presidential Library, Ann Arbor, Michigan

National Security Adviser

Backchannel Messages

Kissinger-Scowcroft West Wing Office Files

Memoranda of Conversation

NSC Institutional Files

NSC Operations Staff for Middle Eastern and South Asian Affairs Convenience Files

NSC Staff for International Economic Affairs Convenience Files

NSC Staff for Europe, Canada, and Ocean Affairs: Convenience Files

Outside the System Chronological File

Presidential Correspondence with Foreign Leaders

Presidential Country Files for East Asia and the Pacific

Presidential Country Files for Europe and Canada

Presidential Country Files for Latin America

Presidential Country Files for the Middle East and South Asia

Presidential Subject File

National Security Council Institutional Files

President's Daily Diary

Jimmy Carter Presidential Library, Atlanta, Georgia

National Security Affairs

Brzezinski Material

Agency File

Brzezinski Office File

Country File

President's Correspondence with Foreign Leaders File

Subject File

Trip File

Staff Material

International Economics File

Middle East File

North/South File

Office File

Special Projects File

National Security Council

NSC Institutional Files

Plains File

President's Daily Diary

Staff Offices

Council of Economic Advisers File

Domestic Policy Staff File

White House Central Files

Subject File

Central Intelligence Agency

Files of the Office of the Director of Intelligence

Executive Registry Files

Job 80-M01009A

Department of Energy, Germantown, Maryland

Files of the Executive Secretariat, Job #8824

Library of Congress, Washington, DC

Manuscript Division

Papers of Henry A. Kissinger

Geopolitical File

Papers of James R. Schlesinger

Washington National Records Center, Suitland, Maryland

FRC 330, Records of the Office of the Secretary of Defense

78-0058

79-0049

82-0263

National Security Council, Washington, DC

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United States. National Archives and Records Administration. *Public Papers of the Presidents of the United States: Jimmy Carter, 1977, 1978, 1979, 1980*. Washington, DC: U.S. Government Printing Office, 1979, 1980, 1982.

Washington Post

Abbreviations and Terms

AF, Bureau of African Affairs, Department of State
AF/EPS, Economic Policy Staff, Bureau of African Affairs, Department of State
AF/W, Office of West African Affairs, Bureau of African Affairs, Department of State
AID, Agency for International Development
ARA, Bureau of Inter-American Affairs, Department of State
ARA/AND, Office of Andean Affairs, Bureau of Inter-American Affairs, Department of State
ARA/EP, Office of Regional Economic Policy, Bureau of Inter-American Affairs, Department of State
Aramco, The Arabian-American Oil Company
ARA/MEX, Office of Mexican Affairs, Bureau of Inter-American Affairs, Department of State
ASAP, as soon as possible
ASD/ISA, Assistant Secretary of Defense for International Security Affairs
ASEAN, Association of Southeast Asian Nations

BCF, billion cubic feet (of natural gas)
BCFD, billion cubic feet per day (of natural gas)
BD, barrels per day
B/D, barrels per day
BIS, Bank for International Settlements
BNOC, British National Oil Company
BOP, Balance of Payments
BP, British Petroleum Company
Bpd, barrels per day
BTU, British Thermal Unit

CEA, Council of Economic Advisors
CEMA, Council for Mutual Economic Assistance
CEP, Committee for Energy Policy (of the OECD)
CEPS, Central Europe Pipeline System
CFD, cubic feet per day (of natural gas production)
CIA, Central Intelligence Agency
CIEC, Conference on International Economic Cooperation
CIEP, Council on International Economic Policy
CIEPSM, Council on International Economic Policy Study Memorandum
CIF, Carriage, Insurance, and Freight
CIP, Critical Infrastructure Protection
CMEA, Council for Mutual Economic Assistance
COET, Crude Oil Equalization Tax
Comecon, Council for Mutual Economic Assistance
COMIDEASTFOR, Commander, Middle East Force
Con., Congressional
Con., United States Congress
CONUS, Continental United States
CSCE, Conference on Security and Cooperation in Europe

DAC, Development Assistance Committee (of the OECD)
DCI, Director of Central Intelligence
DCID, Director of Central Intelligence Directives
DCM, Deputy Chief of Mission
DepSecDef, Deputy Secretary of Defense
DFSC, Defense Fuel Supply Center
DM, Deutschmark (currency of Germany)
DOD, Department of Defense
DOE, Department of Energy
DOE/ERA, Economic Regulatory Administration, Department of Energy
DOE/IA, Assistant Secretary for International Affairs, Department of Energy
DPS, Defense Planning Staff

E, Under Secretary for Economic Affairs, Department of State
EA, Bureau of East Asian and Pacific Affairs, Department of State
EA/EP, Office of Regional Economic Policy, Bureau of East Asian and Pacific Affairs, Department of State
EA/IMBS, Indonesia, Malaysia, Burma, and Singapore Affairs, Bureau of East Asian and Pacific Affairs, Department of State
EA/J, Japan Affairs, Bureau of East Asian and Pacific Affairs, Department of State
EA/RA, Regional Affairs, Bureau of East Asian and Pacific Affairs, Department of State
EB, Bureau of Economic and Business Affairs, Department of State
EB/IEP, International Energy Policy, Bureau of Economic and Business Affairs, Department of State
EB/IEP/ECC, Office of Energy Consumer-Country Affairs, Bureau of Economic and Business Affairs, Department of State
EB/IEP/EPC, Office of Energy Producer-Consumer Affairs, Bureau of Economic and Business Affairs, Department of State
EB/IFD, International Finance and Development, Bureau of Economic and Business Affairs, Department of State
EB/IFD/OMA, Office of Monetary Affairs, International Finance and Development, Bureau of Economic and Business Affairs, Department of State
EB/ORF, International Resources and Food Policy, 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/FSE, Office of Fuels and Energy, Bureau of Economic and Business Affairs, Department of State
EC, European Community
ECG, Energy Coordinating Group
ECP, Office of Regional Economic Policy, Bureau of Inter-American Affairs, Department of State
EDDC, Energy Deficient Developing Country
EEC, European Economic Community
EMS, European Monetary System
EPA, Environmental Protection Act
EPB, Economic Policy Board
EPCA, Energy Policy and Conservation Act
ERDA, Energy Research and Development Administration
EUR, Bureau of European Affairs, Department of State
EUR/CE, Office of Central European Affairs, Bureau of European Affairs, Department of State
EUR/NE, Office of Northern European Affairs, Bureau of European Affairs, Department of State

Eurodif, European Gaseous Diffusion Uranium Enrichment Consortium
EUR/RPE, Office of OECD, European Community, and Atlantic Political-Economic Affairs, Bureau of European Affairs, Department of State
EUR/SE, Office of Southern European Affairs, Bureau of European Affairs, Department of State
Exdis, exclusive distribution
Ex-Im Bank, Export-Import Bank of the United States

FAO, Food and Agriculture Organization (of the United Nations)
FEA, Federal Energy Agency
FEMA, Federal Emergency Management Agency
FERC, Federal Energy Regulatory Commission
FGN, Federal Government of Nigeria
FNMA, Federal National Mortgage Association (Fannie Mae)
FOB, Free On Board
FRG, Federal Republic of Germany
FY, fiscal year
FYI, for your information

GATT, General Agreement on Tariffs and Trade
GB, Governing Board (International Energy Agency)
GNP, Gross National Product
GOF, Government of France
GOI, Government of Iran
GOJ, Government of Japan
GON, Government of Norway
GOV, Government of Venezuela
GSP, Generalized System of Preferences

H., United States House of Representatives
HAK, Henry A. Kissinger
HEW, Department of Health, Education, and Welfare
HMG, Her Majesty's Government (United Kingdom)

IAEA, International Atomic Energy Agency
IAM, International Association of Machinists and Aerospace Workers
IBRD, International Bank for Reconstruction and Development (the World Bank)
ICA, International Communications Agency
IDA, International Development Association (of the World Bank)
IDCA, International Development Corporation Agency
IEA, International Energy Agency
IEG, International Energy Group
IEI, International Energy Institute
IEP, International Energy Program
IETG, International Energy Technology Group (of the IEA)
IFC, International Finance Corporation
IFI, International Financial Institution
ILO, International Labor Organization of the United Nations
IMF, International Monetary Fund
INFCE, International Nuclear Fuel Cycle Evaluation
INR, Bureau of Intelligence and Research, Department of State
INR/REC, Office of Economic Research and Analysis, Bureau of Intelligence and Research, Department of State
IRS, Internal Revenue Service

ISR, Industrial Strategic Reserve
ISTC, International Science and Technology Center

J, Jimmy Carter
JC, Jimmy Carter
JCS, Joint Chiefs of Staff
JFY, Japanese Fiscal Year

Kg., kilogram

LA, Legal Affairs
LDC, Less-Developed Country
L/EB, Assistant Legal Adviser for Economic and Business Affairs, Office of the Legal Adviser, Department of State
Limdis, limited distribution
LNG, liquid natural gas

MBD, million barrels per day
M/BD, million barrels per day
MBPD, million barrels per day
MCF, million cubic feet (of natural gas)
MDB, Multilateral Development Bank
Memcon, memorandum of conversation
MER, Monthly Energy Review
MITI, Ministry of International Trade and Industry (Japan)
MMB, million barrels per day
MMBD, million barrels per day
MMB/D, million barrels per day
MMBTU, million British Thermal Units
MMT, methylcyclopentadienyl manganese tricarbonyl
MNC, Multi-National Corporation
MRA&L, Manpower, Reserve Affairs, and Logistics
MSA, Most Seriously Affected
MSAS, Most Seriously Affected States
MSP, Minimum Safeguard Price
MTN, Multilateral Trade Negotiations

NATO, North Atlantic Treaty Organization
NEA/AFN, Office of Algeria, Libya, Morocco, and Tunisia Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State
NEA/ARN, Office of Lebanon, Jordan, Syrian Arab Republic Affairs, Iraq Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State
NEA/ARP, Office of Arabian Peninsula Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State
NEA/ECON, Economic Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State
NEA/EX, Office of Executive Director, Bureau of Near Eastern and South Asian Affairs, Department of State
NEA/INS, Office of Bhutan, India, Maldives, Nepal, Sri Lanka 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/RA, Office of Regional Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State

NEB, National Energy Board (Canada)
NESA, Near East and South Asia
NFAC, National Foreign Assessment Center (of the CIA)
NGL, natural gas liquids
Niact, night action
NIOC, National Iranian Oil Company
Nodis, no distribution
NOPR, Notice of Proposed Rulemaking
Notal, not to all
NPR, Naval Petroleum Reserve
NPR-4, Naval Petroleum Reserve No. 4 in Alaska
NPT, Non-Proliferation Treaty
NSC, National Security Council
NSDM, National Security Decision Memorandum
NSSM, National Security Study Memorandum

OAPEC, Organization of Arab Petroleum Exporting Countries
OASD/ISA, Office of the Assistant Secretary of Defense for International Security Affairs
OCS, Outer Continental Shelf (offshore oil lands administered by the U.S. federal government)
OECD, Organization for European Cooperation and Development
OER, Office of Energy Research
OES, Bureau of Oceans and International Environmental and Scientific Affairs, Department of State
OLADE, Organizacion Latinoamericana de Energia (Latin American Energy Organization)
OMB, Office of Management and Budget
OPANAL, Agency for the Prohibition of Nuclear Weapons in Latin America
OPEC, Organization of Petroleum Exporting Countries
ORPA, Office of Research and Policy Analysis
OSD, Office of the Secretary of Defense
OSTP, Office of Science and Technology Policy

Pan Am, Pan American Airlines
PD, Presidential Determination
PDRY, People's Democratic Republic of Yemen
PEMEX, Petroleos Mexicanos (Mexico's state-owned oil company)
PER/FCA, Office of Foreign Service Career Development and Assignments, Bureau of Personnel, Department of State
PG, Persian Gulf
P.L., Public Law
POL, Petroleum, Oil, and Lubricants
PRC, People's Republic of China
PRC, Policy Review Committee
Prepcon, preparatory conference
PRM, Presidential Review Memorandum
PSVA, Petroleum Supply Vulnerability Assessment

R&D, Research and Development
RDF, Rapid Deployment Force
Ref., reference
Reftel, reference telegram
Res., Resolution
RG, Record Group

RMS, Resource Management Staff

RP, Rutherford Poats

rpt, repeat

S., United States Senate

SAG, Saudi Arabian Government

SCC, Special Coordinating Committee

SDR, Strategic Drawing Rights (from the International Monetary Fund)

Secdef, Secretary of Defense

Secstate, Secretary of State

Secto, series indicator for telegrams sent from the Secretary of State

SELA, Sistema Economico Latinoamericana (Latin American Economic System)

SEQ, Standing Group on Emergency Questions (International Energy Agency)

SFRC, Senate Foreign Relations Committee

SLOC, Sea Line of Communication

SLT, Standing Group on Long Term Cooperation (of the IEA)

SOR, Strategic Oil Reserve

S/P, Policy Planning Staff, Department of State

SPR, Strategic Petroleum Reserve

SRC, solvent refined coal

S/S, Executive Secretariat, Office of the Secretary, Department of State

TCF, trillion cubic feet (of natural gas)

TDY, Temporary Duty (US Government)

Telcon, telephone conversation

TNC, Terms and Conditions

Tosec, series indicator for telegrams sent to the Secretary of State

TPA, Technical Purchasing Authority

UAE, United Arab Emirates

UAEG, United Arab Emirates Government

UK, United Kingdom

UN, United Nations

UNCSTD, United Nations Center for Science and Technology Development

UNCTAD, United Nations Conference on Trade and Development

UNDP, United Nations Development Program

UNGA, United Nations General Assembly

UNIDO, United Nations Industrial Development Organization

US, United States

USC, Under Secretaries' Committee

USCINCEUR, Commander-in-Chief, U.S. European Command

USD(P), Under Secretary of Defense for Policy

USEC, United States Mission to the European Community

USG, United States Government

USICA, United States International Communications Agency

USLO, United States Liaison Officer, Department of State

USMEDEL, United States Middle East Delegation

USMTM, United States Military Training Mission

USOCD, United States Mission to the Organization for Economic Cooperation and Development

USSR, Union of Soviet Socialist Republics

VLCC, Very Large Crude Carrier

WPI, World Price Index

WSAG, Washington Special Actions Group

Z, Zulu Time (Greenwich Mean Time)

ZB, Zbigniew Brzezinski

Persons

- Aaron, David**, Deputy Assistant to the President for National Security Affairs, from January 1977 until January 1981
- Akhdar, Farouk**, Secretary General of the Royal Commission on Yanbu/Jubayl (Saudi Arabia)
- Akins, James E.**, Ambassador to Saudi Arabia until February 10, 1975
- Alireza, Abdallah**, Sheikh, Saudi Deputy Minister for Economic and Cultural Affairs
- Alireza, Ali Abdallah**, Saudi Ambassador to the U.S.
- Alm, Alvin**, Assistant Secretary, Policy and Evaluation, Department of Energy
- Amaya, Naohiro**, Head of Japan's Energy Agency
- Amouzegar, Jamshid**, Iranian Minister of Interior and Resurgence (Rastakhiz) Party Chief until August 1977; Secretary General of Resurgence Party from November 1976 and Prime Minister from August 1977 until August 1978
- Anderson, Glenn**, member, U.S. House of Representatives (D-California)
- Andreotti, Giulio**, Italian Prime Minister from July 29, 1976 until August 4, 1979
- Andronikoff, Constantin**, Minister-Counselor, French Ministry of Foreign Affairs
- Ansari (also Ansary), Hushang**, Iranian Minister of Finance and Economy until 1977; Director, National Iranian Oil Company, from 1977 until 1978
- Apel, Hans**, West German Finance Minister
- Ardalan, Ali**, Iranian Minister of Economic Affairs and Finance
- Armocost, Michael**, Deputy Assistant Secretary of State for East Asian and Pacific Affairs
- Asao, Shinichiro**, Director General, North American Bureau, Japanese Ministry of Foreign Affairs
- Ashley, Thomas**, member, U.S. House of Representatives (D-Ohio)
- Askew, Reubin**, U.S. Special Trade Representative, from August 1979 until January 1981
- Atherton, Alfred L. "Roy,"** Assistant Secretary of State for Near Eastern and South Asian Affairs until April 13, 1978; Ambassador at Large from April 11, 1978 until May 22, 1979; Ambassador to Egypt from May 17, 1979
- Azerada da Silveira, Antonio Francisco**, Brazilian Minister of Foreign Affairs
- Baker, Howard H., Jr.**, Senator (R-Tennessee)
- Bartholomew, Reginald**, Director, Bureau of Politico-Military Affairs, Department of State from July 1, 1979
- Beaudry, Robert M.**, Director, Office of OECD, European Community and Atlantic Political-Economic Affairs, Bureau of European Affairs, Department of State
- Bellmon, Henry**, Senator (R-Oklahoma)
- Bennett, Jack**, Under Secretary of the Treasury for Monetary Affairs
- Benson, Lucy Wilson**, Under Secretary of State for Security Assistance, Science, and Technology from March 28, 1977 until January 5, 1980
- Bentsen, Lloyd**, Senator (D-Texas)
- Bergold, Harry**, Energy Policy and Planning, Executive Office of the President and then Assistant Secretary of Energy for International Affairs
- Bergsten, C. Fred**, Assistant Secretary of the Treasury for International Affairs
- Biller, Joel W.**, Deputy Assistant Secretary of State for Economic and Business Affairs, 1974
- Blumenthal, W. Michael**, Secretary of the Treasury, from January 1977 until August 1979
- Boeker, Paul H.**, Deputy Assistant Secretary of State for International Finance and Development, Bureau of Economic and Business Affairs, Department of State

- Borre, Peter**, Deputy Assistant Secretary of Energy for International Resources
- Bosworth, Stephen**, Deputy Assistant Secretary of State for International Resources and Food Policy, Bureau of Economic and Business Affairs
- Boumediene, Houari**, President of Algeria until December 1978
- Bouteflika, Abdelaziz**, Algerian Minister of Foreign Affairs until December 1978
- Bowie, Robert**, Director, National Foreign Assessment Center, Central Intelligence Agency
- Braden, Joan**, Consumer Affairs Coordinator and Special Assistant, Bureau of Economic and Business Affairs, Department of State
- Bremer, L. Paul "Jerry," III**, Special Assistant to the Secretary of State until 1976
- Briggs, Everett E.**, Director, Mexico Affairs, Bureau of Inter-American Affairs, Department of State
- Brock, William**, Senator (R-Tennessee)
- Broomfield, William S.**, member, U.S. House of Representatives (R-Michigan)
- Brown, Clarence J.**, member, U.S. House of Representatives (R-Ohio)
- Brown, George S.**, Chairman of the Joint Chiefs of Staff until June 1978
- Brown, Harold**, Secretary of Defense, from January 21, 1977 until January 20, 1981
- Brunet, Jean Pierre**, Director of Economic and Financial Affairs, Ministry of Foreign Affairs, France
- Brunner, Guido**, European Community Commissioner for Energy, from 1977 until 1981
- Brzezinski, Zbigniew**, Assistant to the President for National Security Affairs from January 20, 1977 until January 20, 1981
- Bullen, Pierce K.**, Bureau of Economic and Business Affairs, Department of State
- Burns, Arthur**, Chairman, Federal Reserve Board
- Bush, George H.W.**, Director of Central Intelligence from January 1976 until January 1977
- Butz, Earl L.**, Secretary of Agriculture until October 4, 1976
- Byrd, Robert**, Senator (D-West Virginia); Senate Majority Leader from January 1977
- Calderon-Berti, Humberto**, Minister of Energy and Mines, Venezuela
- Calingaert, Michael**, Deputy Assistant Secretary of State, International Resources and Food Policy, Bureau of Economic and Business Affairs, Department of State
- Callaghan, James**, British Foreign Secretary until April 5, 1976; Prime Minister from April 5, 1976 until May 4, 1979
- Carrington, Lord (Peter)**, British Foreign Secretary from May 4, 1979
- Carter, James E. "Jimmy,"** President from January 20, 1977 until January 20, 1981
- Casillas Hernandez, Robert**, Private Secretary to the President (Mexico)
- Castaneda, Jorge**, Mexican Secretary of Foreign Relations from April 1979
- Chambers, Anne C.**, Ambassador to Belgium from April 29, 1977 until January 17, 1981
- Chiriboga, Perez**, Venezuelan Ambassador to the United States
- Christopher, Warren**, Deputy Secretary of State from January 21, 1977 until January 20, 1981
- Civiletti, Benjamin**, Attorney General from August 16, 1979
- Clark, Joe**, Canadian Prime Minister from June 1979 until March 1980
- Clarke, Bruce**, Deputy Assistant Secretary of Energy for International Affairs
- Claytor, W. Graham**, Deputy Secretary of Defense from August 1979
- Clements, William, Jr.**, Deputy Secretary of Defense, from January 1977 until August 1979
- Cochrane, James**, Member of the National Security Council Staff
- Colby, William E.**, Director of Central Intelligence until January 1976
- Conable, Barber B., Jr.**, member, U.S. House of Representatives (R-New York)
- Conant, Melvin**, Assistant Administrator, Federal Energy Agency
- Connor, James E.**, Staff Secretary and Secretary to the Cabinet

- Cooper, Charles**, Assistant Secretary of the Treasury for International Affairs, from 1974 until 1975
- Cooper, Richard N.**, Under Secretary of State for Economic Affairs from April 8, 1977 until January 19, 1981
- Crawford, William R.**, Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs
- Creekmore, Marion V.**, Officer in Charge, Producing Country Affairs, Office of Fuels and Energy, Bureau of Economic and Business Affairs
- Crosbie, John**, Canadian Minister of Finance, from June 1979 until March 1980
- Crowley, John J.**, Chargé d'Affaires, U.S. Embassy, Caracas
- Curtis, Carl T.**, Senator (R-Nebraska)
- Cutler, Eliot**, Associate Director for Natural Resources, Energy, and Science, Office of Management and Budget
- Cutter, Bowman**, Executive Associate Director for Budget, Office of Management and Budget
- Davignon, Etienne**, Chairman of the International Energy Agency
- Davis, Jeanne W.**, Staff Secretary, National Security Council, until January 1977
- Davis, Lynn**, Deputy Assistant Secretary of Defense for International Security Affairs
- Davis, Nathaniel**, Ambassador to Switzerland from November 20, 1975 until July 31, 1977
- Deal, Timothy**, Member of the National Security Council Staff
- De La Madrid Hurtado, Miguel**, Mexican Under Secretary of Finance and Public Credit
- De La Vega Dominguez, Jorge**, Mexican Secretary of Commerce
- De Rosenzweig Diaz, Alfonso**, Mexican Under Secretary for Foreign Relations
- Deutch, John**, Assistant Secretary of Energy for Energy Technology
- Diaz Serrano, Jorge**, Director General, Petroleos Mexicanos (PEMEX)
- Dickman, François M.**, Director, Office of Saudi Arabia, Kuwait, Yemen, Aden, and Gulf States Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State, from 1972 until 1976; Ambassador to the United Arab Emirates from September 16, 1976 until August 4, 1979; Ambassador to Kuwait from October 24, 1979
- Dingell, John**, member, U.S. House of Representatives (D-Michigan)
- Dinitz, Simcha**, Israeli Ambassador to the U.S. until 1979
- Dodson, Christine**, Deputy Staff Secretary, National Security Council, from January until May 1977; Staff Secretary, National Security Council, from May 1977 until January 1981
- Dole, Robert**, Senator (R-Kansas)
- Dorsey, Robert**, Chairman of the Gulf Oil Company
- Duncan, Charles W., Jr.**, Deputy Secretary of Defense from January 31, 1977 until July 26, 1979; Secretary of Energy from August 24, 1979
- Dunn, John M.**, Acting Executive Director, Council on International Economic Policy, from 1975 until 1976
- Eads, George**, member, Council of Economic Advisers, from 1979 until 1981
- Eagleburger, Lawrence S.**, Executive Assistant to the Secretary of State until January 20, 1977; Deputy Under Secretary of State for Management from May 14, 1975 until February 26, 1977;
- Einaudi, Luigi**, Staff Director, National Security Council Interdepartmental Groups, Department of State
- Eizenstat, Stuart**, Assistant to the President for Domestic Affairs and Policy
- Ellsworth, Robert**, Deputy Secretary of Defense
- Enders, Thomas O.**, Assistant Secretary of State for Economic and Business Affairs until December 22, 1975; Ambassador to Canada from December 22, 1975 until September 14, 1979; Representative to the European Communities from November 6, 1979

Erb, Guy, member, National Security Council Staff

Ernst, Maurice C., Director, Economic Research, Central Intelligence Agency

Ersboll, Niels, Chairman, Governing Board, International Energy Agency

Esaki, Masumi, Japanese Minister of International Trade and Industry

Escovar, Ramon, Venezuelan Minister of Foreign Affairs

Fahd Ibn Abd al-Aziz al-Saud, Saudi Minister of Interior and Second Deputy Prime Minister until December 1975; Crown Prince and Deputy Prime Minister from December 1975

Faisal Ibn Abd al-Aziz al-Saud, King of Saudi Arabia until December 1975

Fannin, Paul J., Senator (R-Arizona)

Figuerido, Reinaldo, Director of Foreign Trade Institute (Venezuela)

Flores, Oscar, Mexican Attorney General

Ford, Gerald R., President of the United States from August 9, 1974 until January 20, 1977

Forlani, Arnaldo, Italian Minister of Foreign Affairs from July 29, 1976 until August 4, 1979; Prime Minister from October 18, 1980

Fourcade, Jean-Pierre, French Minister of Economic Affairs and Finance, from May 1974 until August 1976

François-Poncet, Jean, French Minister of Foreign Affairs from November 29, 1978

Fried, Edward R., White House Consultant on International Energy; U.S. Executive Director, International Bank for Reconstruction and Development, from 1977 until 1979

Froment-Meurice, Henri, Director, Economic Affairs, French Foreign Ministry; French Ambassador to the Soviet Union, from 1979 until 1981

Frost, Ellen L., Deputy Assistant Secretary of Defense for International Economic Affairs

Fukuda, Hiroshi, Director, First North American Division, Japanese Ministry of Foreign Affairs

Fukuda, Takeo, Prime Minister of Japan, from December 1976 until December 1978

Garcia Sainz, Ricardo, Mexican Secretary of Programming and Budget

Garrido, Abel, Director of Bilateral Trade Relations, Ministry of Commerce (Mexico)

Garvin, Clifton, Clifton, Chairman, Exxon Corporation from 1975

Genscher, Hans-Dietrich, West German Vice-Chancellor and Foreign Minister

Giraud, André, Minister of Industry, France

Giscard d'Estaing, Valéry, President of France

Godinez Bravo, Miguel A., General, Chief of Staff, Presidential General Staff (Mexico)

Gold, Ruth S., Special Assistant to the Assistant Secretary of State for Economic and Business Affairs

Goldman, Leslie J., Assistant Secretary of Energy for International Affairs

Gosaibi, Ghazi al-, Saudi Minister of Industry and Electricity

Gramley, Lyle, Acting Chairman, Council of Economic Advisers

Granger, Clinton E., Colonel, Planning and Coordination Officer; Acting Director, Planning and Coordination, National Security Council until September 1976

Greenspan, Alan, Chairman of the Council of Economic Advisors until 1977

Gregg, Donald, Member of the National Security Council Staff

Guingaud, Louis de, Minister of Foreign Affairs, France, from August 1976 until November 1978

Habib, Philip C., Assistant Secretary of State for East Asian and Pacific Affairs from September 19, 1974 until June 30, 1976

Hartman, Arthur A., Assistant Secretary of State for European Affairs until June 1977, Ambassador to France from June 1977

Hatano, Yoshio, Economic Minister, Japanese Embassy in Washington

Hazumi, Mitsuhiro, Deputy Director General, Economic Bureau (Japan)

Healey, Denis, British Chancellor of the Exchequer until May 4, 1979

- Helms, Richard**, Ambassador to Iran until December 27, 1976
- Hermes, Peter**, Assistant Secretary for Economic Affairs, West German Ministry of Foreign Affairs
- Hernandez, Valentin**, Minister of Energy and Mines, Venezuela
- Hernandez Cervantes, Hector**, Mexican Under Secretary for Foreign Commerce
- Herrera Campins, Luis**, Venezuelan President from March 12, 1979
- Heymann, Hans**, National Intelligence Officer for Political and Economic Resources, Central Intelligence Agency
- Hillenbrand, Martin J.**, Ambassador to West Germany until October 16, 1976
- Hinton, Deane**, U.S. Representative to the European Community from January 29, 1976 until December 3, 1979; Assistant Secretary of State for Economic and Business Affairs from January 4, 1980
- Hodgson, James D.**, Ambassador to Japan until February 5, 1977
- Holbrooke, Richard C.**, Assistant Secretary of State for East Asian and Pacific Affairs from March 31, 1977 until January 13, 1981
- Hormats, Robert**, member, National Security Council Staff, from September 1974 until January 1977; Deputy Assistant Secretary of State for Economic and Business Affairs, from 1977 until 1979
- Howe, Geoffrey**, British Chancellor of the Exchequer from May 4, 1979
- Huberman, Ben**, Office of Science and Technology Policy
- Hunt, John**, Sir, British Cabinet Secretary until 1979
- Huntington, Samuel**, Member of the National Security Council Staff
- Hurtado, Hector**, Minister of State, President of the Investment Fund (Venezuela)
- Hutcheson, Richard**, White House Staff Secretary
- Hystad, Carlisle**, Chairman, Department of Energy Task Force on Strategic Plans for the Strategic Petroleum Reserve
- Ibarra Munoz, David**, Mexican Secretary of Finance and Public Credit
- Inderfurth, Karl "Rick,"** Member of the National Security Council Staff
- Ingersoll, Robert S.**, Deputy Secretary of State until March 31, 1976
- Iribaren, Ignacio**, Venezuelan Ambassador to the U.S.
- Irwin, John N.**, Ambassador to France until October 20, 1974
- Izquierdo Gonzalez, Rafael**, Adviser to the President (Mexico)
- Jackson, Henry "Scoop,"** Senator (D-Washington), Chairman of the Senate Committee on Interior and Insular Affairs, which later became the Committee on Energy and Natural Resources
- Jamieson, J. Kenneth**, Chairman and Chief Executive Officer, Exxon Corporation, until August 1975
- Jayne, Randy**, Associate Director for National Security and International Affairs, Office of Management and Budget
- Jenkins, Roy**, President of the European Commission, from January 1977 until January 1981
- Jobert, Michel**, Minister of Foreign Affairs, France, until 1974
- Johnston, Ernst B.**, Deputy Assistant Secretary of State for Economic and Business Affairs, from 1979 until 1981
- Jolles, Paul R.**, Swiss State Secretary for Foreign Economic Affairs
- Jones, David C.**, Chairman of the Joint Chiefs of Staff from June 1978
- Jordan, Hamilton**, White House Chief of Staff
- Junz, Helen**, Deputy Assistant Secretary of the Treasury for Commodities and Natural Resources
- Kaneko, Ippei**, Japanese Minister of Finance, from 1978 until 1979
- Kato, Koichi**, Japanese Deputy Chief Cabinet Secretary

- Katori, Yasue**, Japanese Deputy Foreign Minister
- Katz, Julius**, Deputy Assistant Secretary of State for Economic and Business Affairs, until September 1976; Assistant Secretary of State for Economic and Business Affairs, from September 1976 until November 1979
- Kawashima, Yutaka**, First Secretary, Japanese Embassy in Washington
- Kelberer, John**, Chairman of Aramco
- Kennedy, Edward "Ted,"** Senator (D-Massachusetts)
- Khalid, Ibn Abd al-Aziz al-Saud**, Crown Prince of Saudi Arabia until December 1975; King of Saudi Arabia from December 1975
- Khalifa, Bin Hamad al-Thani**, Emir of Qatar
- Khayl, Aba al-**, Saudi Finance Minister
- Khomeini, Ruhollah**, Ayutollah, Iranian religious leader; Supreme Leader from December 3, 1979
- Kimura, Toshio**, Japanese Foreign Minister, 1974 Kinoshita, MITI official
- Kissinger, Henry A.**, Secretary of State, from September 1973 until January 1977 and Assistant to the President for National Security Affairs, from January 1969 until November 1975
- Kiuchi, Akitane**, Private Secretary to the Japanese Prime Minister
- Komer, Robert W.**, Under Secretary of Defense for Policy from October 24, 1979 until January 20, 1981
- Kosciusko-Morizet, Jacques**, French Ambassador to the United States
- Kraft, Joseph**, U.S. journalist
- Kreps, Juanita M.**, Secretary of Commerce, from January 1977 until October 1979
- Krueger, Robert C.**, Ambassador at Large and Coordinator for Mexican Affairs, Department of State, from November 6, 1979
- Kux, Dennis**, Acting Director, Office of Bhutan, India, Maldives, Nepal, Sri Lanka Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State, 1975
- Lake, W. Anthony**, Director of the Policy Planning Staff, Department of State, from January 21, 1977 until January 20, 1981
- Lambsdorff, Otto**, West German Minister of Economics from October 7, 1977
- Lance, Bert**, Director of the Office of Management and Budget, from January until September 1977
- Lantzke, Ulf**, Executive Director of the International Energy Agency
- Larosi re de Champfeu, Jacques de**, Counselor, French Ministry of Economic Affairs and Finance
- Lauria, Carmelo Lesseur**, Minister, Secretariat of the Presidency (Venezuela)
- Lautenschlager, Hans Werner**, Ministerial Director of Foreign Economic Policy from 1975 until 1979; State Secretary for Foreign Economic and Cultural Policy from 1979
- Leigh, Monroe**, Legal Advisor, Department of State, from January 21, 1975 until January 20, 1977
- Levy, Walter**, oil analyst and consultant
- Lewis, Samuel W.**, Deputy Director, Policy Planning Staff until 1975; Assistant Secretary of State for International Organization Affairs from December 24, 1975 until April 13, 1977; Ambassador to Israel from April 26, 1977
- Litan, Robert**, Senior Staff Economist, Council of Economic Advisers
- Long, Russell**, Senator (D-Louisiana)
- Lopez Portillo, Jose**, Mexican Minister of Finance until 1975; President of Mexico from December 1, 1976
- Lopez Portillo, Jose Ram n**, Director General for Documentation and Analysis, Department of Programming and Budget (Mexico)
- Lord, Winston**, Director of the Policy Planning Staff
- Lucy, Patrick**, Ambassador to Mexico from July 19, 1977 until October 31, 1979

Luers, William H., Ambassador to Venezuela from September 15, 1978

Luz Alegria Escamilla, Rosa, Mexican Under Secretary for Evaluation

MacDonald, Flora, Canadian Secretary of State for External Affairs, from June 1979 until March 1980

MacDonald, Walter, Deputy Assistant Secretary of Energy for International Affairs

MacEachen, Allan, Canadian Secretary of State for External Affairs until September 1976; Co-Chairman, Conference on International Economic Cooperation, 1976; Deputy Prime Minister, from September 1977 until June 1979 and from March 1980 until June 1984

Madani, Nizar O., First Secretary, Embassy of Saudi Arabia

Magnuson, Warren, Senator (D-Washington)

Maitland, Donald, Deputy Under Secretary, Foreign and Commonwealth Office (UK)

Mansfield, Mike, Senator (D-Montana); Senate Majority Leader until January 3, 1977; Ambassador to Japan from June 10, 1977

Margain, Hugo B., Mexican Ambassador to the U.S.

Matsuura, Koichiro, Counselor, Japanese Embassy in Washington

Matthoefer, Hans, West German Minister of Finance from February 16, 1978

Maynes, Charles William, Assistant Secretary for International Organization Affairs from April 14, 1977 until April 9, 1980

McCloskey, Robert J., Ambassador at Large until September 10, 1976; Assistant Secretary of State for Legislative Affairs from February 21, 1975 until September 10, 1976

McClure, James A., Senator (R-Idaho)

McGiffert, David, Assistant Secretary of Defense for International Security Affairs from 1977

McIntyre, James T., Director of the Office of Management and Budget, from September 1977

Meyers, Dale, Under Secretary for Energy, Department of Energy

Miki, Takeo, Prime Minister of Japan, from December 1974 until December 1976

Miller, G. William, Secretary of the Treasury from August 1979

Mitchell, Derek, Second Permanent Secretary, Treasury (UK)

Miyazaki, Hiromichi, Director General, Economic Affairs Bureau, Japanese Ministry of Foreign Affairs

Mobutu Sese Seko, President of Zaire

Moinfar, Ali Akbar, Iranian Oil Minister

Mondale, Walter, Vice President of the United States from January 20, 1977 until January 20, 1981

Monory, Rene, French Minister of Economy

Moore, Frank, Assistant to the President for Congressional Liaison, from 1977 until 1981

Moose, Richard M., Jr., Assistant Secretary of State for African Affairs from July 6, 1977 until January 16, 1981

Morse, Ed, Deputy Assistant Secretary of State for International Energy Policy

Morton, Rogers C.B., Secretary of the Interior until April 1975; Chairman of the Energy Resources Council, from 1974 until 1975; Secretary of Commerce, from May 1975 until February 1976

Moynihan, Daniel P., U.S. Representative to the United Nations

Muskie, Edmund, Secretary of State from May 1980

Nabi, Belkacem, Algerian Oil Minister

Nazer, Hisham, Saudi Minister of Planning and National Economy

Newsom, David D., Under Secretary of State for Political Affairs from April 19, 1978

Nimetz, Matthew, Counselor of the Department of State from April 8, 1977 until March 19, 1980; Under Secretary of State for Security Assistance, Science, and Technology from February 21, 1980 until December 5, 1980

Nixon, Richard M., President of the United States, from January 1969 until August 1974
Nordhaus, William D., member, Council of Economic Advisers

Oakley, Robert, Member of the National Security Council Staff

Obasanjo, Olusegun, Military Ruler of Nigeria, from February 1976 until September 1979

Odum, William E., Military Assistant to the President's Assistant for National Security Affairs, from January 1977 until January 1981

Ogura, Kazuo, Chief, Second North American Bureau, Japanese Ministry of Foreign Affairs

Ohira, Masayoshi, Japanese Minister of Finance until December 1978; Prime Minister from December 1978 until June 1980

Okawara, Yoshio, Japanese Ambassador to the U.S. from 1980

Okita, Saburo, Japanese Minister of Foreign Affairs, from 1979 until 1980

O'Neill, Thomas "Tip," member, U.S. House of Representatives (D-Massachusetts); Speaker of the House of Representatives

Oteyza Fernandez, José Andrés, Mexican Secretary of National Wealth and Industrial Development

Owen, Henry, Special Representative to the President (also referred to as Ambassador at Large) for Economic Summits, from October 1977 until January 1981

Packwood, Robert, Senator (R-Oregon)

Pahlavi, Muhammad Reza, Shah of Iran until February 11, 1979

Pandolifi, Filippo M., Italian Minister of Finance from July 1976 until March 1978

Parsky, Gerald, Assistant Secretary for International Affairs, Department of the Treasury, until 1977

Pastor, Robert A., Member of the National Security Council Staff

Pearson, James B., Senator (R-Kansas)

Pendleton, Miles, Special Assistant to the Deputy Secretary of State, from 1974 until 1975

Pérez, Carlos Andrés, President of Venezuela

Pérez Guerrero, Manuel, Venezuelan Co-Chairman of the Conference on International Economic Cooperation, 1976; Minister of State for International Economic Affairs

Pickering, Thomas A., Assistant Secretary of State, Bureau of Oceans and International Environmental and Scientific Affairs, Department of State, from October 10, 1978

Pierre-Brossolette, Claude, Secretary General of the Presidency of the Republic (France)

Platt, Nicholas, Deputy Assistant Secretary of Defense for International Security Affairs

Poats, Rutherford, Executive Assistant to the Deputy Secretary of State, from 1976 until 1977; Member of the National Security Council Staff, from September 1978 until January 1981

Porter, William J., Ambassador to Saudi Arabia, from December 1975 until May 1977

Powell, Jody, White House Press Secretary, from January 1977 until January 1981

Preeg, Ernest H., Director, Office of Organization of Economic Cooperation and Development, European Community and Atlantic Political-Economic Affairs, Bureau of European Affairs, Department of State

Quandt, William, Member of the National Security Council Staff, from January 1977 until August 1979

Quie, Albert H., member, U.S. House of Representatives (R-Minnesota)

Rabin, Yitzhak, Israeli Prime Minister until May 1977

Rafful Miguel, Fernando, Head of Department of Fisheries (Mexico)

Raicht, Lawrence R., Deputy Director, Office of Fuels and Energy, International Resources and Food Policy, Bureau of Economic and Business Affairs, Department of State

- Rampton, Jack**, Head of British delegation, Energy Working Group
- Ray, Dixie Lee**, Chairman, Atomic Energy Commission until 1974
- Reagan, Ronald W.**, Republican candidate for President, 1980; President of the United States, from January 1981 until January 1989
- Reinhardt, John E.**, Director, International Communication Agency
- Renner, John**, Member of the National Security Council Staff
- Resor, Stanley**, Under Secretary of Defense for Policy
- Rhodes, John J.**, member, U.S. House of Representatives (R-Arizona); Minority Leader, House of Representatives
- Richardson, Eliot L.**, Secretary of Commerce, from February 1976 until January 1977
- Robinson, Charles W.**, Under Secretary of State for Economic Affairs from January 3, 1975 until April 9, 1976; Deputy Secretary of State from April 9, 1976 until January 20, 1977
- Rockefeller, David**, Chairman of Chase Manhattan Bank and Chairman of the Foreign Affairs Council; founder of the Trilateral Commission
- Roel, Santiago**, Mexican Foreign Secretary
- Rogers, William D.**, Assistant Secretary of State for Inter-American Affairs from October 7, 1974 until June 18, 1976; Under Secretary of State for Economic Affairs from June 18, 1976 until December 31, 1976
- Romberg, Alan**, Japan Desk Officer, Department of State
- Rosen, Gerald**, Director, Office of Fuels and Energy, International Resources and Food Policy, Bureau of Economic and Business Affairs, Department of State
- Rozental Gutman, Andres**, Director General of North American Affairs, Secretariat of Foreign Relations (Mexico)
- Rumsfeld, Donald**, White House Chief of Staff, from September 21, 1974 until November 20, 1975, Secretary of Defense, from November 20, 1975 until January 20, 1977
- Rush, Kenneth**, Ambassador to France from November 21, 1974 until March 14, 1977
- Sabah, Sheikh al-Salim al-Sabah**, Emir of Kuwait
- Sadat, Anwar al-**, President of Egypt
- Saqqaf, Sayyid Omar**, Saudi Minister of State for Foreign Affairs
- Salzman, Herbert**, U.S. Representative to the Organization for Economic Cooperation and Development from June 8, 1977 until March 8, 1981
- Saud Faisal ibn Abd al-Aziz Al Saud**, Saudi Minister of State for Foreign Affairs, 1975-1976; Minister of Foreign Affairs after 1976
- Saunders, Harold H. "Hal,"** Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs, from 1974 until 1975; Director, Bureau of Intelligence and Research, Department of State, from December 1, 1975 until April 10, 1978; Assistant Secretary of State for Near Eastern and South Asian Affairs from April 11, 1978 until January 16, 1981
- Sauvagnargues, Jean**, French Minister of Foreign Affairs, from May 1974 until August 1976
- Sawhill, John C.**, Administrator, Federal Energy Administration, until 1975; Deputy Secretary of Energy from 1979
- Schecter, Jerry**, Member of National Security Council Staff
- Schirmer, Katherine P. "Kitty,"** Associate Director for Energy and Natural Resources, Domestic Policy Staff
- Schlesinger, James R.**, Secretary of Defense until November 19, 1975; Secretary of Energy, from August 6, 1977 until August 23, 1979
- Schmidt, Helmut**, Chancellor of the Federal Republic of Germany
- Schotta, Charles**, Director, Office of Energy Policy Analysis, Department of the Treasury
- Schultze, Charles L.**, Chairman, Council of Economic Advisers, from January 1977 until January 1981

- Scowcroft, Brent**, Lt. General, Deputy Assistant to the President for National Security Affairs, from 1973 until November 1975, Assistant to the President for National Security Affairs, from November 1975 until January 1977
- Seidman, L. William**, Assistant to the President for Economic Affairs, from September 1974 until January 1977
- Serrano, Diaz**, Director of PEMEX, from 1976 until 1981
- Shoesmith, Thomas P.**, Deputy Chief of Mission, U.S. Embassy in Tokyo, 1975
- Shultz, George P.**, Secretary of the Treasury, from June 1972 until May 1974
- Sick, Gary**, Member of the National Security Council Staff for the Middle East and North Africa, from January 1977 until January 1981
- Siemer, Deanne C.**, Special Assistant to the Secretary of Energy, from 1977 until 1981
- Sigurani, Ivan**, Venezuelan Minister Counselor for Petroleum
- Simon, William E.**, Secretary of the Treasury
- Slocombe, Walter**, Under Secretary of Defense for Policy
- Smith, Richard**, Director of Office Coordination, Department of Energy
- Smith, William Y.**, Lieutenant General, Assistant to the Chairman of the Joint Chiefs of Staff
- Sober, Sidney**, Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs
- Solomon, Anthony**, Under Secretary of the Treasury for Monetary Affairs
- Sonnenfeldt, Helmut "Hal,"** Counselor of the Department of State
- Sonoda, Sunao**, Japanese Minister of Foreign Affairs, from 1977 until 1979
- Staggers, Harley**, member, U.S. House of Representatives (D–West Virginia)
- Sterner, Michael**, Department of State
- Stevenson, Adlai, III**, Senator (D–Illinois)
- Stone, I.F.**, U.S. journalist
- Strauss, Robert S.**, U.S. Trade Representative, from January 1977 until August 1979; Personal Representative of the President to the Middle East from 1979
- Sullivan, William H.**, Ambassador to Iran from May 26, 1977 until April 6, 1979
- Sultan ibn Abd al-Aziz al Saud, Prince**, Saudi Minister of Defense and Aviation
- Sumiya, Kiyoshi**, Minister, Japanese Embassy in Washington
- Suzuki, Zenko**, Prime Minister of Japan from July 1980
- Swandby, Bob**, International Affairs Officer, Office of Energy Producing Nations, International Affairs, Department of Energy
- Taher, Abdel Hadi**, Governor of Petromin
- Tanaka, Kakuei**, Prime Minister of Japan until December 1974
- Tarnoff, Peter**, Executive Secretary of the Department of State from April 4, 1977
- Teshima, Reishi**, Director-General, Economic Affairs Bureau (Japan)
- Thatcher, Margaret**, British Prime Minister from May 4, 1979
- Thompson, Cecil**, Special Assistant to the Assistant Secretary for International Affairs, Department of Energy
- Thomson, James**, National Security Council
- Tickell, Crispin**, British Chef de Cabinet to the President of the European Community
- Todman, Terence A.**, Assistant Secretary of State for Inter-American Affairs from April 1, 1977 until June 27, 1978
- Togo, Fumihiko**, Japanese Ambassador to the U.S., from 1976 until 1980
- Treat, John**, Deputy Assistant Secretary of Energy for International Affairs; Director, Office of Producing Nations International Affairs, Department of Energy
- Trudeau, Pierre**, Canadian Prime Minister until June 4, 1979 and from March 3, 1980
- Turner, Stansfield**, Director of Central Intelligence, from January 1977 until January 1981
- Turner, William C.**, Representative to the Organization for Economic Cooperation and Development until May 1, 1977

Twinam, Joseph W., Director, Arabian Peninsula Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State

Ugarté, Jose Antonio, Adviser to the President (Mexico)

Ullman, Albert, member, U.S. House of Representatives (D–Oregon)

Utayba, Mani al-, Abu Dhabi Oil Minister

Vaky, Viron P., Ambassador to Venezuela from June 16, 1976 until June 24, 1978; Assistant Secretary of State for Inter-American Affairs from July 18, 1978 until November 30, 1979

Vance, Cyrus R., Secretary of State from January 23, 1977 until April 28, 1980

Van Lennep, Emile, Secretary General of the Organization for Economic Cooperation and Development

Verleger, Philip, Special Assistant to the Assistant Secretary of the Treasury for Economic Policy

Vest, George S., Assistant Secretary of State for Politico-Military Affairs until March 27, 1977; Assistant Secretary of State for European Affairs from June 16, 1977

Vine, Richard D., Deputy Assistant Secretary of State for European Affairs, 1976

Von Staden, Berndt, West German Ambassador to the U.S. until 1979

Waldheim, Kurt, Secretary General of the United Nations

Wampler, William C., member, U.S. House of Representatives (R–Virginia)

Warner, Rawleigh, Chairman and Chief Executive Officer, Mobil Oil Corporation

Watson, Jack, Cabinet Secretary and Assistant for Intergovernmental Affairs, White House

Weber, Hans-Herbert, Assistant Secretary, West German Ministry of Finance

West, John C., Ambassador to Saudi Arabia from June 8, 1977

Westbrook, Sam, Member of the National Security Council Staff

White, John, Deputy Director, Office of Management and Budget

Wiley, Marshall, Deputy Chief of Mission, Embassy in Saudi Arabia

Wilson, Harold, British Prime Minister until April 1976

Wissocq, Francois de, French Director General of Energy

Wyatt, Wendell, member, U.S. House of Representatives (R–Oregon)

Yamani, Sheikh Ahmad Zaki, Saudi Minister of Petroleum and Mineral Resources

Yamazaki, Toshio, Director General, American Affairs Bureau, Japanese Ministry of Foreign Affairs

Yasukawa, Takeshi, Japanese Ambassador to the U.S. until 1976

Yeganeh, Mohammad, Governor, Iranian Central Bank, from 1973 until 1975

Yoshida, Tarōichi, Japanese Vice-Minister of Finance

Young, Andrew J., U.S. Permanent Representative to the United Nations from January 30, 1977 until September 23, 1979

Zahedi, Ardeshir, Iranian Ambassador to the U.S. until February 1979

Zarb, Frank, Administrator of the Federal Energy Administration

Zayid, Bin Sultan al-Nyhayan, President of the United Arab Emirates

Energy Crisis, 1974–1980

Consumers Organize: Preparatory Conference I, August 1974–April 1975

1. Memorandum of Conversation¹

Washington, August 13, 1974, 11:15 a.m.–12:15 p.m.

SUBJECT

Oil Price Strategy

PARTICIPANTS

Secretary of State Henry Kissinger

Secretary of the Treasury William Simon

Chairman Arthur F. Burns, Federal Reserve Board

Deputy Secretary Robert S. Ingersoll, Department of State

Under Secretary for Monetary Affairs Jack Bennett, Department of the Treasury

Major General Brent Scowcroft, Deputy Assistant to the President for National
Security Affairs

Assistant Secretary for Economic and Business Affairs Thomas O. Enders,
Department of State

Secretary Kissinger—Would everyone like coffee? Let's see if we can get a real cup for the Chairman.

Have we all read the paper?²

Deputy Secretary Ingersoll—The paper was worked over six times before it got to you.

Secretary Kissinger—I take it you feel we should not make a political intervention until the IEP is passed on September 19.³ The meeting of Finance Ministers and Central Bank Chairmen would be deferred until October?

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P840156–0003. Secret; Eyes Only. Drafted by Stephen W. Bosworth and cleared by Enders. The meeting was held in the Secretary's office.

² Not found.

³ The United States proposed an integrated emergency program at the May 2 Energy Coordinating Group meeting. See *Foreign Relations, 1969–1976*, volume XXXVI, Energy Crisis, 1969–1974, Document 352.

Secretary Simon—Yes, but I would go ahead and have the meeting of the Library Group.⁴

Assistant Secretary Enders—We could start discussing it in that group.

Secretary Kissinger—You noticed that I got Project Independence into the President's speech last night.⁵ It was not in the right place but you can't win them all. I feel President Ford will push it. But I don't have any idea what we should do with it. Perhaps we should put it under you, Bill. It's at too low a level as it is. It will never work.

Secretary Simon—I'm not seeking it. It will be a lot of work.

Assistant Secretary Enders—Bill should take the lead.

Secretary Kissinger—I'll support you, Bill, if you promise to stay off TV.

Secretary Simon—Henry, I haven't been on TV for months.

Secretary Kissinger—Let's see if we all understand the analysis in this paper. The Europeans and Japanese are not now ready to go as far as the United States. The United States' strategy should be first to preempt as much as possible in the bilateral field. We've got to get going on the Commissions⁶ in Saudi Arabia and get started in Iran. Second, we've got to get the IEP. And then in October we will move on the political level. My instinct is that this will achieve about as much initially as we did in February on the technical level. It will take 5 or 6 months for the others to respond. I will be in Iran in October and I will have something to talk to the Shah about.

The problem with the Shah is that there is a risk if we single him out for attack. If Saudi Arabia stands fast, I don't believe they would do it, we need the Shah's production. We need to lean on him. One problem here is that the Europeans may try to preempt us in the military equipment field.

Secretary Simon—Can the Europeans preempt us? Is their equipment as good as ours?

Major General Scowcroft—The Mirage is a very good airplane.

Secretary Kissinger—Of course, the F-14 plays the national anthem of the country over which it is flying. It can shoot down other

⁴ Established in April 1973, the Library Group included the United States, the United Kingdom, France, West Germany, and, soon after, Japan. It was the precursor of the more formalized summits of the advanced industrialized nations, beginning with the meeting in Rambouillet in November 1975.

⁵ Ford delivered the August 12 speech to a joint session of Congress. For the text, see *Public Papers of the Presidents of the United States: Gerald R. Ford, 1974*, pp. 6–13. Project Independence was President Nixon's domestic energy program.

⁶ The United States established the bilateral, joint commissions in 1974 to develop and broaden economic and military cooperation with strategically important countries.

planes at 80 miles. What is not yet proven is whether it is any good at 8 miles. For the Shah's purposes the Mirage is a good plane. It gives him what he needs in the area of the Gulf.

Secretary Simon—Henry, you have said many things that I have remembered, but I remember one in particular. You have said that only the United States can make promises which other countries know will be kept. If this is true, and I think it is, then doesn't the Shah think twice about his long-term relationship with the United States.

Secretary Kissinger—Yes, definitely. Our big card is that he needs our political and foreign policy support. Incidentally, let me tell you here in this room only that I am telling every Arab I see that the United States simply won't accept another oil embargo. I told this to Fahmy. I hope you won't circulate this all over EB. EB does not leak as much as my regional bureaus.

When I say I am telling the Arabs this in confidence, it means that it would be all around in short order. I have talked to the President about this. I simply don't think we can take another embargo. It would lead to economic collapse in Europe. It would lead to the collapse of NATO. If it comes to that, [2 lines not declassified].

Chairman Burns—[1½ lines not declassified].

Secretary Kissinger—[less than 1 line not declassified].

Assistant Secretary Enders—[less than 1 line not declassified].

Secretary Kissinger—[1 line not declassified].

Assistant Secretary Enders—[less than 1 line not declassified].

Secretary Simon—Let's review some of the scenarios regarding the use of the commissions. Suppose the Shah has announced a message dealing with the U.S. and there is no reaction.

Secretary Kissinger—My strategy with the Shah is to try to induce him to cooperate with us.

Under Secretary Bennett—The Shah is suggesting that there be no announcement until you come to Tehran.

Secretary Kissinger—Fine. Let's not talk wildly about this. Let me handle it.

Under Secretary Bennett—What about the news report that the Kuwaitis are suggesting a 25 percent production cut? They recognize that there is excess production.

Secretary Kissinger—That is why it is a mistake to talk publicly about production bringing prices down.

Under Secretary Bennett—Is it safe to wait until October? Should we make a new move before then?

Secretary Kissinger—I am prepared to make a démarche. Can I see that news report?

Assistant Secretary Enders—That is part of the jockeying for the next OPEC meeting. Whether these reports are significant or not, we need to approach Saudi Arabia.

Secretary Kissinger—For what?

Assistant Secretary Enders—To get them to agree not to cut-back production.

Secretary Kissinger—I don't believe in note sending. What I believe in is to have an overall strategy and then to make a series of moves. That is the only way to be effective.

Secretary Simon—We would tell them, one, that we welcome their decision to increase production, two, that we appreciate their opening up the area for new exploration, and, three, on the auction we encourage them to go forward. If we can also tell them we are leaning on the Shah, I think it would be very helpful.

Assistant Secretary Enders—Perhaps we could use Project Independence.

Secretary Simon—I'm sorry, Tom. I think they are more intelligent than that. Anyway, I don't think we have anything to lose by leaning on the Shah.

Secretary Kissinger—Bill, we have plenty to lose. He is the one non-ephemeral political force in the area. The idea that Saudi Arabia will be our reliable source for the rest of 1974 is not reasonable. But we can't announce it now and then give two months for it to develop.

Chairman Burns—My guess is that if we announce we are going ahead with Project Independence, conservation and the IEP, we will have a much stronger position with them.

Secretary Kissinger—I agree. That is what I propose to do. The Saudi Arabian Foreign Minister is coming here in two weeks. I could talk to him then.

Secretary Kissinger—The problem is what is the pitch on prices? I can draft any number of cables, in fact, if I want something in three weeks, I probably will have to write it myself. But we need a strategy. I tell you that by the end of October Saudi Arabia will not be playing political ball with us unless Israel makes some dramatic move. And, that is not very likely given the Israeli domestic situation. There is an Arab Summit at the end of October. Syria will impose an embargo and demand confrontation with Israel. Whether that sells or not, I don't know. But unless we show plausible progress elsewhere, the others will organize—everybody but Saudi Arabia and then the Saudis will cave.

Deputy Secretary Ingersoll—There is no way now to put any pressure on anyone.

Secretary Kissinger—The President cannot start attacking the Shah now. But the Shah's action is only key if Saudi Arabia brings on the auction and keeps production up.

Secretary Simon—They just have to keep production at current levels.

Under Secretary Bennett—Isn't it easier to lean on Iran before a cut in production?

Secretary Kissinger—They are not going to cut production—only if there is an auction.

Secretary Simon—They will and they can. They are the only ones who can.

Assistant Secretary Enders—They can cut back up to two million barrels with no damage to the fields.

Deputy Secretary Ingersoll—We are not going to get prices down in two months.

Secretary Kissinger—Then let me repeat. Bill should have preliminary talks with the Finance Ministers in the Library Group. We must get the IEP, and I will consider a cable to the Shah about not cutting production.

Secretary Simon—Can we tell Saudi Arabia we are doing this with the Shah? This would help us.

Secretary Kissinger—The problem there is that Faisal is very suspicious of President Ford. He has been considered to be pro-Israeli. This is understandable in view of his past record. It is not important if Faisal is right. What is important is that that is what he thinks.

I think we must let the threats sink in. Then we've got to get the Europeans to begin to think along political lines. Then we will have a start. I will consider a cable. But I am very reluctant to take one move alone. I like to take five consecutively. Then you have something. In five months, I would like to bust a cartel.

Secretary Simon—Henry, you may find as we go along on this that it would be useful to have sort of a House Bastard. I would be glad to play the role of the House Bastard.

Secretary Kissinger—As long as we don't tip our hand.

Secretary Simon—Well, I could always say something as the House Bastard and then Henry Kissinger could say he is mortified.

Secretary Kissinger—No. That's wrong. We need to present a unified view to the rest of the world. It is very bad to appear to be split within the government.

Let's talk about the concrete actions we're going to take. One, Government action, and two pressure on the companies. This requires the IEP and a safety net. Can this be done?

Assistant Secretary Enders—We have the legal authority to do it now.

Secretary Kissinger—Then we should do it.

Secretary Simon—But what are we doing if we tell the companies they can't pay more than 84 percent and the producers say they must pay 94 percent? Isn't this confrontation? That would lead directly to a production cut.

Under Secretary Bennett—We might say that the consumer governments won't let oil come in at over a given price. We could do that informally.

Assistant Secretary Enders—But we have to have the IEP first.

Secretary Kissinger—But the IEP won't work against a total embargo.

Secretary Simon—How long will, say, Germany last if they lose their fuel oil. They are not going to do anything which would risk our supply during the winter.

Assistant Secretary Enders—Our purpose is to get the Europeans in a more combative mood.

Secretary Simon—We have a better chance of doing this in the Spring.

Secretary Kissinger—Can we stand it till then?

Secretary Simon—Oh, we can stand it till then.

Secretary Kissinger—What about the others, Arthur?

Chairman Burns—I think we can all get through till Spring.

Secretary Kissinger—Then we will use the next two months to create a political and psychological basis for tough action, but we will not get them to take tough action right away.

Secretary Simon—What can happen between now and Spring? We should be looking at the nationalization question.

Secretary Kissinger—What are our choices?

Secretary Simon—Nationalization will raise prices by \$18 billion.

Secretary Kissinger—How?

Secretary Simon—Because we lose the low cost equity crude. Dorsey⁷ told me very confidentially that Kuwait will nationalize them by the end of this year.

Under Secretary Bennett—Yamani told Aramco that the USG doesn't object to 100 percent.

Secretary Kissinger—Where did he get that?

Under Secretary Bennett—I don't know.

Secretary Simon—Dorsey also said Kuwait is thinking about buying a 25 percent interest in Gulf.

⁷ Gulf Oil Chairman Robert Dorsey.

Under Secretary Bennett—He asked that that be kept confidential.

Secretary Simon—I told him just the Department of State and Treasury will know that.

Deputy Secretary Ingersoll—Arthur, what will be the financial position by Spring?

Chairman Burns—Not so bad. I think Italy will have some problems. The UK has some problems but they seem to be handling them.

Deputy Secretary Ingersoll—We need some time for the pressure to build up.

Secretary Kissinger—But realistically, what are our choices? We can go for a quick move with Saudi Arabia. That requires much pressure and I am not sure it will work even if we bring pressure on the Shah. Our second choice is to build a framework.

Secretary Simon—What about the cable?

Secretary Kissinger—I don't mind telling the Shah that the United States Government believes that any production cuts now would be very unfortunate in the light of our overall relationship.

Secretary Simon—If we did that and told the Saudis that we did it, it would be of great help to us.

Secretary Kissinger—Bill, my estimate of the Saudis is lower than yours. Who in this building is running the Commissions?

Deputy Secretary Ingersoll—We have got Joel Biller working on that.

Secretary Kissinger—And Joel Biller is a Deputy Assistant Secretary? By the end of the day I want responsibility for that assigned to the seventh floor. We need to preempt the goddamn Europeans out of there.

Secretary Simon—Henry, the Commissions are moving ahead. I think we have been making good progress. We came up with a lot of ideas during my trip out there and we have done a lot of follow up.⁸ I think our coordination with the Department of State is good. Would you agree Bob?

Deputy Secretary Ingersoll—It is improving. I had a meeting yesterday in which I got everyone together to get moving on this.

Secretary Kissinger—But I have told you you can't do this. You can't take this on. I don't want to talk about any goddamn meeting. Is anything being built there that they won't want to give up?

⁸ Simon reported to President Nixon on July 30 on his trip to the Middle East, Europe, and Bermuda July 16–27. See *Foreign Relations*, 1969–1976, volume XXXVI, Energy Crisis, 1969–1974, Document 361.

Deputy Secretary Ingersoll—Well, in Egypt we are trying to get some things started.

Secretary Kissinger—Egypt is not all that important but the others are. Until we can create a physical nexus for our relationship, we have nothing.

Deputy Secretary Ingersoll—You are just now beginning to roll.

Secretary Kissinger—No one seems to be able to come up with anything for Egypt. A nation of 200 million people must be able to come up with something concrete. Can you take another look at this Tom? I am going to talk to Butz but this is not a very good day to talk with him.

Chairman Burns—What about the private banks? Won't they be helpful?

Secretary Simon—Well, that was one of the things we got done when I was out there. We got permits approved for several of the private banks to operate in Egypt.

Secretary Kissinger—We have a real problem with Egypt. We have to come up with something for them. The Soviet Union told them they could have \$5 billion. And the Israelis are being very unhelpful.

Deputy Secretary Ingersoll—Opening the Canal will give them some real benefits.

Secretary Kissinger—But we didn't do it. We can't take credit for something we didn't do.

Secretary Simon—Henry, when I was in Egypt, Sadat went on at great length about Henry Kissinger's tremendous success in those negotiations.

Secretary Kissinger—Bill, I know I'm great, but you can't continue to get payment for services already rendered. What we need to do is to preempt the structure of relationships in the area and to develop a flow of benefits which they won't want to lose. At some point they are going to want another strip of the Sinai. The question of the Commissions is not so critical in the case of Egypt. That problem won't basically be settled by a Commission. But in Saudi Arabia and Iran the Commissions can be useful. But not just by having meetings. They have to do something.

Deputy Secretary Ingersoll—But we are doing it. We have got a lot of activity underway.

Secretary Simon—We do have the development institute.

Secretary Kissinger—Whatever happened to the fertilizer idea that I have in my United Nations speech?

Assistant Secretary Enders—Well, the problem we have there is with AID. This is a case in which AID believes that to do something well means to do something slowly.

Secretary Kissinger—Look, isn't AID under me? I simply can't accept this. There is no reason why AID can't respond when I want something done.

Assistant Secretary Enders—To get a multilateral institute on fertilizers set-up simply takes time.

Secretary Kissinger—But I need assets in Saudi Arabia. I don't give a damn about a well distributed world fertilizer industry. In fact, a badly distributed industry is probably in our interest.

Assistant Secretary Enders—We are moving slowly at the level of the institute itself. But we are moving fast on bilateral levels.

Secretary Kissinger—Who does AID report to? This is not a university. If we can put a nuclear plant into Egypt in eight years and do something in fertilizers in Saudi Arabia, then we have a strategy. Then we have something they don't want to lose. I want a confrontation, believe me. But I need chips.

Secretary Simon—We have no problems with the Commissions. There is a lot going on.

Secretary Kissinger—The problem with the Commissions is that in this building a Deputy Assistant Secretary simply doesn't exist. If something is going to get done it has to have seventh floor direction. It's like that memo I received the other day to call Senator Magnuson. The memo had to have six clearances and all it said was call Senator Magnuson.⁹

Deputy Secretary Ingersoll—Yes, and you haven't called and now he's mad.

Secretary Kissinger—You are right. I didn't call. I didn't call because I know that half of the six people who had cleared that memo had already called Magnuson's staff people to tell them I was going to call the Senator. They do that to show how important they are.

Who understands what I want to do with these Commissions?

Deputy Secretary Ingersoll—I do. I had a meeting last week which got together all the people involved.

Secretary Kissinger—Once you get them all together you should execute half of them. Let us review again where we stand. First, the Commissions must be an integral part of our strategy. We have to emphasize the tangible assets—the things they need. Second, we need to get the Europeans and Japanese organized. Bill is going to begin this in the Library meeting. Third, I will send a letter to the Shah. I will also try one with Saudi Arabia. Perhaps we should send it to Prince Fahd. We could run through a number of issues in the context of the change in the

⁹ Senator Warren Magnuson (D-WA).

Administration. But we shouldn't hang it all on the oil price question. Also, I think we must have regular meetings of this group.

Deputy Secretary Ingersoll—I agree, and if you are not available, we should meet anyway.

Assistant Secretary Enders—What are we going to do about Project Independence?

Secretary Kissinger—Bill, could you do a paper on what is needed on Project Independence? I need something I can take to the President. I don't know what to tell him.

Secretary Simon—Sure. I have already spoken to Morton and Rumsfeld. They understand that the energy thing is in bad shape. Of course, Rogers is head of an energy agency and we may be seeing some sort of initiative from him.

Secretary Kissinger—But didn't Interior have this thing once before and fail at it? Interior is just not able to do it. They didn't do it before.

Secretary Simon—Yes, that is right. I think we should just have the committee on energy structure honcho it.

Secretary Kissinger—OK. Do an unsigned memo setting it out. Make it unsigned so it doesn't look like you are making a power grab.

Chairman Burns—What about conservation? That cuts across Project Independence and the international side.

Secretary Kissinger—We should aim for the UN on that. What is the timing on this thing? Bill, you will take everyone to Camp David, right?

Under Secretary Bennett—The Finance Ministers and Bank Chairmen will all be here around the end of September for the IBRD meeting.

Secretary Kissinger—Well then, we will aim for the following:

Bill, you will have your meeting with the small group on the seventh. Then I will get something organized on the 27.

Secretary Simon—The 28 and 29 might be better.

Under Secretary Bennett—We could have a meeting of the Ministers on the 28.

Secretary Kissinger—Yes. We can get the Foreign Ministers and Central Bankers to join. We can take them all up to Camp David. We can surface this political component. Their reaction will be similar to their reaction in February.¹⁰ But we will have to push and get them ready for action later. I like the timing on this.

¹⁰ At the Washington Energy Conference. See footnote 3, Document 2.

Assistant Secretary Enders—If the IEP gets off schedule and we have to move it back to October, we can use these meetings to push it through.

Secretary Kissinger—Then we are all against pressuring the companies.

Secretary Simon—Yes, I think that just turns into a self-imposed embargo.

Under Secretary Bennett—How many countries are we talking about for this meeting?

Secretary Kissinger—Just five with Japan. Just the Library Group. We are using the Library Group as a pretext. This lets us leave out some of the others like the Italians.

Assistant Secretary Enders—I don't think the Italians would be unhelpful, but they don't have much to offer.

Secretary Kissinger—This lets us leave out Moro. Moro is an idiot. He will not be helpful. He will just stand around and leak all over the place. Anyway, the Italians will probably have a government crisis by that time.

Secretary Simon—Then we should start now with the Finance Ministers about coming early for the meeting.

Secretary Kissinger—How about the Foreign Ministers? The Japanese Foreign Minister will be here. I assume the French, UK, and Germany will come as well.

Under Secretary Bennett—The French have a Francophone meeting on the 27. They may use that as a reason to push this off.

Secretary Kissinger—We will aim for Saturday the 28.

Secretary Simon—Let's reserve Camp David.

Secretary Kissinger—Brent, you can help with Camp David. I'm afraid you and your family won't be able to use it that weekend.

OK, then early in September I will get to the Foreign Ministers. Get EUR and IO to find out if all the Foreign Ministers will be here anyway.

Also, let's get a look at how the anti-cartel operation would work.

We should meet again next Monday or Tuesday.¹¹ (Secretary Kissinger received a phone call. Meeting broke up approximately 12:15.)

¹¹ August 19 or 20.

2. Memorandum of Conversation¹

Washington, August 17, 1974.

PARTICIPANTS

President Ford

Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for
National Security Affairs

Lt. General Brent Scowcroft, Deputy Assistant to the President for National
Security Affairs

Kissinger: On the energy situation, we have to find a way to break the cartel.² We can't do it without cooperation with the other consumers. It is intolerable that countries of 40 million can blackmail 800 million people in the industrial world.

We have to get into position carefully so we don't get out ahead and our allies don't move in to pick up the pieces and get an economic advantage. That was the purpose of the Washington Energy Conference.³ We are getting the IEP by the end of September. It is effective only against a selective embargo and it creates a framework for communication. The Europeans probably think we should use it only passively.

Simon wants a confrontation with the Shah. He thinks the Saudis would reduce prices if the Shah would go along. I doubt the Saudis want to get out in front. Also the Saudis belong to the most feckless and gutless of the Arabs. They have maneuvered skillfully. I think they are trying to tell us—they said they would have an auction—it will never come off. They won't tell us they can live with lower prices but they won't fight for them. They would be jumped on by the radicals if they got in front.

The Shah is a tough, mean guy. But he is our real friend. He is the only one who would stand up to the Soviet Union. We need him for balance against India. We can't tackle him without breaking him. We

¹ Source: Ford Library, National Security Adviser, Memoranda of Conversations, Box 5. Secret; Nodis. The meeting was held in the Oval Office and lasted from 9:45 to 10:15 a.m. (Ibid., White House Office Files, President's Daily Diary)

² The Organization of Petroleum Exporting Countries (OPEC).

³ The Washington Energy Conference of the major industrialized nations, including the United States, the United Kingdom, West Germany, Japan, and France—a reluctant participant—was convened at the Department of State in February to develop common energy policies in response to the Arab oil embargo precipitated by the Arab-Israeli war of October 1973. At the conference, which revealed the extent of Franco-American discord over whether the European Community should even coordinate energy policy with Washington, the United States proposed that a permanent organization of energy-consuming states be created. See *Foreign Relations, 1969–1976*, volume XXXVI, Energy Crisis, 1969–1974, Document 318.

can get to him by cutting military supplies, and the French would be delighted to replace them.

President: He didn't join the embargo.

Kissinger: Right. Simon agrees now, though. The strategy of tackling the Shah won't work. We are now thinking of other ways. First, we have to get the IEP going. Second, we have to use the Library Group,⁴ an informal finance group which is meeting on 7 September to raise the problem of oil prices and work for a coherent structure to deal with it. Third, there is a meeting of the IMF board at the end of September, and the UN Foreign Ministers will be here. We thought of assembling the Finance and Foreign Ministers then and put a more daring action program to them. It will be refused—like the February Energy Conference. France won't go along. That is okay, because in six months they will be eager to join. If there is a crisis, we will be out in front and can organize it. We will get some cooperation, though.

But as a precondition, we need to get our own energy program in hand. Conservation has gone by the board. If we don't show a shrinkage; our allies won't. There is a forty percent chance of a Middle East blowup.

President: There is no problem getting conservation started again, but the coal moratorium is a problem. Maybe that gives us a lever to get conservation going again.

Kissinger: If the public focuses on the fact this is not just a coal strike but an energy crisis.

President: We don't have to attack the workers but show it as an illustration of the energy problems.

Kissinger: Everyone now agrees on the necessity of what we proposed at the Washington Energy Conference.

President: The conservationists are launching an offensive and this would give us a chance to fight against it on grounds the crisis continues.

When the consumers get organized and we start dealing with the producers—if it worked as you wish—what would you do?

Kissinger: We are organizing the consumers. Then we are organizing bilateral commissions to tie their economies as closely to us as possible. So we have leverage and the Europeans can't just move in in a crisis. We want to tie up their capital.

When the Shah sees us organizing the consumers—he will see, if we don't do it in a way appearing threatening to him.

⁴ See footnote 4, Document 1.

I perhaps should visit him in October, in connection with the Soviet trip, and talk about bilateral arrangements.

President: Does he want higher prices?

Kissinger: Yes. He has limited supplies. He knows the profit is higher on petrochemicals and that the Saudis get more from the companies in everything.

We won't be in a position to confront the producers before the middle of 1975. We have got to get rolling.

President: We have the Alaskan pipeline, and ERDA. I'm glad Scoop⁵ moved.

Kissinger: We called him yesterday and he was conciliatory. You might consider talking to him again next week. I told Dinitz he had to help us here and that Rabin had to come in early September.

President: We have to give Scoop his amendment.⁶

Kissinger: If you get waiver authority, that Congress would have to veto, it's okay.

President: What he wants is his amendment. The supporters don't understand the waiver authority.

Kissinger: The Soviet Union won't buy going in every year for legislation. They will complain about this, but will go along with it.

A Member of Congress last night said they want a compromise.

President: If we can pull it off and get the bill, it is the best thing we can do.

Kissinger: Next week you will be hit with a recommendation for export controls. I would like a chance to comment.

President: I notice the Japanese are buying heavily.

Kissinger: That is the problem. It leads to scare buying—like surpluses. Commodities are one of our big foreign policy tools.

President: Who is for it?

Kissinger: Not Butz. I think OMB and Treasury.

I will have a paper for you on Monday.⁷ I want to ensure it won't be decided on domestic grounds alone.

President: It won't be.

⁵ Senator Henry "Scoop" Jackson (D-WA), Chairman of the Senate Committee on Interior and Insular Affairs, which later became the Committee on Energy and Natural Resources.

⁶ Jackson wanted to attach an amendment on emigration from the Soviet Union to the trade bill stalled in the Senate.

⁷ August 19. The paper was not found. An undated August memorandum from Kissinger to Ford on "Oil Strategy" is in the Ford Library, National Security Adviser, Presidential Subject File, Box 4, Energy (2).

3. Telegram From the Embassy in Saudi Arabia to the Department of State¹

Jidda, September 3, 1974, 1000Z.

5074. Subject: Yamani's Displeasure at Lack of U.S. Action on Oil Auction. Ref: (A) Jidda 4431; (B) State 182093.²

Summary: Minister of Petroleum Yamani believes it would be worthwhile for Ambassador to visit Fahd in London or Cannes and make a final appeal that oil auction be held. Yamani feels USG has not tried hard to support Saudi Arabia's efforts for a reduction in oil prices. He wonders if we are in fact trying to provoke a consumer/producer confrontation to better organize consumers against OPEC. Ambassador believes he should make approach to Fahd as recommended by Yamani. Approach will probably not succeed and even if an auction should be held its long-term effects might not be very significant. A strong *démarche* to Fahd, however, would at least harden Saudi resolve to keep oil prices constant, which would be of considerable help in face of present inflation. End summary.

1. Ahmad Zaki Yamani, Saudi Minister of Petroleum, asked me why I had not gone to London to try to convince Prince Fahd (Saudi Minister of the Interior and Chairman of the Supreme Oil Council) to hold the oil auction. He said he thought there was still a chance that the decision to cancel the auction could be reversed and indicated I was the only one Fahd would listen to (Ref A).

2. I told him Fahd was expected back from London vacation soon and I would talk with him then. He replied that the decision on the auction must be made before the OPEC meeting September 8 and Fahd

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D740243–0333. Secret; Niact; Immediate; Exdis. Repeated to London and Dhahran.

² In telegram 4431 from Jidda, July 30, the Embassy reported that Yamani "was having great difficulties" in getting an oil auction organized. He had hoped that the competitive bidding process of an auction would lower the price of oil without reducing the rents paid to producers but instead cutting into the profit margins of the major oil companies. Yamani was opposed by the Abu Dhabi Minister of Petroleum, the Shah, and Fahd, who wanted to sell oil directly to individual companies so that they could, as Yamani phrased it, "get their hands on vast quantities of oil and cream off substantial commissions for themselves." (Ibid.) Telegram 182093 to Geneva and London, August 20, noted that Yamani would probably soon unveil a proposal for a "'mini-conference' of oil producers and consumers" and instructed the Mission in Geneva not to "solicit or encourage discussion of such a conference, but rather remain entirely in a reactive posture." (Ibid.)

will not be back in the Kingdom before the middle of the month. He asked that we reconsider and that I make a special trip to London or Cannes to see Fahd.

3. He then asked about our approaches to the King. I said I intended to see His Majesty. I had briefed Congressman Wyatt³ on the subject; Wyatt had raised it with the King, but the King did not respond. I will raise it with the King when I see him—I hope during the coming week. Yamani was pleased and asked if we had coordinated this with Britain, France and Germany; would their Ambassadors be making similar *démarches*? I said the Europeans could, of course, do what they wanted, but we had decided that it was probably premature to make a strong joint approach (Ref B).

4. Yamani blew up. He said Saudi Arabia and he in particular had done everything they could to reduce oil prices. He had asked me repeatedly for assistance and he had gotten very little. He had asked that the USG make approaches to the other OPEC countries; he now had full reports of these meetings. All the Americans did, he said, was to say mildly to the governments how nice it would be if prices were to be decreased; there were no threats, no intimations of affecting relations; nothing, in short, that could convince any OPEC government, except Saudi Arabia, that we were serious about prices. He referred to my elaborate presentations and detailed analyses of what the oil costs would do to the U.S. and other countries, and asked why we had not made such presentations in “Iran or anyplace else”.

5. He said that in Quito the consensus was to raise oil prices by \$3.00/barrel, and only Saudi Arabia’s efforts frustrated this.⁴ There had been, indeed, several official U.S. expressions of gratitude to Saudi Arabia for its work, but there had been no recognition in the U.S. press.

6. Now, he said, he was forced to conclude that we did not want any decrease; we probably really wanted a further increase in prices in order to provoke a confrontation between consumers and producers. If prices jumped sharply again, he said, it would make it much easier for us to organize the consumers in a bloc against OPEC.

³ Representative Wendell Wyatt (R-OR).

⁴ At the 40th OPEC conference, held in Quito June 15–17, the participants agreed to raise the royalty rate on oil sales from 12.5 to 14.5 percent but not the price of petroleum itself for the next 3 months. Those who advocated an increase in the royalty rate wanted to prevent inflation from eroding the purchasing power of their revenues. (Skeet, *OPEC: Twenty-Five Years of Prices and Politics*, p. 112) The communiqué issued at the conclusion of the conference was transmitted in telegram 4044 from Quito, June 17. (National Archives, RG 59, Central Foreign Policy Files, D740157–0952)

7. I told him he had flipped. We might not have handled the price question as smoothly as he would have liked. And we certainly hadn't been as successful in other OPEC capitals as either of us would have liked. But we did try and we would continue trying. And what possible purpose could we have in provoking confrontation? The high oil prices were ruining much of the world; this could scarcely benefit us. He said he was sorry, but in light of the information I had just given him, he doubted if we had tried or would try very hard to reduce prices. As for our motives, he said, they had been suggested before; he hadn't believed them then, but was forced to wonder. (He did not specify but was referring to reports last winter that we were preparing US-European invasion force to occupy the oil fields of Arabia.)

8. *Comment:* Yamani is obviously disappointed that his plan to reduce oil prices has been frustrated by Prince Fahd and probably others in the Saudi Government. And he is angry that we appear not to be giving him the support he thinks he deserves. But I do not believe that the auction would really establish a new world market price for oil. It would indeed have an important psychological effect; it would enable us to tell other oil producers that a "correct" price for oil had been established, but it wouldn't have been effective very long.

9. I am inclined to believe Saudi Arabia is bluffing regarding the auction. If it had its auction and if the new price is \$8.00/barrel, I am sure all other OPEC countries will say fine, we will continue selling ours for \$11.00/barrel. There is no doubt what would then happen; the world would continue paying \$11.00; Saudi Arabia could not increase its production fast enough to take away markets (even if it wanted to) and Yamani's enemies in the country would point out that Saudi Arabia had lost billions; the consumers had not profited and the buyers of Saudi oil had seen their profits multiplied. There would not be a second auction.

10. Nonetheless, bluffs frequently work; OPEC is quite clearly still frightened of the Saudi potential. The rulers of Iran, Algeria and Kuwait and others would not have appealed to King Faisal not to hold the auction, if they had been sure it would fail. Accordingly, I think we must give Yamani as much support as we can.

11. Action Requested: (A) That I be instructed to see Fahd immediately; review the world's financial problems, and ask him to do what he can to hold the oil auction. A special trip to him would demonstrate the depth of our concern.

(B) That we reconsider our position on asking the British, French, and Germans to make supportive *démarches* to the King.

(C) That we make a very strong approach to the Shah—not a lesser official—and that I be authorized to give the details of this démarche to the Saudis.⁵

12. Conclusion: Assuming that all these efforts fail (and I would estimate their chances of success as small) we would have demonstrated more fully our determination to reduce prices, and we could at least hope that the compromise proposed by the Saudis of freezing oil prices for a “long time” would be more generally acceptable to OPEC. In a period when the cost of OPEC’s imports are increasing by 10–20 percent per year, constant oil prices would be a considerable achievement.

Akins

⁵ The Department ruled against meeting Fahd in London, noting: “it could well be embarrassing to SAG to be seen to have American Ambassador make such an unusual visit against the background of current controversy over prices and the forthcoming OPEC meeting.” Akins was also reminded that Ford had “recently written to King Faisal and in course of that letter made certain remarks on the ramifications of the high level of petroleum prices,” as Yamani had asked. (Telegram 193332 to Jidda, September 4; *ibid.*) The August 29 letter from Ford to Faisal is in telegram 192483 to Jidda, September 1; Ford Library, National Security Adviser, Presidential Correspondence with Foreign Leaders, Box 4, Saudi Arabia—King Faisal.

4. Memorandum From Secretary of State Kissinger to President Ford¹

Washington, September 6, 1974.

SUBJECT

Ambassador Helms Assessment of Situation in Near East and South Asia

When Richard Helms took up his post as our Ambassador to Iran, we asked him to keep watch over developments in the entire region stretching from Iraq, Iran, the Arabian Peninsula, Persian Gulf, and Afghanistan, to India and Pakistan. Ambassador Helms has just sent me

¹ Source: Ford Library, National Security Adviser, “Outside the System” Chronological Files, Box 1. Secret; Sensitive. Sent for information. Ford initialed the memorandum.

his annual assessment of developments and prospects in this region. (A reference map of the region is at Tab A.)²

1. *The Price of Oil*: With oil selling at four times its October 1973 price, stabilizing the price of oil must be ranked as one of the critical problems in the area. As Helms notes, the future of oil prices depends on the success of our endeavors for a peaceful Arab-Israeli settlement.

We must stabilize the price of oil, Helms is convinced. We cannot accomplish this by using the Saudis, he believes, because they probably cannot be so used; we cannot achieve it by threatening the Shah, because this only makes him less willing to compromise. Helms, who knows the Shah well, believes that the Shah is “not an unreasonable man” and can see himself the calamitous consequences of an economic collapse in the West.

We should therefore try to make clear to the Shah the ruinous effects of the excessive oil prices. We should also try, Helms suggests, to get the Chinese to make the same point to the Shah. This is not a far-fetched suggestion. The Chinese (who are good friends of the Shah) should hardly welcome an economic collapse of Western Europe which would free Soviet forces for redeployment in China’s direction.

[Omitted here is discussion of “India–Pakistan–Iran Relations,” “The Indian Nuclear Test,” “The New U.S. Rapprochement with Egypt and Syria,” “Persian Gulf and Indian Ocean,” “Iraq,” and “China’s Role.”]

² Helms’s assessment is in backchannel message 966 from Tehran, August 25. (Ibid., National Security Adviser, Backchannel Messages, Box 4, Middle East/Africa) Tab A is attached but not printed.

5. Telegram From the Department of State to the Embassy in Saudi Arabia¹

Washington, September 16, 1974, 1551Z.

203063. Subject: Appreciation for Saudi Position at OPEC. Ref: Jidda 5305.²

1. Ambassador should convey in manner he deems most appropriate to His Majesty King Faisal President Ford's appreciation for the courageous and statesmanlike position taken by Saudi Arabia at the OPEC conference in Vienna.³

2. The President quite understands the point made in His Majesty's letter of September 11 that other oil exporters are behaving in a less responsible manner, and we have let our views be known both publicly and privately. What is required is continuing understanding that we live in an interdependent world and that the free world will suffer if measures are taken to prevent market forces from determining a fair price for oil. We fear that unless there is a statesmanlike approach on oil prices, the alternative will be a confrontation between consumer and producer countries, given the need for oil to help fuel the world's economy.

3. The President appreciates the burdens that are now being thrust on Saudi Arabia because of the heavy responsibility it bears for the free world's economic health.

This is a responsibility, however, which Saudi Arabia derives from the position of leadership which the Kingdom now occupies and from the value it places in the prosperity, well being, and security of the free world.

4. FYI: We are not coming out publicly to pat Saudis on the back because we know they are sensitive to charges of being an American

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D740258–1032. Secret; Immediate; Exdis. Drafted by Francois M. Dickman (NEA/ARP); cleared by Ather-ton, Katz, and Scowcroft; and approved by Kissinger.

² Telegram 5305 from Jidda, September 13, transmitted a September 11 letter from Faisal thanking Ford for his August 29 message and commenting: "all of the OPEC states are standing against us with regard to lowering the prices which we have suggested—because they wish them to increase steadily. But after long discussions with Algeria and Iran it has been agreed to freeze the current price for a further period. We ask that you get in touch with your friends from among the OPEC states and particularly Iran and Algeria to support our position with regard to lowering the price." (Ibid., D740256–0455) For Ford's August 29 message, see footnote 5, Document 3.

³ At the 38th OPEC conference, held in Vienna March 16–17, the participants agreed not to raise the price of oil over the next 3-month period. Faisal informed Akins before the meeting that he would instruct Yamani to try to lower prices and "to compromise only to the extent of freezing prices." According to the Ambassador, numerous reports confirmed that Yamani "fought hard to carry out his instructions." (Telegram 5411 from Jidda, September 17; National Archives, RG 59, Central Foreign Policy Files, D740260–0255)

tool on oil policy matters. However, we are quite prepared to do so if Embassy believes Saudis would welcome this.⁴ End FYI.

Kissinger

⁴ Akins responded that Faisal would appreciate public U.S. praise and approaches to other OPEC countries. (Telegram 5411 from Jidda, September 17; *ibid.*) On September 23, Akins reported that he had delivered to Saqqaf the President's message to the King, which Akins described as "useful," but that "more" was "required." (Telegram 5547 from Jidda; *ibid.*, D740267–0156)

6. Memorandum From the Chairman of the International Energy Review Group Working Group (Enders)¹

Washington, September 16, 1974.

TO

The Secretary of State
 The Secretary of the Treasury
 The Secretary of Defense
 The Secretary of the Interior
 The Director of Central Intelligence
 The Chairman, Atomic Energy Commission
 The Chairman, Council of Economic Advisers
 Administrator, Federal Energy Administration
 The Assistant to the President for International Economic Policy
 Director, Office of Management and Budget

Status of IEP Negotiations

We are now at the final stages in the ECG negotiations of the integrated emergency program (now titled the International Energy Program). A special ECG Working Group has completed a draft text of an agreement which will be considered at the ECG meeting on September 19–20. (Tab A)²

This draft pulls together in one broad agreement all the work which has been going forward under the ECG, including an emergency

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P820053–0736. Confidential. Drafted by Enders and Bosworth on September 12. The IERG was established pursuant to NSDM 244, February 8. See *Foreign Relations*, 1969–1976, volume XXXVI, Energy Crisis, 1969–1974, Document 310.

² Tabs A and B are attached but not printed. Regarding the meeting of the Energy Coordinating Group, see footnote 6, Document 9.

program, a long-term effort to reduce dependency on imported oil, and a mechanism and procedures for relations with the international oil companies.

Emergency Program

The emergency program consists of three major interrelated commitments: (1) a common level of stocks; (2) packages of measures to restrain demand by a common amount in an emergency; and (3) an allocation system to spread the shortfall evenly among the participants.

In terms of U.S. interests, the basic purpose of the agreement is to create strong basis for the consumer solidarity essential to shift the balance of power vis-à-vis the producing countries.

But there are a number of specific features of interest to us:

—*Balance of Advantage*: The agreement increases our oil security by committing the Europeans and Japanese to increase stocks significantly—and to restrain demand in an emergency. The attached tables (Tab B) show the amount of oil which would be available to the U.S. under various types of supply emergencies. Under almost all of these we do better than could be expected in the absence of an emergency program. As these tables show, the IEP would have been of benefit to us during the last crisis.

—*Protection Against Selective Embargoes*: Other members are committed to come to the aid of any one or more countries singled out by a producer embargo.

—*Automaticity*: No political decision will be required to activate the program when crisis occurs—a fatal weakness of earlier emergency planning. Rather, the program will be activated automatically when quantitative criteria are met unless a strong majority of the countries agree to reverse the trigger.

—*Avoidance of Political and Price Strains*: By establishing in advance rules for behavior during an emergency we should minimize the type of corrosive damage to our overall political-economic relationships which occurred during the last crisis. Moreover, by controlling some 80 to 90 percent of world demand in a crisis, we should be able to moderate greatly the price explosion of the sort which occurred during the last embargo.

—*Long-Term Cooperation*: The agreement will also provide a strong commitment to cooperative programs to reduce dependency on imported oil over the longer-term. Specific joint R and D projects are already agreed to in principle. We will have an institutional framework for joint action in the areas of conservation, the accelerated development of alternative sources of energy, uranium enrichment, etc. Once the overall package, including the urgently needed emergency pro-

gram, is in place we intend to take the same strong initiative to develop the long-term area that we have taken on the emergency plan.

—*Companies*: The agreement will establish an intergovernmental information exchange mechanism to meet European and Japanese demands for greater “transparency” in the international oil industry. It will also establish a framework for consultations with individual companies on a problem by problem basis. We have taken care in setting up this program to prevent any erosion of competition within the industry and to ensure compliance with U.S. anti-trust and other laws. We have consulted closely with the U.S. majors on this aspect of the program—as well as on the emergency measures. They have indicated that the information requirements are generally acceptable. They have also responded positively to the emergency program which they believe will get them out of the middle in disputes between importing countries over who should get oil.

Position of Other Potential IEP Members:

As of now there appears to be solid support for prompt conclusion of the IEP agreement among the twelve ECG countries except Norway.

For Norway the IEP poses potentially serious political problems, and nationalistic tension on oil (“hands off the North Sea”) causes the Norwegian Government to reserve its position on the IEP. A decision by Norway not to participate would not be fatal to the IEP, but it would be damaging. Under continuous pressure from us Norway is now showing some signs of coming along, but won’t be ready to join by September 19/20. Our tactic will be to try to get the Norwegians to down play their reserve while preserving a way for them to come on later.

Several other OECD countries which are not in the ECG have already shown strong interest in becoming full IEP members. These include Switzerland and Sweden, who may ask for charter member status, and Australia and New Zealand who have the IEP under full government review. Austria and Spain have also stated interest in exploring IEP membership. We have said that we will support IEP membership for any OECD country which can satisfy the group that it is ready and able to assume all obligations.

France is still negative; but not on the offensive. Canada and possibly Japan will be reluctant to commit themselves finally without the French, but as of now we doubt that they will be willing to take the onus for holding the whole exercise up.

Present Timetable

We have agreed in the ECG to try to place the IEP under the general auspices of the OECD. We would create a new, virtually autonomous agency under the general umbrella of the OECD. The creation of

this new International Energy Agency to run the IEP will require approval by the OECD Council, subject to veto by any member.

Here the only potential serious problem is France. In theory, the French could veto setting-up the new agency. As of now, this is not a likely development. But to hedge against it, we have insisted that the IEP is non-negotiable in the OECD. If the OECD Council vote is not promptly forthcoming, we would have to proceed to set up a permanent structure to run the IEP. The other ECG countries are reluctant to face this contingency but probably could be brought along.

At this next meeting on September 19–20, we are aiming for complete agreement on the IEP text at the ECG level. We will then point toward a final meeting of the ECG in the first half of October at which the IEP will be formally approved. This meeting could possibly be held in Paris back to back with an OECD Council meeting to establish the new agency. Our objective remains to have the IEP in place by November 1.

We will begin to move ahead immediately in the long-term area, concentrating initially on conservation and R and D. In the conservation area, we will aim for group targets and commitments on limiting the growth of oil consumption. The new Agency will have a strong policy capability to develop and coordinate additional cooperative R and D activities. We already have agreement in principle to carry out ten specific R and D projects. A viable long-term cooperative program to reduce dependency on imported oil is the essential second step in redressing the producer/consumer power balance.

Remaining Issues:

We have a few issues still to resolve. These are difficult but should not present any insurmountable obstacles to agreement.

—*Trigger Levels:* The present draft provides for a seven percent threshold (supply shortfall) for both a selective embargo (allocation of oil) and the general crisis situation (allocation plus mandatory demand restraint). It also provides that the selective trigger shall apply to major regions of those countries whose petroleum distribution systems are not completely integrated (U.S. and Canada). This formulation is fully acceptable to us since it gives us a relatively low selective trigger level. But this question is likely to be reopened by other countries at the next ECG. If necessary, we would propose to agree on a straight 5 percent selective trigger—which limits our self-risk to some 850,000 barrels/day—and a general trigger of either 5 or 7 percent. Agreement along these lines should be attainable.

—*Voting:* We have an ECG consensus that voting should be weighed on the basis of oil consumption and that no one country (US) or group of countries (EC) should have a veto. Putting these general

principles into specific voting formulations is not easy, but we appear to have a basis for agreement at the September 19–20 meeting.

—*Form of Agreement:* We want a firm international agreement setting forth the basic commitments of participation. The U.K., Ireland, and Canada would prefer a memorandum of understanding, which they describe as morally binding. The Japanese want to put the IEP into force through the OECD Council decision setting up the new agency. They claim this would bind them to the agreement but would enable them to avoid going to the Diet for approval. The others are generally prepared to accept a formal international agreement. On the basis of the discussion at the September 3–7 Working Group, it appears likely that we can agree on entry into force procedures that will meet the constitutional and political problems of all countries while preserving the legally binding character of the present draft.

U.S. Congress and Legislation:

We have consulted with more than 50 Senators and Congressmen on the IEP and our objectives in the negotiation. The reaction to the basic idea has been almost universally positive. Most members allow that implementing legislation (standby authority for consumption restraint in particular) will be controversial. But the most commonly voiced view is that legislation to implement a firm agreement among others will pass in the next session.

We believe that, if absolutely necessary, the U.S.G. has sufficient legislative authority (Defense Production Act, Trading with the Enemy Act, Trade Expansion Act, and Emergency Petroleum Allocation Act) to meet its obligations under the IEP if an emergency should occur soon after signing. However, specific legislative authority is needed over the longer-term, and we would propose to go to the Congress for legislation in the following areas:

1. demand restraint measures, including rationing, by FEA regulation,
2. utilization of stand-by production, increase of production rates over MER, adjustment of refinery operations, mandatory fuel-switching,
3. fulfillment of international allocation obligations, either voluntarily or under FEA regulation, with appropriate anti-trust exemptions,
4. collection and exchange of energy information.

7. **Briefing Memorandum From the Director of the Policy Planning Staff (Lord) to Secretary of State Kissinger¹**

Washington, September 21, 1974.

Strategies for the Oil Crisis and the Scenario
for September 28 Meeting

You asked for our views on the overall strategy for the Camp David Meeting September 28. We have developed the attached paper² which assesses the situation, delineates two alternate strategies, and lays out the scenario for pursuing whichever you select.

The first strategy is essentially that in the paper Tom Enders gave you (Tab A);³ the second is a variant developed in S/P to give you an alternative to consider. Both strategies are predicated on the belief that the oil situation warrants a hard effort to pull the consumers together and to build a firm line with the producers; both call for special consumer conservation and financial solidarity measures like those Enders proposes; and both seek to get the consumers to develop specific economic countermeasures against the producers. The strategies differ essentially on the issue of seeking arrangements with the producers: the first makes no provision for doing so; the second makes preparation for a dialogue with the producers a major element.

It is not, in my view, an easy choice between the two. I am impressed with the seriousness of the situation and the need to avoid faint-hearted stabs at the problem: as to the whole future framework for dealing with resources and like issues in an interdependent world. Moreover, the major consumers must be brought to see these stakes and we cannot let them avoid facing up to the serious choices they impose. But unless your contacts with the Europeans and Japanese to prepare the September 28 meeting argue to the contrary, I am not optimistic about how much stomach they will have for the firm measures we think need to be taken.

For this reason, I lean marginally toward the second strategy as giving us a better chance with the Europeans and Japanese. It offers them the prospect of a dialogue with the producers and presents the development of economic countermeasures as building consumer strength and some negotiating sticks to accompany this. I also think the prospect of a dialogue with the producers would put us in a somewhat

¹ Source: National Archives, RG 59, Records of Henry Kissinger, Lot 91D414, Box 3, Nodis Letters. Secret; Sensitive; Nodis.

² The paper, "Strategies for the Oil Crisis," undated, is attached but not printed.

³ The paper, "The Oil Crisis: The Next Stage," was not found.

better position in dealing with Arab reactions to our strategy and in coping with the Middle East situation this autumn.

I take this view realizing that it somewhat coats the pill for the consumers and risks permitting them to hold on to false hopes and half measures; and it takes some of the edge off our message to the producers. There is also the question, as always, of what we would talk to the producers about in any dialogue, though here I think the attached paper gives a good first answer. I would try to handle these problems by tightly linking the actual convening of any consumer-producer meeting to prior solid agreement among the consumers on conservation and financial solidarity measures, a specific set of proposals to be put to the producers, and a panoply of economic countermeasures, some of which should be implemented before the dialogue with the producers begins.

Turning to the scenario for the September 28 meeting, the chief point I would stress is our proposal that you open the meeting with an analysis of the political context. This will give you the chance to impress upon the attendees the seriousness of the situation and the need for action that faces up to it. The major message that you should seek to convey is that however difficult and dangerous our choices may be now, they are nothing like what they will be if we allow the situation to drift. If nothing is done soon, the temptation to consider military options may gain ground.

8. Editorial Note

On September 23, 1974, President Ford gave a speech at the Ninth World Energy Conference in Detroit, Michigan, on the energy challenges facing the international community. Ford used the occasion to highlight Project Independence, the U.S. domestic energy program that would “seek in many, many different ways to reduce American consumption and to increase production of energy.” To the extent that the United States succeeded in doing so, he said, “the world will benefit,” because “there will be much more energy available for others.” But he cautioned that “no single country can solve the energy problem by itself,” and that “just as Americans are challenged by Project Independence, the world faces a related challenge that requires a ‘Project Interdependence.’” Ford warned that a lack of cooperation among nations risked escalating a local conflict into a “global catastrophe,” particularly because “vital resources” were “distributed unevenly,” which

forced countries to consider conflict as an option in the struggle for those resources. And “when nations use their resources as political weapons against others,” he declared, “the result is human suffering.” For text of the speech, see *Public Papers of the Presidents of the United States: Gerald R. Ford*, 1974, pages 175–183.

The same day, Secretary of State Henry Kissinger addressed the United Nations General Assembly, delivering a speech that, in part, concerned oil. Kissinger agreed that “both [oil] producers and consumers have legitimate claims” that had to be reconciled “for the common good.” He also declared that the world could not “sustain even the present level of prices, much less continuing increases” because of the inflationary spiral that such prices would produce, benefiting no one, including oil-producers who would be “forced to spend more for their own imports.” Furthermore, Kissinger argued that high oil prices were “not the result of economic factors—of an actual shortage of capacity or of the free play of supply and demand.” Rather, he said, they were “caused by deliberate decisions to restrict production and maintain an artificial price level.” As a result, he believed that any long-range solution would require “a new understanding between consumers and producers.” For text of the speech, see Department of State *Bulletin*, October 14, 1974, pages 498–504.

9. **Memorandum of Conversation**¹

Camp David, September 28, 1974, 3–7 p.m.

Foreign Participants in the “Camp David” Meeting

Federal Republic of Germany

Hans-Dietrich Genscher, Vice-Chancellor, Foreign Minister

Hans Apel, Minister of Finance

Hans-Herbert Weber, Assistant Secretary, Ministry of Finance

Peter Hermes, Assistant Secretary for Economic Affairs, Foreign Ministry

France

Jean Sauvagnargues, Minister of Foreign Affairs

Jean-Pierre Fourcade, Minister of Economic Affairs and Finance

Jean-Pierre Brunet, Director of Economic and Financial Affairs, Ministry of Foreign Affairs

Jacques de Larosiere de Champfeu, Counselor, Ministry of Economic Affairs and Finance

Constantin Andronikoff, Minister-Counselor, Ministry of Foreign Affairs

Japan

Masayoshi Ohira, Minister of Finance

Toshio Kimura, Minister of Foreign Affairs

Taroichi Yoshida, Vice-Minister of Finance

Hiromichi Miyazaki, Director General, Economic Affairs Bureau, Ministry of Foreign Affairs

United Kingdom

Denis Healey, Chancellor of the Exchequer

Derek Mitchell, Second Permanent Secretary, Treasury

Donald Maitland, Deputy Under Secretary, FCO

United States

Henry A. Kissinger, Secretary of State

William E. Simon, Secretary of the Treasury

¹ Source: National Archives, RG 59, Records of Henry Kissinger, Lot 91D414, Box 21, Classified External Memoranda of Conversations, May–November 1974. Secret. The list of participants is marked Secret; Sensitive. The G–5 Foreign and Finance Ministers met in Washington and Camp David September 28–29.

Arthur Burns, Chairman, Federal Reserve Board

Jack F. Bennett, Under Secretary of the Treasury

Thomas O. Enders, Assistant Secretary of State for Economic and Business Affairs

Charles Cooper, Assistant Secretary of the Treasury

Meeting of Big Five Foreign and Finance Ministers,
September 28, 1974, 3 p.m.

Kissinger: How about a picture. Acquiescence means acceptance.

First of all I would like to welcome you all here. I know it was difficult for some of you, especially Ministers Genscher and Healey. But I thought we could take advantage of the Finance Ministers being here for the annual Bank and Fund meetings² to have an informal exchange of views.

We have had preliminary discussions here and with your permission, Bill and I would like to open by explaining the situation as we see it. Later, we would like to put forward some suggestions as to possible actions we might take. Then in another month or so this group could meet again, or some other group like it. But we are not here today to try to agree on a concrete program of action. Is this procedure agreeable? If so, let me begin with our analysis of the current situation.

We all know the economic dimensions that high oil prices have imposed on us. These problems are insoluble on a bilateral basis, except perhaps for the United States. But if we were to proceed bilaterally, the political weakness among us that would result would destroy the cohesion of the Western world. And therefore we reject the bilateral approach.

We believe instead that we should develop a coordinated response to the current economic situation. This is based on the fact that no one of us can long withstand the economic and political damage caused by the current high oil prices. These prices, moreover, are the result not of market forces but by the political decisions of the producer governments. Therefore the prices should be subject to political decisions by consumer governments as well.

The stakes involved go beyond oil prices and economics, and involve the whole framework of future political relations. If producers continue to manipulate prices and consumers have no effective response, the producer governments will attain huge political power over the coming years. OPEC countries will have \$110 billion revenue this year compared with \$25 billion last year. We estimate revenues of

² The annual meeting of the World Bank and International Monetary Fund opened on September 30 in Washington.

more than \$125 billion for 1975. The gap between OPEC revenues and spending is about \$55–60 billion this year, of which 85 percent is concentrated in OECD countries. In our judgement, these revenues are not merely entries in bank accounts, since sooner or later they will be converted into command over resources, and thus into political power. This will have three major political implications:

First, producer countries will have power over economies in consuming countries from the effect of shifting financial assets, whether intentional or unintentional. The producers could develop a strategy to provoke a major political and economic crisis in the Western world. But their actions do not have to be malicious, and their inability to interpret their power in terms of the global uncertainties that will result could also have disruptive effects. Iran will have an aid program this year equal to that of Japan; the recipients of this aid can become economic and political hostages. Maybe we should welcome the producer countries becoming larger aid donors but if they follow the example of Libya, this development will result in a massive shift of political influence as well.

Second, Arab revenues can become a threat to global and regional peace. Weapons are flowing into the Middle East in huge quantities and the threat of war can grow enormously.

Third, and most worrisome, is the direct effect on the unity and strength of our countries that have been the basis for our resilience to the threats from Soviet power through the years. Italy is only the first example stemming from current trends that could divide us. Italy could slip into LDC status, become a supplicant to the Middle East, and be subject to influence from radical left and right wing political forces. We all know the consequences of such a development for Europe.

Therefore, we must respond to the political as well as the economic implications of current trends. It is true that oil revenues must come back to Western financial centers, but producers will still control the assets and can shift them about and use them for direct political leverage. We need to discuss how we can avoid letting producers make the decisions. We do not want confrontation, but we want to move to a position where all of us can influence current economic trends.

We will later put forward some specific suggestions as to how we might respond. At this point I will just make some general points, which Bill Simon may then wish to elaborate further, particularly with regard to the financial situation.

There are first the political components of our response. We must persevere in the Arab-Israeli negotiations. To the extent that those negotiations are linked to oil they become insoluble. Even if producers see

them as linked, we cannot proceed. We will continue to make major efforts toward peace in the Middle East, and we welcome assistance from others.

In addition, we must demonstrate that major consumer countries are willing to protect their interests through consumer solidarity. We are prepared to share the leverage that we have, financial, research and development capability, and political influence, with those here. We should not be deterred from collective efforts because they are branded as confrontation by producers. That will happen in any event. Our hope is to pursue a calm, deliberate strategy to make less likely the charge of confrontation, and to eliminate the weak links among consumers.

Toward this end we feel three areas should be addressed:

First, demand restraints. It is difficult to negotiate effectively while consumption is rising, and the ability to demonstrate restraint will at the same time demonstrate solidarity. I applaud the bold and imaginative French action of the past week³ as the first concrete step in the right direction.

Second, financial solidarity. We will need adequate access to financing if we are to maintain economic growth. The distribution of financial reflows is very uneven. We must arrange borrowing and lending among ourselves so that the petrodollar reflow becomes more flexible. We should do this however without the producer countries in order to avoid political leverage by them over us. We will make concrete proposals on financial measures later in this meeting.

Third, we should study whether present economic policies in our countries are best, and seek ways to improve producer-consumer relations. We want a dialogue with producers, but what if they don't and push a policy of embargo? We have no specific proposals on this issue, and suggest the establishment of a working group.

These are not final American proposals. We are very open to suggestions from others. We are holding this meeting to stress the political and economic consequences of the present situation. Ten to fifteen years hence it will be hard to explain why we didn't do anything about the serious problems that now confront us.

Simon: The current economic situation is the most serious challenge since the reconstruction after World War II. It can only be met co-operatively. There are three major concerns: the overall state of the world economy, the recycling problem, and most important, high oil prices.

³ The French Cabinet mandated a cap on national spending for oil imports.

We don't believe the world is drifting toward depression. But inflation threatens the fabric of our societies. Inflation has been caused in large part by the rise in oil and other commodity prices, but it is not just from the commodity price rise. Underlying fiscal and monetary policies must be dealt with if we are to bring inflation under control. If we drift into depression, we could pursue expansionary policies. But the greater risk at this point is inflation, and we must make a common commitment to bring inflation rates down. A month ago we spoke of the need for constant communication and cooperation in this field.

On recycling, the bulk of it up to this point has been handled by the private sector, and official backup facilities stand ready to assist. I will distribute some material and data on recent financial flows.⁴ Please keep this information closely held.

I am not convinced that the structure of reflows will change greatly in the months ahead. Oil producers will continue to seek productive outlets for their revenues. Should more surplus revenue be recycled to the U.S. financial markets, foreigners can tap this market. About 25% of oil revenues have been invested in the United States, and in recent weeks the U.S. share has been somewhat less. Remarkable confidence in the capability of markets was expressed by us a month ago, and I continue to hold that confidence.

At the Summit meeting just concluded⁵ there were many appeals to cooperate and meet the economic challenges before us. If we wish to maintain confidence in markets, we must link together. Therefore, we should study additional mechanisms to give official support to private markets when needed.

With regard to oil prices, we don't believe the industrialized countries can accept continued high oil prices as inevitable. High oil prices are central to all our problems. Countries will be unwilling to accept the mounting debt involved. Oil prices must come down and oil producers must take on a substantial share of the burden.

The United States is prepared in principle to associate itself with a major new international initiative to supplement existing financial mechanisms. We will present detailed proposals later, and I would like at this point only to state four general guidelines:

First, we must pursue intensified financial cooperation, energy cooperation, and a commitment to beat inflation. In addition, we should develop international cooperation on conservation until oil prices are

⁴ Not found.

⁵ Over the weekend of September 7–8, Simon and Burns met with U.K., French, Italian, Japanese, and West German Finance Ministers and officials in the village of Champs-sur-Marne near Paris. No record of the meeting has been found.

reduced. The IEP agreement last week provides a solid basis for such cooperation.⁶

Second, we need consumer solidarity vis-à-vis producers.

Third, our financial cooperation should be independent of oil producers, except for highly concessionary lending to poor countries.

Fourth, official financial transfers should be supplements to and not substitutes for private market flows. The terms should not be such so as to undercut sound national programs.

We are flexible as to how to proceed, but we feel that a concrete program is needed as soon as possible. I hope we can reach agreement here on the concept of such a program and how to go about developing it.

Healey: I welcome this opportunity to look at the oil problem as a whole, and to look ahead to the situation ten years hence. You, Henry, did not exaggerate the risks involved, and in fact left two of them out, which I would like to mention:

First, because of the buildup of armaments in the Middle East, the threat of a breakdown in oil supply is a real one. War among the Arab states becomes a real possibility. At the same time, if we threaten military action against the producers, the Arabs may well blow up their oil facilities.

⁶ The Energy Coordinating Group met in Brussels September 19–20 and reached agreement on the International Energy Program and on a draft OECD Council decision establishing a new energy agency to implement the agreement. (Telegram 7300 from Brussels, September 20; National Archives, RG 59, Central Foreign Policy Files, D740265–0526) The final text of the IEP was agreed in Brussels on September 27 by Belgium, Canada, Denmark, West Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, the United Kingdom, and the United States. (Ford Library, National Security Adviser, NSC Europe, Canada, and Ocean Affairs Staff: Convenience Files, Box 48, Energy (2)) The Agreement on an International Energy Program was adopted at the OECD Council meeting on November 15 and signed by the 16 founding members of the OECD on November 18. (Scott, *The History of the International Energy Agency*, vol. I, pp. 46–57) The Agreement expressed the signatories' desire to "promote secure oil supplies on reasonable and equitable terms." It also expressed their determination "to take common effective measures to meet oil supply emergencies by developing an emergency self-sufficiency in oil supplies, restraining demand and allocating available oil among their countries on an equitable basis." The "Emergency Sharing System" could be triggered by a participating country when its oil supply fell below 7 percent of its consumption during the base period. Furthermore, through the agreement, the participating countries sought "to promote co-operative relations with oil producing countries and with other oil consuming countries" and endeavored "to play a more active role in relation to the oil industry by establishing a comprehensive international information system and a permanent framework for consultation with oil companies." For the full text of the IEP Agreement, see *ibid.*, vol. III, pp. 405–410. Also adopted at the November 15 OECD Council meeting was the decision on the establishment of the decision on the establishment of the International Agency. See *ibid.*, pp. 405–410. A report on the meeting is in telegram 27328 from USOECD Paris, November 15. (National Archives, RG 59, Central Foreign Policy Files, D740331–0029)

Second, social and political instability will be created in producer countries by the acquisition of wealth. The technical elite lies almost entirely in the military. As in many African countries, there may first be a struggle among the generals, then among the colonels, and then among the captains. They can go on fighting for years.

We may think that if we work together and develop a concerted response in a rational way that we can assume that the producers will react in a rational fashion as well. But we cannot make that assumption in the Middle East. I can illustrate my point perhaps best by the familiar story of the scorpion and the frog. A scorpion, wanting to get across the Suez Canal, and seeing a frog preparing to swim across, asked the frog whether he could ride on the back of the frog. The frog responded that this was dangerous since the scorpion might sting and kill him. The scorpion responded that if he did so he too would die by drowning, and so it was logical that he would not harm the frog. The frog thereupon agreed to carry the scorpion, and half way across the water he felt the deadly sting of the scorpion. With his dying breath the frog asked why the scorpion stung him, contrary to his own self interest. Is this not completely illogical? I know, responded the scorpion, but this is the Middle East.

We should never assume that the Arabs will react as rationally as Bismarck could count on other Europeans to react during the last century.

We must also distinguish the importance of issues from the urgency in dealing with them. Some of the most important, such as reduction in oil prices, will be extremely difficult and slow to achieve. It may therefore be a mistake to try and integrate all issues in too coherent a way, or to put them all into one organization. I prefer the approach of overlapping organizations, so as to be able to move in one area or another as circumstances permit. I am not convinced that the creation of a new umbrella organization is the right way.

Turning to surplus producer revenues, we think that the \$50 billion level this year will increase to \$80 billion in years ahead, which means both a cut in demand and the feeding of inflation. These surplus revenues cut economic activity just like an increase in taxes. There is no doubt that cost-push is a major element in current inflation rates, but oil prices will also contribute through the remainder of this year.

It will take 12–18 months for most demand restraint measures to take effect. Bill, if we wait for a recession, it will be too late. We all believe, as does the OECD, that we will have a recession next year and a slump the year after. We need to act now. Disagreement among economists here at the Summit as in England is apparent. The most important threat of oil prices after inflation is its impact on reducing world demand.

As for your proposed action program, I welcome cooperation in all the areas you have outlined. But in view of the instability and emotionalism of OPEC countries we should be very wary of their response. We must be careful in developing our collective rhetoric. If one of us appears to threaten them—as in one or two remarks by U.S. officials recently—this can have a serious consequence. We must maneuver into a position to exert pressure, but we must not go off half cocked, until we are in the position to exert such leverage. In particular we should avoid any military threats against producer countries.

As for Bill's new supplemental financial measures, we all agree that a financial problem will develop over the next year, and in response, the faster we get our boat into the water the better.

In conclusion, I stress the extraordinary diplomatic care we must exercise vis-à-vis the OPEC, as well as the need to recognize the length of time that may be needed to accomplish our various objectives.

Simon: We have no disagreement on the petrodollar surplus of \$55–65 billion this year. Your judgement that it will go up to \$80 billion is based on three assumptions: no increased spending by OPEC countries; prices remain at the current high level; and consumption in consumer countries will continue to increase.

Regarding economic policies, it is obvious that there is a lag between implementation and effect, and we must be careful in our timing. At this point we need fiscal restraint but we don't yet have it. We still have a budget deficit.

Apel: It is the same situation with us.

Healey: But whatever the size of the surplus, it restricts demand.

Apel: Not necessarily. But we can discuss this tomorrow among Finance Ministers.⁷

Healey: The size of the surplus is less on a calendar year than measuring from June to June, but in any event the problem is colossal.

Kissinger: If you are right, Denis, the problem is even greater.

Healey: Whether the share of petrodollars that will flow to New York will increase or decrease is a matter of judgement.

Kissinger: As to whether we are heading toward confrontation with OPEC, I do not know the unnamed U.S. official who mentioned military takeover, but this is not a part of our present strategy. We do not want confrontation in a rhetorical sense. The producers will consider any cooperation as a form of confrontation. But this is not necessarily bad. I had a talk with the Syrian Foreign Minister this morning, and there was no indication that our relations have suffered.

⁷ No record of the meeting has been found.

I agree we need to coordinate on rhetoric. We had a need to call public attention to the problem. Now having done so, however, there is no further need, and we should from now on act rather than talk about the problem.

Kimura: There is no question that the world economy is seriously affected by high oil prices. A lowering of oil prices would be very desirable. However, the specific steps involved raises many difficult questions. We must have close international cooperation in all fields, and a cautious attitude with respect to oil producers. We should proceed on many fronts so as to see where action is possible.

We need to deepen cooperation on economic policies among industrialized countries. In the current worldwide inflation situation, we must respond to price increases through demand management policies, but not so as to develop into world recession.

We should seek appropriate means for recycling oil revenues from a short term to a longer term basis. On another front, we must assure that protectionism does not creep into the world. We already have the OECD pledge to avoid new trade restrictions. We should also pursue freer trade through the upcoming multilateral trade negotiations. In this regard, we look to early passage of the trade bill.

With regard to investment, a normal flow situation should be developed. We should continue to have steady cooperation among industrialized countries and good relations with producers to make them more responsible for maintaining trade flows. Oil producers appear to want to diversify their investments. In this regard, if we can increase their understanding for reasonable and appropriate financial flows, we can move on to a more desirable situation.

We could attempt to do these many things through one uniform organization, but there would be many difficulties in this, and perhaps it is not possible to do this. Perhaps we should seek to use all available channels, so as to shift to medium and long term investments and thus to achieve a more stable flow.

Sauvagnargues: Although we are here as one of the major industrialized countries to exchange views on the current economic situation, we cannot take decisions since some EC countries are not here. We have just decided to embark on a Community energy policy.⁸ We would want the Community to participate in international cooperation of this kind.

⁸ At its September 17 meeting, the EC Council adopted a resolution that represented a commitment to draw up a common EC energy policy. (Telegram 7166 from Brussels, September 18; National Archives, RG 59, Central Foreign Policy Files, D740261–0765)

As for the seriousness of the current situation, we endorse the analysis of the United States, and we should not wait with frightened tremors while producers gain economic advantage. Cooperation therefore is necessary.

Any concerted effort by us will be interpreted as confrontation by producers. We should not endorse such a description of confrontation, but we must be careful of avoiding confrontation. The Secretary of State has described the situation as highly political and so as to appear as an alliance of the rich against the poor, and thus to set up blocs of rich, poor, and producer countries. However, the producer countries are not united. But if we set up a bloc of consumers we may be triggering the formation of a bloc on the other side.

Therefore, we should like to adopt a stage by stage approach. We have a global situation with many aspects, including the oil price issue, and the petrodollar reflow which must be faced even if there is some change in oil prices.

At a given time, therefore, we should sit at the table with those who hold the petrodollars to make them understand that these dollars will become paper if we cannot reach agreement on acceptable financial arrangements. I don't believe that the holders of petrodollars would be indifferent to economic crisis among industrialized countries and the danger of this for Arab investments.

I welcome the several proposals put forward. We need solidarity and cooperation. We also need a certain machinery for carrying this forward, but I am not sure that all issues should come under a single umbrella organization, for two reasons. First, a single organization could cover too much ground. Second, we in Europe are concerned that Europe presents a special situation, more dependent on oil than the United States. We must concert with the United States of course but not set up an organization that would prevent a Community approach.

We must use the carrot and stick approach. We must concert our policies on the one hand while pursuing the producer-consumer relationship on the other. Setting up an organization with the producers does not appear necessary. But we may wish to give stability and guarantee for their investment to insure development of their countries. We have initiated an EC-Arab dialogue. A global solution may also be possible, but this should not be done in a threatening way so as to trigger a bloc response by the producers.

We must take the first step now to reduce consumption. This will demonstrate to producers that we are serious. Steps can be taken on a national, European, or wider framework of broadly coordinated programs. We should also move ahead to develop substitutes for oil.

Although we see an urgent need for a concerted approach, we are not sure that we should attempt an overall comprehensive approach on

an urgent basis. But we should restrict consumption now, as the only deterrent which will not appear as a political threat to the producers.

As for financial measures, there is a need for a show of solidarity, but combined with some opening of a dialogue with Arab producers. Perhaps we could do this within a small grouping as suggested by Yamani. The group could consist of the United States, Japan, the EC, perhaps Canada, some major LDC consumers like India and Brazil, and the main producers. It would be a study group, and not a means to take decisions. It would make the producers realize however that unless there is some solidarity by the producers and consumers, they will lose their markets.

Fourcade: I would like to make some specific comments on the economic situation after this political discussion. The French trade balance was in surplus in 1973 but with the 4-fold increase in oil prices there will be a deficit in 1974. The French Government however has set an economic policy over the coming 18 months to bring the trade account back into balance by 1975. This trade balance forecast for 1975 has been used as the basis for the French budget. The oil price problem is our central concern, and trade cannot be balanced if oil prices continue to rise. We have therefore set a ceiling on imports of crude oil as follows: we take the real consumption of crude in 1973 (127 million tons), the CIF price of oil at the end of 1974, and we then will set a 1975 ceiling equal to 90% of the 1973 volume of imports X the end 1974 price.

We will use two methods to bring this about. First, the customs tariff so that we can control how much oil goes to the refineries. Second, we will work to reduce consumption through speed limits, traffic limitations, and other such measures.

In 1974 compared with 1973 we will achieve a 5% reduction in consumption. In 1975 our new measures will reduce consumption even further. We must in any event compensate any price increases by reduced consumption in order to achieve a trade balance.

Genscher: I agree with the Secretary of State's political analysis of the current situation. There is a great shift in political power underway, and I see considerable danger to the political structure of the industrialized democratic countries, and for the LDCs. We should however seek cooperation with producing countries and not confrontation. We cannot confront them now. The Federal Republic has an energy program, including rationing to restructure energy consumption, but this will take time. Changes in prices are the most effective method for doing this. We welcome the September 17 Council decision of the Community to establish an EC energy policy and the September 20 decision of the Energy Coordinating Group.

We must carry out a program of cooperation that goes beyond words. Producers may say that such cooperation is confrontation, but

they will not really consider it as such. They must realize that we will stand together.

We must not cooperate by sitting together like rabbits waiting for the snake to strike. The EC energy policy is an important element in this. It is not an energy program, in itself, but a way of insuring that national energy programs are coordinated.

Apel: I have five supplemental comments to Minister Genscher's presentation. First, the sum of net transfers of petrodollars to Arabs is not such a terrible number in relative terms. I do not share Mr. Healey's concern that this could trigger a crisis for our economies. There is however a political danger involved. In addition, even before the oil crisis some European countries had lived beyond their means, and this has increased the precarious balance among industrialized nations of the West in the monetary field. Some countries try to solve the problem in a rational manner by redistributing resources within the economy, but others instead let inflation run its course. The Federal Republic was in better shape than others before the oil crisis. But inflation is a major problem, which could lead to social unrest, and is a threat to our political structure.

Second, it is foolish to believe that industrialized countries can each move in its own way. Solidarity is essential, but it is not a one-way street. There have to be economic and political objectives as well as interim financial measures.

Third, I agree with Den Healey. I agree we should first solve urgent problems, leaving some important problems for later. But as I have learned from the futurologists, we must tackle problems early if we are to have an effect on the future outcome.

Fourth, it is of course foolish to try confrontation with producer countries, because our objectives are not realizable in this way. We can only do what is possible. Whatever we do, there should be no front drawn between the United States and Europe. The EC common energy policy is not in any way a reservation on cooperation with the United States.

Fifth, I have listened with great interest to the United States proposals and have several initial reactions. We can only succeed internationally if our own house is in order. In addition, world trade must continue to prosper. As for recycling, we must perhaps use as many approaches as possible to solve this problem. Finally, to the question will we be able to cooperate technologically, this may seem as seeking a miracle to some, but we must begin to believe in miracles.

Kissinger: There seems to be substantial agreement on several points. Demand restraint is desirable, although there may be various ways to bring it about. Solidarity is essential in many areas.

We have no theoretical preference for a single all-embracing approach. We can develop new institutions or utilize existing ones. There is some merit in the overlapping institution approach suggested by Denis Healey. The worst way to proceed however is to take only a little bite, leaving the rest for later. We must agree on the gross magnitude of the problem.

The facts are that the deficits are large and growing, and they cannot be limited by unilateral actions. The French approach to demand restraint would be increased exponentially if followed by all. Producers would then be faced with a major cutback.

The existence within our group of certain countries that cannot reduce their deficits to tolerable levels is bound to produce catastrophic consequences. They can be addressed by the concerted actions of consumers or by involving the producer countries. The latter course would produce a massive shift in political leverage against us. Therefore, our preference is for the first alternative, concerted action by consumers. This is not the rich against the poor, but the rich producers against the industrialized countries.

What we need is financial solidarity to strengthen cohesion among us. The least developed countries in contrast need broader help through international institutions.

I will just add that how the European component is organized is up to Europe. Nothing in our proposals is inconsistent with a European approach. It is up to Europe how they wish to participate in broader consumer cooperation.

Healey: Regarding conservation, if we compare various countries, the U.K. is already down 9%, reflecting a drop in industrial production. Moreover, the U.K.'s per capita consumption is about one-half that of the United States because we tax energy consumption heavily. The United States has a long way to go on the conservation front, but perhaps if we talk of consumer cooperation, it could help the United States to act.

Kissinger: We are the principal villains.

Healey: The LDCs are hurt most in relative terms. But none of the LDCs at the Commonwealth meeting⁹ support the white Commonwealth countries view that oil prices are too high. They see the situation as legitimate exploitation of market power rather than unfair use of monopoly power. They will not therefore help get prices down. At the same time, they cannot finance their deficits, even with the Witteveen

⁹ The Commonwealth Finance Ministers met in Ottawa September 25–26.

facility,¹⁰ which is quite small. Come Monday morning¹¹ we will all be in the same boat vis-à-vis the LDCs.

Regarding the trade bill if we are to generate public support in the energy field, especially on proposals that will come to be known as U.S. initiatives, you must pass the trade bill.¹²

Kissinger: There is a very good chance to do this. We are pursuing highly diplomatic negotiations with Senator Jackson, and it looks hopeful.

(Break for Coffee)

Kissinger: Let me now present our ideas in more specific terms. We will distribute a paper with major headings of possible cooperation.¹³ We are not asking for agreement now, but perhaps by the beginning of January we can agree to parts or all of this program. We can however set in motion a high level study group at this meeting, and then meet again in 4–6 weeks.

The demand restraint and financial solidarity programs presented here are necessary to avoid the political and economic dislocations we described earlier. The program is not just related to oil price policy, since it will become even more essential if prices don't come down.

This program does not deal with LDCs, which we feel should be addressed in the IMF or other broader institutional frameworks.

There are three major parts to our proposals:

First, demand restraint, aimed at a collective saving in oil imports of 3 million barrels per day below the 1974 level. This amounts to 7–10%.

Second, a degree of financial solidarity in which participating countries will pledge some \$15 billion per year to a common trust fund,

¹⁰ The program was established by the IMF to help nations pay for oil imports based on lines of credit from oil producers. H. Johannes Witteveen was the IMF's Managing Director.

¹¹ September 30, the first day of the World Bank and IMF annual meeting.

¹² Passed in the House of Representatives, but stalled in the Senate by impeachment proceedings, opposition from labor groups, and debate over whether normal trade relations should be extended to non-market economies that restricted emigration rights, the 1974 Trade Act would, among other things, provide U.S. representatives with the authority to negotiate trade deals in the Tokyo Round of the General Agreement on Tariffs and Trade launched in September 1973.

¹³ The paper, "Illustrative Proposals," undated, begins: "It is agreed that plans for a comprehensive economic program should be drawn up as quickly as possible for implementation not later than January 1, 1975. A major goal of the program is to establish a framework for cooperative actions that would have the effect of reducing the price of oil in world markets." The paper then described the elements that "should be considered for inclusion in the program." It is attached as Tab F to a September 25 memorandum from Enders to Kissinger. (Ford Library, National Security Adviser, Presidential Subject File, Box 1, Camp David Meeting: State Briefing Book 1)

which would be cumulative through the oil crisis. The fund would be used as needed for loans to participating countries suffering from hardship from oil prices, and to finance research and development to reduce dependence on imported oil. I repeat that if Europe wants to work out similar programs on a regional basis, this would be totally consistent with our proposal.

Third, developing economic relations with producer countries. This would include two elements: an attempt to build a dialogue with producers concerning various policies, and the preparation of countermeasures if producers should choose a deliberate policy of economic pressure against us.

Perhaps, in developing such a program, we could agree to a first meeting at senior level in October, and later move to the new OECD Energy Agency developed within the Energy Coordinating Group. But we are very open to ideas concerning procedural matters.

Simon: These proposals are not meant to be an end product. The 3 million barrels per day figure is somewhat arbitrary and perhaps should be 4 million barrels a day or larger. There may be some merit in developing percentages by countries. The United States should bear its proportionate share, and each country should be able to use whatever means it desires to reduce demand.

As for the \$15 billion trust fund, it would be call capital and not mandatory contributions.

Healey: Shouldn't contributions be based on the share of petrodollars received?

Simon: I would want to think about that, and not dismiss any ideas out of hand.

Healey: There are serious risks in attempting a comprehensive program under a single institutional umbrella. This paper attempts to do that. If this paper is leaked and it is said that there was consensus on the proposals we will have a major problem. The U.K. has already come down almost 10% in its consumption. Some in Europe would expect the United States to do all of the 3 million barrels per day. It is therefore uneven to state that there should be solidarity with respect to the degree of cuts.

As for financial solidarity some, including myself, subscribe to an IMF approach, although it would have to be larger than the Witteveen facility. Such an approach, at commercial rates, could be acceptable to producers. The U.S. proposal before us, if it makes any sense, would have to concern recycling, and then contributions would have to be proportional to the receipt of recycled funds. In this circumstance, it would appear analogous to the recent U.K. scheme to compensate tourists who go bankrupt abroad. It would seem to me there are better ways to handle recycling.

Finally, concerning relations with producers, we should explore ways to cooperate, but there are many disadvantages to presenting this as a three-month program. It gives the appearance of confrontation.

Apel: The recycling of oil money is an important question. Do you intend to add a 4th or 5th part to your program to develop common ideas about the problem of recycling? This interim financial scheme does not solve the problem. We must also include economic policies.

Simon: This proposal complements what is already happening now. The private market has performed marvelously. Commercial banks and the Euro markets have been able to absorb the inflows. As for Minister Apel's question, this financial solidarity needs to be coupled with economic solidarity.

Healey: Is this solely to secure recycling?

Burns: Let us drop the term recycling, and use your analogy, an insurance scheme . . .

Healey: I don't want to drop recycling. I believe the recycling flow will not match deficits. Some countries have good credit. But some, and Henry called Italy a potential LDC earlier, may not. My Government believes we must deal with recycling.

Simon: The basic problem is oil prices. This proposal is a mechanism to help in a secondary way to redistribute funds in the recycling process.¹⁴

Healey: But this looks like any other financial proposal.

Burns: What if it is? Does it have merit as such?

Healey: No.

Burns: This is a new proposal to me as well, and I have questions about it. But it does deal in some way with recycling to help redistribute financial flows among this group of countries.

Healey: If taken seriously, the basis for subscription to this fund would have to be made on recycling. I have circulated quite a different proposal for OPEC countries to deposit funds in an IMF facility. Then the IMF, by what other method, could distribute the funds to countries that need them.

Fourcade: I have three comments:

¹⁴ The third part of the paper, under the heading "Economic Relations with Producing Countries," proposed that "economic relations with producers would be reviewed in an effort to identify additional bilateral or multilateral producer/consumer dialogue, oil company policies as regards pricing and the distribution of liftings, import and export policies, offsetting measures to price increases by producers, export credits, and loans and policies of international financial institutions."

First, we are emphasizing great concern because of the disorganization in the financial system. It seems to me better to go in Minister Healey's direction, to use the IMF for recycling. How would this new mechanism proposed here function vis-à-vis the IMF?

Second, does this fund presuppose a common energy policy among us? The two are not necessarily the same.

No matter what the figures are for recycling, the size of the sums involved indicates that we must use all means available: private markets, bilateral arrangements, and existing institutions. It would be better politically to use existing institutions than to create new ones.

Sauvagnargues: One point is not clear to me. Will the new insurance scheme be linked to participation in the new energy agency of 12?

Kissinger: As this paper is written, yes, but that is a soluble problem.

I would like to make two points. First, I fail to understand the argument that if consumers organize, this is confrontation. Twenty years from now, no one would understand if 800 million people in the advanced industrialized countries stood mesmerized while 50 million people in certain producer countries control the situation.

Second, I make no secret that I am not an economic expert. But the intention of creating a financial institution is not technical, but political. For the less developed among the advanced industrialized countries, there are two possibilities: to be financed by the OPEC countries, or to be financed by us. The new institution would help those of us more vulnerable.

We will welcome OPEC participation with regard to the less developed countries of the world outside of our grouping. But we want to avoid the kind of crude maneuvers that Libya tried in Italy last year that could have major consequences for us. To accomplish our aims, other proposals might meet your economic concerns. Perhaps we can relate to recycling. This is secondary to the question of who manages the deficits of the weaker members among us.

Healey: It is a political action to sidestep existing institutions. The IMF has taken on this objective. We have already incurred risks by holding this meeting. We should limit the scope of our activities, in treating world problems à cinq. We should hive off as much as possible to broader groups. There are big problems in developing all issues among us by January. We should try to identify the problems, but not appear as a repository of ultimate wisdom.

For recycling, the IMF, the earlier German proposal for an Arab development bank, etc. should be considered.

We risk damaging the unity of the West if the five of us try to solve problems to the exclusion of others. We should use existing institutions as much as possible.

Simon: The politics and the economics are inextricably linked.

Sauvagnargues: We wish to have a certain degree of solidarity in energy policy, perhaps not identical policy but concerted policies. This paper stresses demand restraint in a good way. But I agree with Minister Healey that we should concentrate on identifying the problems. We agree that demand should be restrained and that these actions should be concerted.

Apel: I agree we can only talk about the problems and not put solutions on the table. There are procedural problems with this group, as there were with the finance ministers last time. Otherwise, we will not only have confrontation with producers but with other industrialized countries as well.

As for demand restraint, we are doing this already, mainly through use of the price mechanism. Each country should choose its own path.

On financial matters, I agree there is a problem of solidarity, and we need to concert among the Nine¹⁵ as well. But we should have no illusion about the magnitude of the problem. This fund, if it comes about, is only a temporary emergency measure.

Re producer countries, we must be careful to avoid confrontation. We must respond to common problems created by OPEC countries in a measured way.

In summary, economic relations with producer countries is the most difficult issue, and it is here that we are on the brink of a volcano. The other two headings—demand restraint and financial support—have technical problems which the Finance Ministers can address tomorrow.

Kissinger: As for relations with producers we have no concrete proposal. I will say however that we will be dancing on the edge of that volcano with or without a concerted policy.

Sauvagnargues: It will be difficult to deal with the recycling problem without linking it to the relationship with producers.

Simon: Petrodollars will reflow in any event. They will continue through all the mechanisms we discussed earlier. This proposal just re-directs some of that reflow.

¹⁵ The nine members of the European Community: Belgium, Luxembourg, Denmark, France, West Germany, Italy, Ireland, the Netherlands, and the United Kingdom.

Kissinger: The fundamental problem is whether the industrialized consumer nations will have a common conceptual approach, and a common emergency fund is of decisive importance in this respect. Whether OPEC should participate is of profound political consequence.

As for dialogue with the producers, unless we know what we want, producers have the advantage in dealing with each of us on a bilateral basis. If we have a common conceptual approach, then we can have an effective dialogue with the producers. We are all having individual dialogues with producers now. We need a concerted approach.

As for LDCs, we can leave this problem to broader institutions. We do not want a small club to run the world, but we do want a club to run our own destinies.

Kimura: The United States intention to develop solidarity is worthwhile, but I have several comments to make. It is desirable to conserve resources. In Japan the economic structure is being adjusted on the basis of a long term strategy. But a 3 million barrels per day reduction, pro rated, would not be desirable, particularly with regard to the oil producers.

Financial solidarity should be viewed in the longer term context of recycling. I do not know whether producer country contributions are workable. Such an approach would be difficult to achieve.

Healey: We all want as much common action as possible. But we want to pursue as much as possible in existing fora. We should not concentrate our efforts in this core group of five.

We want to restrain demand but we will never reach agreement on the 3 million barrels per day. Similarly with the fund, it is not worthwhile unless directed to recycling of dollars. I reiterate that I support an IMF approach in order to avoid having to agree on quotas and contribution shares here. This would be as difficult as burdensharing within NATO. There is a better chance for progress in the IMF.

Regarding confrontation, we must take account of how others will react. If we appear to be acting too precipitously, it will provoke others.

Simon: I sometimes believe in miracles, and the ability of people to agree on common objectives. We agreed recently to emergency sharing under a reasonable system.

Healey: I have had much experience in burdensharing in NATO, and after 20 years we still don't agree even on the basis for calculation.

Apel: But this isn't the question. The real question is more profound: Do the 5 of us here want common action to secure the future situation, or are we just going to muddle through? This is a farreaching question.

Sauvagnargues: Industrialized countries, not only the 5 but all, must manifest solidarity. This must also lead, however, to dialogue with producers. All of these mechanisms are palliatives if these two steps are not taken. I agree with Secretary Kissinger that the organization of relations among consumers is not confrontation with producers. But the kind of organization makes a difference. And for this reason, we may wish simultaneously to slow down specific joint approaches by consumers, and to make a first approach to producers. This would not be dangerous, and at the same time we could continue strengthening solidarity among consumers.

All of the chapter headings are interesting and constructive. The first thing, and I agree with Secretary Kissinger, is to decide what we want. We must define our goals.

Kissinger: I agree with the question put forward by Minister Apel. However unsatisfactory our proposed answers might be, the question remains.

I would like to raise two things before Minister Genscher has to leave. Where do we go from here and what do we say to the press?

We don't need to reach conclusions at this meeting. We could agree to meet again in 4–6 weeks time or to keep in contact.

Healey: We should not indicate to the press that we plan another meeting. It would be unwise to have another meeting until officials can see if we can agree on some issues. If we can agree on financial measures tomorrow, along the lines of my proposal, this would be an important step. As for demand restraint we should not announce targets unless we are sure of obtaining results. We should have another meeting before Christmas, but 4 to 6 weeks may be too short a time.

Kissinger: Officials should be in touch with each other to see if a basis exists for another ministerial meeting.

Sauvagnargues: There is a danger in setting up a standing group of 5. This kind of meeting is useful but we should not have a standing group. This is an informal group, not a *directoire*. We will keep in official contact.

Healey: We should be very cautious about the proposal for a trust fund.¹⁶ Some of us are not at all attracted by it. If the poorer countries

¹⁶ The "Illustrative Proposals" paper recommended, under its second heading "Financial Solidarity," that "participating countries as a group would agree to provide as needed funds totaling up to \$15 billion a year to a Common Trust. This obligation would be cumulative and would continue for the duration of the oil crisis. These funds would be made available for the use of the Trust at such times and in such amounts as might be needed for: 1) loans at market rates of interest with maturities of up to seven years to par-

think the rich are setting up a mutual aid society, we will have a difficult situation. It will be like Greenspan setting up a special fund for the stock brokers.

Kissinger: We will give no briefing on the substance of our proposals but merely state that we have reviewed the problems facing us and have had a general discussion of the categories of possible solutions.

Simon: We will be asked about this in the IMF briefings next week and we should keep general in our response.

Apel: Can we agree that there will be no briefing today and tomorrow.

Simon: We can discuss that tomorrow.

Genscher: We will do no briefing at all.

Kissinger: We can say that we discussed generally the subjects of conservation, financial measures, etc. We had an exchange of views but reached no conclusion, and contact will be maintained. We will make no mention of the paper we circulated.

Sauvagnargues: I will say there was an exchange of views on problems in the energy field. We can say nothing more until we brief our Community partners.

Kissinger: It is not in our interest to start public debate about particular schemes. We will not put forward our scheme.

Healey: The Germans have already put forward a scheme for an Arab investment bank and I have publicly put forward my IMF proposal. I assume we can pursue proposals already on the record.

Simon: We have problems with the size of your (Healey) scheme.

Sauvagnargues: It would have political impact if we discuss the specifics of such proposals, particularly if we do not mention it in the context of a dialogue between producers and consumers.

Kissinger: At regular briefings, we have said nothing. It may appear more ominous to ignore the question of consumer-producer dialogue.

Healey: It would be easier if you would call off Operation Candor.

Kissinger: I wish you would say that publicly.

Kimura: We have no choice but to meet the press. We will present the Japanese position, nothing else.

tipating countries suffering economic hardship as a consequence, direct or indirect, of high world oil prices; 2) investment in energy R&D projects which promise to provide a significant reduction in the group's dependence on imported oil."

Kissinger: Fine, as long as this does not become a critique of U.S. proposals.¹⁷

(Meeting ends—7 p.m.)

¹⁷ When asked the next day by Ford about the Camp David meeting, Kissinger replied: "I told you they could turn us down now. They didn't. The Germans were 100%. The French were openly okay but said we had to take steps with the producers. The Japanese made a big speech that they can leak with the Arabs but they will wait and see. The British were bad. They said okay but we finance. Labour is cowardly." After comparing the British Labour and Conservative Parties, Kissinger continued: "The West is not strong; only the U.S. is. The Japanese are not weak, just treacherous. The Germans were very good—especially Apel. The British didn't want to pay money or cut consumption. I said, with Apel's support, that there is only one issue; whether the West would get control of its destiny or whether we would pay a political price to get the producers in." (Ford Library, National Security Adviser, Memoranda of Conversations, Box 6)

10. Telegram From the Embassy in France to the Department of State¹

Paris, October 18, 1974, 1850Z.

24689. For Secretary Kissinger and Secretary Simon. From Bennett, Enders and Cooper. Subject: Camp David Follow-up.

1. Summary: During our talks October 16/18 the British moved close to our position and the Germans indicated a basic responsiveness. OECD Secretary General Van Lennep will launch a "defensive" recycling scheme remarkably similar to our own.² But the French raised strong objections on both substance and procedure. Predicting that most of the OPEC surplus would gravitate to the New York market, the French said that it would be politically more difficult for them to accept money recycled through a consumers' group in which the U.S. played a leading role than through the IMF. Arguing variously that it would of-

¹ Source: Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France:—State Department Telegrams to SECSTATE-NODIS (1). Secret; Immediate; Nodis.

² Van Lennep's recycling plan involved the OECD establishing a system whereby funds could be mobilized quickly from financial markets and oil producers to lend to the OECD countries "most heavily hit" by a rise in oil prices. He did not envision the plan duplicating the IMF oil facility, which he viewed "mainly" as a channel through which oil producers would lend money to LDCs. (Telegram 22870 from USOECD Paris, September 27; National Archives, RG 59, Central Foreign Policy Files, D740273-0203) For the U.S. recycling plan, see Document 15.

fend the Community, would not be possible while we are “railroading” the IEP through, or would accomplish nothing because the decisions are too political, French representatives declined to envisage a meeting of the Five³ at official level. Regarding a Ministerial meeting of the Five, they said only that the question of when and if it would be held is open.

2. Analysis: The French attitude places us before the following option: We can:

(A) Slow down the IEP, in return for French agreement to use the Five at both official and Ministerial level for ongoing discussions of energy and financial matters; or

(B) Go ahead with the IEP, have multilateral discussion of the Van Lennep plan in the restricted membership OECD Working Party Three,⁴ and carry on bilateral discussions among the Five, perhaps on the basis of a U.S. paper (which the French would welcome).

3. Option A would give us an opportunity to develop the Five as a valid and independent forum. On the other hand, since the timetable for the IEP is already agreed, and since the French have already signalled to the Community and to us that they will not stand in its way, delay would put the IEP and energy cooperation among the 12⁵ in jeopardy. In addition, there is from this first contact no reason to believe that the French would lift their political objections to our financial proposal if the IEP were delayed; rather to the contrary.

4. Option B would not exclude another Ministerial meeting of the Five (the French were precisely non-committal on this point). It would make the process of preparing such a meeting much less efficient, although not impossible. It would bring pressure on the French (through the fait accompli of the IEP and Van Lennep’s initiative) without our having to bring it. And it would appear to be the fastest means of moving towards creation of the recycling mechanism we will in any case need this winter.

5. Recommendation:

(A) That we stay on course with the IEP, looking towards creation of the new agency in the OECD November 18;

(B) That we circulate to the Five an expanded version of our “Illustrative Proposals;”⁶

³ The United States, the United Kingdom, France, West Germany, and Japan.

⁴ The economic and finance officials of Working Party Three, which operated under the OECD’s Economic Policy Committee, analyzed macroeconomic policy issues.

⁵ Members of the Energy Coordinating Group that signed the initial IEP Agreement in Brussels on September 27. See footnote 6, Document 9.

⁶ See footnotes 13, 14, and 16, Document 9.

(C) That we encourage Van Lennep to flesh out his proposal for discussion informally at dinner preceding Working Party Three meeting on November 19; and

(D) That we continue to propose a multilateral officials meeting, but in any case have a further round of bilateral contacts (including the French) with a view towards a Ministerial meeting of the Five in early December. This gives the French an option to back off if they want without loss of face.

6. Report on London discussions: British (Treasury's Mitchell, FCO's Maitland, Energy Ministry's Williams) moved close to U.S. positions on both substance and procedure, but tried to keep open the option of doing both our recycling facility and the Healey plan.⁷

7. On conservation, British said that the new government would give high priority to developing package of measures such as heating and speed limits. They argued against a public group conservation target, saying that it would be too easy for OPEC to offset it and too difficult for the consumer to agree on burden-sharing. After some discussion, however, they did agree that a group conservation target held in private could be considered as well as a group meeting to review national measures and perhaps to package them into a coherent whole. We insisted that serious conservation measures are an indispensable part of the whole package and that coordination is important not only for burden-sharing but for impressing the OPEC with the seriousness of our intent. We added that the U.S. would be willing to consider additional conservation if others do.

8. On financial solidarity, the British repeated their concerns about the reaction of IMF constituents, LDCs in general, and OPEC in particular, to a consumers' financial club, but with less conviction. They said that they had not understood our proposal at Washington and are interested in it. Noting that "at official level they have never believed in numbers as large as Healey's" the British argued that we should do both a medium-sized Healey plan in the IMF, and a medium-sized recycling device among ourselves. We answered that there might be a case for a moderate increase in the Witteveen Fund, and something should be done in the IMF for the LDCs. But only a few billions would be involved; the main effort we said must be much larger and it must be politically under the control of the consumers through creation of a new institution, perhaps in an OECD framework.

9. On economic relations with producers, the British agreed that all of the measures we listed should be studied. They did not give an appearance of recoiling at the implications of economic warfare.

⁷ Healey's proposal involved OPEC countries depositing funds in an IMF facility for the IMF to distribute. See Document 9.

10. On procedure, the British agreed with a schedule calling for the U.S. to circulate a revised and expanded version of its Illustrative Proposals paper at the end of the month, a meeting of the Five at official level in the U.S. in early November, and a Ministerial meeting of the Five in early December. They agreed that the purpose of the Ministerial should be to establish agreed concepts in each of the three categories for subsequent negotiation and implementation, probably in other forums. They noted their belief that the French would accept meeting in the Five at Ministerial level but would be reluctant to do so at official level; the British said they would cooperate with us in trying to bring the French along.

11. Discussion in Bonn: We found the German officials (Treasury's Poehl and Weber, Foreign Office's Lautenschlager, Economics Ministry's Kittel) almost completely unprepared; Genscher and Apel had evidently passed on nothing from Camp David. They expressed "deep interest" in our proposals, some anxiety about their ultimate financial liability in the recycling scheme, and went along with our procedural proposals.

12. On conservation, Germans noted they will come out next week with a package of measures such as conversion of generators from oil to coal-fired heating units in the context of their overall energy policy. At first they said that that is all that they can do, then accepted the notion that measures taken by each country should be evaluated together, with a view both to equity in burden-sharing and to overall adequacy.

13. On financial solidarity, Germans remarked that our proposals are opposite to their current emphasis on how to encourage OPEC investment in the consuming countries. They expressed concern that international lending would be like "reparations," ending in unpayable claims. But they recognized that German liability would not necessarily be greater under our scheme than under alternatives, and could be less. They agreed to give our proposals serious attention.

14. On economic relations with the producers, the Germans noted possible problems in addressing anything to do with trade without some sort of EC okay, but concluded that these questions, including the offsetting measures, should be addressed by the Five. In response to their question, we said that conservation and financial solidarity are not in our view preconditions for the producer/consumer dialogue, but remarked our judgment that the dialogue will yield nothing until the consumers are better organized.

15. On procedure, the Germans welcomed our proposal to provide a fleshed-out version of the "Illustrative Proposals," and agreed to meet à cinq during November to consider it. They were non-committal about a December Ministerial but raised no problem. Poehl felt the French would come along on the proposed procedure, citing Schmidt/

Giscard exchanges on the value of informal meetings of the Five. He also stressed the need for secrecy and to keep the group small.

16. Discussions with OECD Secretary General Van Lennep: Draft recycling concept Van Lennep showed to us October 18 differs from ours only in that it (A) is written in terms of guarantees only, without giving the loan option; and (B) gives a central role to the Basel-based Bank for International Settlements.⁸

17. After some discussion, Van Lennep agreed to revise his proposal in both respects. He will now float it confidentially with the main OECD countries, looking towards a discussion when OECD Working Party Three meets October 19.

18. We did not discuss our proposals or activities with Van Lennep.

19. Discussions in Paris: French officials (Foreign Office's Brunet, Treasury's De Larosiere, Energy Office's Vissacq) were welcoming, polite, but somewhat less forthcoming than at Washington. Institutional aspects (the IEP, the development of a new club rather than use of the IMF) were clearly the center of French preoccupations.

20. On conservation, French indicated that their plans for reducing oil imports based on need to reduce balance of payments current account deficit. Restricting heating oil to 90 percent of 1973 usage (10 percent for each household, 10 percent reserve for new users) by mandatory cutbacks in supplies is the toughest part of program which includes other means to limit gasoline consumption and industrial use of fuel oil. For 1975 they projected current account reduction of \$2 billion, e.g., current account deficit of \$4 billion rather than \$6 billion.

21. On financial solidarity, De Larosiere found little or no merit in establishing new mechanism outside of IMF. He argued that since most Arab dollars would come to U.S., new mechanism would simply be way of "secondary recycling" by U.S. to others and that this would be politically much more difficult for French than direct recycling of Arab dollars through IMF. De Larosiere and Brunet both skeptical that U.S. proposal would be more saleable politically in U.S. than expansion of IMF facilities.

22. On economic relations with producers, Brunet argued for early establishment of small group for discussions only along lines of Yamani proposal.⁹ Brunet stressed that current situation in which Pres-

⁸ The Bank for International Settlements is the international organization of central banks, the goal of which is to foster international monetary and financial cooperation. It is also known as the bank for central banks.

⁹ Yamani first discussed the idea of a mini-consumer-producer conference on a trip to London during the week of May 6. He said that Saudi Arabia wanted the United Nations "to take the initiative in recommending small, restricted group of ten consumers

ident's remarks in Detroit answered by Shah in Canberra¹⁰ was unsatisfactory. French apparently agreed that common line among consumers prerequisite to productive consultations with oil producers but had no proposals on how such common line might be developed. Brunet expressed French view that common action to deal with oil price problem by serious national efforts on conservation should be number one priority for consumers.

23. Brunet then raised subject of ECG and said French viewed IEP as nominal accomplishment, with emergency cooperation program a second-order accomplishment which could have been achieved in OECD. Brunet suggested that the accelerated production and conservation elements of IEP were seemingly empty boxes thrown in at last moment because of French criticism. Brunet stated that IEP would set back efforts to develop common energy policy in EC.

24. On procedure, French expressed strong disagreement with idea that there should be multilateral discussions of the Five at official level prior to Ministerial meeting and indicated no view one way or other on desirability of early meeting at Ministerial level. Several reasons adduced for their opposition to official meeting including political problems with other EC members outside Five, likelihood that officials would not be able resolve problems that were essentially political, and adequacy of national papers circulated in advance of preparations needed for Ministerial meeting. Brunet closed by indicating that if U.S. were willing defer implementation of IEP, climate for further discussions of U.S. proposals by the Five would be much better. He virtually proposed we defer implementation of IEP if we wanted French to participate in official discussions of U.S. proposals.

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and producers meeting outside UN forum at a very high level with a minimum of publicity." He suggested that participants might include the United States, EEC, Japan, India, and Brazil from the consuming side, and Saudi Arabia, Iran, Algeria, Venezuela, and possibly Indonesia from the producing side, adding that "it was necessary first to settle on an agenda" that dealt with issues beyond "the price question." (Telegram 5983 from London, May 14; National Archives, RG 59, Central Foreign Policy Files, D740118–0621) Yamani most recently raised the issue on September 9. (Telegram 5205 from Jidda, September 9; *ibid.*, D740249–1000)

¹⁰ Regarding Ford's speech at the World Energy Conference in Detroit on September 23, see Document 8. The Shah responded to the President's speech while on a trip to Australia: "I have not had time to receive official texts of those declarations, but if they are what you have just said, first of all it is not acceptable to us. Nobody could dictate to us. No one could wave a finger at us, because we could wave back." He also suggested the establishment of "one fixed price of oil in the whole world, except for the geographical location and the quality of oil, and that related to an index price of say 20 to 30 commodities as a basket of prices." "We have got to defend our interests," he said. "We have got to keep our purchasing power." (Telegram 6505 from Canberra, October 3; National Archives, RG 59, Central Foreign Policy Files, D740279–0901)

11. Minutes of the Secretary of State's Staff Meeting¹

Washington, October 22, 1974, 9–10:10 a.m.

[Omitted here is discussion unrelated to energy issues.]

Secretary Kissinger: Tom.

Mr. Enders: As I reported to you, the French have political objections to going ahead at an official level in the Camp David follow-up.² These objections may prove to be less firm than they are right at the moment, if we proceed with floating our ideas in a policy paper. We did not float a piece of paper in Europe, but talked orally to it. The next step would be to talk bilaterally with the Japanese, and then to float the proposals in written form.

Secretary Kissinger: These are officials that are objecting, or Ministers?

Mr. Enders: They were non-committal—

Secretary Kissinger: Whom did you talk to?

Mr. Enders: They were precisely—

Secretary Kissinger: First tell me who it is that was non-committal.

Mr. Enders: The Director General of Economics for the Foreign Office, and the second man in the French Treasury. They have both talked with their ministers beforehand. Their position was, on following up, that they did not exclude a ministers meeting, but they did not wish to meet at the officials level in a group of five.

Secretary Kissinger: I don't think that proves anything. They are willing to have a ministers meeting, but not an officials meeting. I don't know what that proves.

Mr. Enders: Well, what it does prove is that they want to slow down the process. They raise a number of political objections to our proposal, basically saying it would be easier for them to borrow money from the Arabs than from us. What I would propose—

Secretary Kissinger: That I believe is true. Somebody could do a great book on the decline of the west—between our madness and the European madness, we will manage to destroy the structure yet.

Mr. Enders: However, they agreed to further bilateral talks, would welcome a U.S. paper. I think we should go ahead now and push that.

¹ Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, Lot 78D443, Box 2, Secretary's Staff Meetings. Secret. Kissinger presided over the meeting, which was attended by all the principal officers of the Department or their designated alternates.

² See Document 10.

Mr. Sonnenfeldt: It's the wrong handle.

Secretary Kissinger: Well, this is an exercise we have gone through before. I agree with Hal that it is the wrong handle.

Mr. Sonnenfeldt: It is like on our favorite subject of proliferation. I think these things all get lost if they don't get a push from the Elysée.

Secretary Kissinger: Otherwise they get the bureaucracy lined up before the Elysée can act. It is a waste of time. This will have to wait until the President meets. I don't mind talking to the others. I don't see any sense—this is how the French trapped us last time.³ We give them a paper first. They will run around to the other Europeans and claim (a) a special relationship, and (b), claim that they are defending the Europeans. They are not getting a paper first.

Mr. Enders: The proposal was not that they get a paper first. The question is whether now that we have talked bilaterally with everybody but the Japanese, whether we should now push forward a paper. We have to get something in focus.

Mr. Sonnenfeldt: We have six weeks before Martinique.⁴ I think it would be a shame to do it without getting a crack at—

Secretary Kissinger: And four weeks before he sees Schmidt.⁵

Mr. Enders: That puts a big delay into the process, though.

Secretary Kissinger: Not if the alternative is that they dig into a negative.

Well, who is for it?

Mr. Enders: I think the British will shift their position. They moved substantially in the course of this meeting. The Germans haven't done anything in between, but I think they will come along. We have not yet talked in detail with the Japanese. The Japanese will join whatever the others do.

Secretary Kissinger: So what do you advance by coming up with a paper? How will that speed things up?

Mr. Enders: Well, they have yet to see reasonably precise U.S. ideas in a form in which they can grapple with it. The British in particular I think would probably lock on pretty fast.

Secretary Kissinger: But if they lock on pretty fast now, they will lock on pretty fast in December.

Mr. Enders: It is a question of whether you can afford that additional delay.

³ At the Camp David meeting on September 28; see Document 9.

⁴ Ford met with Giscard on the island of Martinique December 15–16. See Document 24.

⁵ Schmidt made an official visit to Washington December 4–6. See Document 22.

Secretary Kissinger: Who can't afford the delay?

Mr. Enders: I think there is some question as to how far the French are going to come on in any case. The question really is whether you build up sufficient momentum—by using the device of this paper, or move around to consultations—to keep the thing going. Otherwise I'm afraid you give the impression that you have had one round of initiative, follow-up official talks, and then quit. I mean something to keep the momentum going.

Secretary Kissinger: Let me think about that. I just know when you give the French a paper on an official level, and they are going to organize everybody against the paper, it is going to go like my Year of Europe speech.⁶ They are going to find some sentence that they can turn into an offensive sentence. And we are in for a year's haggling, if the officials get hold of it. And the officials we know are opposed to any such effort on Gaullist grounds.

Mr. Sonnenfeldt: The line-up in the Quai below Sauvagnargues is still quite unfavorable.

Secretary Kissinger: You have Piot who is totally opposed to anything like that.

Mr. Hartman: There is ministerial feeling about this, too. It is not just the officials.

Mr. Enders: They both told us that they have talked to their ministers—Treasury and Foreign Affairs.

Secretary Kissinger: Let me think about it. The French certainly never come along unless you keep going without them.

Mr. Enders: That it seems to me is the main reason to keep up some sense of motion here.

Secretary Kissinger: Okay.

[Omitted here is discussion unrelated to energy issues.]

⁶ Kissinger delivered the speech before the annual meeting of the Associated Press editors in New York on April 23, 1973. For the text, see Department of State *Bulletin*, May 14, 1973, pp. 593–598.

12. Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to President Ford¹

Washington, October 25, 1974.

Secretary Kissinger asked that I pass you the following message:²

"Once again the French have unilaterally gone public with a major initiative without any prior consultation.³ Giscard has invited selected producers, consumers and Less-Developed Countries to discuss the energy problem. Giscard also proposes a system of indexing which because of continued inflation in consuming countries will certainly lead to higher oil prices. Such a meeting is contrary to our strategy—and the strategy agreed by most of France's partners—that the consumers must first develop a common program before they will have anything to talk to producers about. This France rejects by refusing to join the energy coordinating group.

"While this initiative may cause a certain amount of confusion, it cannot really get anywhere. A meeting with producers without a common consumer position is an invitation to confrontation or surrender. Giscard invites the EC-9 to act as a unit. This gives the Europeans a dilemma which may cause the FRG, UK and Italy to waffle in dealing with us without being able to work with France, for in the end, these countries will have to cooperate with us because that is the only way to meet the financial crisis. In short, the French initiative is characteristic of French policy over the past decade; it is vain, useless and destructive of any cooperative effort. No possible good can come of it.

"Our strategy should be to let the producer-consumer meeting take its course and proceed to organize our consumer group. The French saw that we were beginning to succeed and that is why they moved at this time. They obviously prefer being bailed out by OPEC

¹ Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 140, Geopolitical File, France, September 7–December 20, 1974. Secret; Sensitive. Sent for information. Ford initialed the memorandum.

² Kissinger was in Moscow to meet with Soviet officials.

³ On October 24, Giscard held a press conference to announce that France "planned to contact consumer and producer governments at once to see whether a producer-consumer conference could be organized early next year." Brunet spoke with the Embassy's Chargé d'Affaires and the Economic Affairs Minister on October 25 about Giscard's statement and formally invited the United States to participate in the preparatory conference that the French President had proposed. He further explained that France wanted to invite "officials of rich consumers, poor consumers and producers to participate in a preparatory meeting in Paris next month," although a date had not been chosen. Finally, he told them that Sauvagnargues had cabled Kissinger in Moscow on October 23 (see footnote 2, Document 16) to give him advance notice of Giscard's intentions. (Telegram 25419 from Paris, October 26; National Archives, RG 59, Central Foreign Policy Files, D740306–0775)

than by the US. Yet in time we shall prevail despite French sabotage. This is an area where we have had a consistent, imaginative policy and your Administration can take credit for what we have been trying to accomplish behind the scene.”

13. Telegram From the Department of State to Secretary of State Kissinger in Islamabad¹

Washington, October 31, 1974, 1744Z.

Tosec 412/239404. Subject: French Energy Initiative.

1. Ambassador Kosciusko-Morizet requested an appointment today to discuss the French initiative for a producer/consumer meeting on petroleum. He described Giscard's initiative generally along the lines presented to our Embassy in Paris last Friday,² ending with the questions, what is the US reaction and do you accept the invitation to participate in the preparatory meeting suggested for late November?

2. When I asked Kosciusko-Morizet what the French expected to achieve at such a conference he talked vaguely of some form of price indexation whereby the prices producers paid for technology, industrial products and food would be related to the price they receive for oil. He distinguished those producer countries such as Iran and Nigeria that would use their oil revenues to industrialize their countries from those producers who want primarily to maintain the value of their money over the next 10–15 years. He also acknowledged that the present price of oil is perhaps too high and therefore not an acceptable base level for such a system.

3. When I noted our concern at the announcement of the French initiative with such short notice and without prior consultation Kosciusko-Morizet replied that it should not have been a complete surprise since this is an old idea raised initially by Yamani³ and that the

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D740311–0715. Confidential; Immediate; Exdis. Drafted by Ernest H. Preeg (EUR), cleared in EB and EUR, and approved by Ingersoll. Repeated Immediate to London for Sonnenfeldt and Hartman and to Paris.

² October 25. See footnote 3, Document 12.

³ See footnote 9, Document 10.

subject had been broached during the Camp David discussion.⁴ Furthermore, Kosciusko-Morizet saw no contradiction between the French initiative and continued progress in the small Group of Five consumer countries.

4. I responded that it was still not clear what could convince producers to lower prices. I did not answer the two questions raised by Kosciusko-Morizet but said that we would study the French proposals and be back in touch with them.

Ingersoll

⁴ See Document 9.

14. Telegram From the Department of State to Secretary of State Kissinger in Isfahan¹

Washington, November 2, 1974, 0508Z.

Tosec 549/241788. Subject: Camp David Follow-up. For the Secretary from Enders.

1. We had an encouraging meeting with the British (Maitland of the Foreign Office, Mitchell of the Treasury, Taylor of the Energy Ministry) today in Washington on your energy initiatives.

2. At the close, the British agreed with the following summing up of the proposals officials should now make to their Ministers:

(A) Each country should develop a national program of conservation measures, which would then be collated into collective whole, reviewed for adequacy of burden sharing and total impact, and repackaged into a group forecast of reduced import needs (Brits have something in their budget for presentation in two weeks; they didn't give us details);

(B) An analogous process would occur on the supply side, with each country's Project Independence to be set side by side and collated into a group forecast;

¹ Source: Ford Library, National Security Adviser, Presidential Country Files for Middle East and South Asia, Box 13, Iran—State Department Telegrams from SECSTATE–NODIS (1). Secret; Immediate; Nodis. Drafted by Enders on November 1. Also sent Immediate to Tehran.

(C) On financial solidarity the main effort, and it must be very substantial, will be among the consuming countries themselves; this would not exclude some expansion of IMF facilities, with particular reference to LDC needs;

(D) On procedure, implementation should start as early as possible with the latter part of November an appropriate date, with two approaches available.

—One would be to continue to attempt to use the Five to develop concepts, with a meeting in Paris on November 19, followed by a new Camp David meeting in January.

—A second approach, not necessarily exclusive of the first, would be to aim at a meeting of Foreign and Finance Ministers of a larger group of industrial countries in mid-January, with existing organizations (the Group of 10² for finance and the new International Energy Agency for conservation and supply) to start off to implement the main elements of your initiatives already beginning in November. This latter procedure might be preferable in that (A) it would cut off Van Lennep who could attend Group of 10 meetings and present his plan, but would not control the venue for negotiations and (B) it would be much less vulnerable to French obstructionism than the smaller (and still not established) Group of Five.

3. The British thus at official level have come around to all intents and purposes to supporting our proposals. They said that Callaghan is very anxious to get on with it, and would welcome an early opportunity to meet at political level. They agreed strongly that with this second round of consultations we should now fix on a specific proposal and start to run.

4. On the Giscard initiative³ the British started out wobbly. They cited a Callaghan statement from a speech in the House of Commons on October 30 reading “President Giscard d’Estaing has recently made an interesting proposal for an international discussion between producers, consumers and developing countries on the question of oil supplies. We shall certainly wish to consider his proposal constructively. It would be necessary to work out an agenda carefully in advance and we should be ready to join in discussion for this purpose.” British said that they do not interpret this statement as committing them to attend a

² The Group of 10 (G-10) industrialized countries consulted and cooperated on economic, monetary, and financial matters. The members were Belgium, Canada, France, West Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States. The group was established when the original 10 members, which did not include Switzerland, agreed in 1962 to participate in the General Arrangements to Borrow (GAB), a supplementary borrowing facility to the IMF. Switzerland joined the group in 1964 but the name remained the Group of 10.

³ See Document 12.

precon, and made much of the fact that Callaghan mentions no dates. They said that they continue to think that a producer/consumer conference is premature, and likely to fail. They said their intention would be to slow down such a conference through the EC, in preparatory discussions, with the hope that the initiative will collapse. However, they argued the French proposal is an established fact which we cannot now ignore.

4. I countered with these points:

(A) We do not believe that the objective conditions for the success of a producer/consumer conference have been realized, with the consumers still in disarray and only beginning to tackle the hard issues of conservation and alternative supply;

(B) That we are disturbed by the substance of Giscard's proposal, particularly indexing;⁴ whatever French officials say (and they are downplaying substantive remarks) his stand would prejudice the conference;

(C) The French are clearly scared to death that the producers will raise prices this winter, thus aggravating the French balance of payments and either destroying their ceiling on oil payments or forcing the French Government into rationing; their proposal and its haste is intended in part to ward off such an increase; we do not see why a short term gain for the French has to be traded against a long term and major cost for the industrial countries as a whole;

(D) The lack of consultations raises the most serious question about French motives, given your initiative in picking up a French idea to create the Camp David group as a private forum; and

(E) We do not know what our response will be to the French proposal.

5. In the course of conversation, the British officials came closer and closer to accepting this view. They argued that French initiative made it immeasurably more difficult to deal with serious problems; they said that they too could not square the Giscard initiative with a co-operative stance in energy as a whole; they concluded that the initiative should if possible be killed or at least delayed.

6. It would be wrong to put much store in the toughening attitude of these officials during their Washington talks; I have no doubt that they personally share our disapproval of this French action, but from Callaghan's statement it would appear doubtful that the British will do much more than applaud privately whatever we can do to cause the French to fail.

⁴ Indexing the price of oil to inflation.

7. However, with little encouragement it may be possible to get the Europeans and Japanese to put enough sand in the gears to slow the French down to a crawl. I am leaving Monday, November 4 for bilaterals in Tokyo and Bonn, to be followed by an ECG meeting on November 8 in Brussels. I would like your authority to take a similar tough, skeptical position on the Giscard initiative, without moving into a position of drumming up reaction against it.

8. As you know, French Foreign Ministry Director for Economic Affairs Brunet is coming here the evening of November 3 to see the Acting Secretary on the Giscard initiative. I will see him the evening of November 2. We request your authority to take a hard-nosed non-committal stance in those talks.

Ingersoll

15. Telegram From the Department of State to the Embassies in Japan and West Germany¹

Washington, November 3, 1974, 0029Z.

241954. Subject: Camp David Followup.

1. Following is text of an informal paper for Enders and Cooper discussions next week. Request that Tokyo pass to Miyazaki and Yoshida and Bonn to Poehl and Hermes. Please stress to recipients that this paper is of the highest sensitivity and is for their eyes only. Request that no distribution be made in Embassy.

2. *Begin text.* A Proposal for More Comprehensive Collaboration Among the Industrialized Countries.

3. In light of the dangerous situation facing them, particularly as a result of the oil price increases, the industrialized countries should undertake a more comprehensive collaboration with the objectives of: bringing about lower costs for their oil supplies; reducing the damage to their economies caused by the higher costs of their imports; preventing disruption of the basic cohesion of the countries of the Free World; and creating procedures to improve their capacity to respond to unforeseen future events.

¹ Source: Ford Library, National Security Adviser, Presidential Country Files for East Asia and the Pacific, Box 8, Japan—State Department Telegrams from SECSTATE–NODIS (1). Secret; Priority; Nodis. Drafted by Enders on November 2.

4. In undertaking this more comprehensive collaboration, the industrialized countries must build upon what has already been accomplished and is already being undertaken in various existing international bodies, including the IMF, the OECD, and the IEA.

5. As the next step toward this desired collaboration, further discussions should be held among the Foreign and Finance Ministers of the five major nations in an effort to reduce differences in their perceptions of problems and opportunities before formal discussions of closer cooperation are undertaken with a wider group of industrialized countries.

6. A program of additional cooperation is desirable: one in which the different parts reinforce one another both politically and economically.

7. Included in the program should be: (A) An internationally agreed set of additional measures intended to reduce reliance by the industrial countries on imports of oil from outside the group, to be referred to below as "conservation measures"; (B) A new set of commitments and procedures by which the group could provide economic support, as needed, in the form of loans to those members of the group which would otherwise suffer acute economic damage as a result of international economic developments, to be referred to below as "financial solidarity measures"; and (C) An undertaking to attempt to develop various other forms of collaboration on measures supportive of the activities included in A and B, referred to below as "other supportive measures".

8. Conservation measures. Additional measures by the major industrialized countries to reduce their reliance on high cost oil imports are desirable: to reduce vulnerability to future interruptions in supply; to limit the real burden being placed on their economies by the necessity of paying either currently for the costly imports or ultimately for amortization of debt being undertaken to finance the current consumption of energy; to reduce the danger of potential disruption to the world's financing system as a result of concentration of large holdings of financial assets in the hands of a small number of producing country governments; and to demonstrate to the producers more promptly the damage which will be done to their economic welfare, as well as that of the consuming nations, by attempts to prolong current high oil prices.

9. The most appropriate mix of additional conservation measures will vary from country to country. Among the important types of measures are likely to be removal of official restraints on the cost of energy to consumers, imposition of additional taxation on consumption of imported energy, and inducements to switch from oil to other sources of energy.

10. The higher prices which have been allowed to take effect in the market place have already reduced oil consumption. Not only have the 5% to 10% increases forecast earlier for consumption growth in 1974 not taken place, but recent consumption levels in the major industrial countries have been running 5% to 10% below the levels before the outbreak of the Mid-East war in October 1973. Some of the reductions in consumption are attributable, however, to the slower overall rates of economic growth being experienced in the industrialized countries, and there is no assurance that in the absence of new government measures there will be no resurgence of demand in 1975 when higher rates of economic growth resume and when the shock of the sudden move to higher prices is further in the past. Under the circumstances, additional conservation and production-encouraging measures are desirable in all countries, and probably in every country it will be easier to gain legislative and popular acceptance of additional measures if they are taken in the context of an equitably shared comprehensive program of international cooperation.

11. It is probably neither practical nor desirable to expect governments to commit their countries to specific maximum amounts of oil imports in 1975 or to adopt identical programs or standards of conservation measures. But individual country programs for 1975 should be collated into a total international program, which would then be reviewed for the adequacy of its total impact and for the equity of distribution of national contributions, and adjusted as necessary. It should be useful to establish an agreed timetable for the development of national programs and their international review and adjustment. Based on experience, in the course of 1975 additional measures could be considered, if necessary, for implementation later in 1975 or in 1976.

12. As a first approximation, it is suggested that measures be sought which would result in total member country imports in the third quarter of 1975 of at least 20%, about 5½ million barrels a day, below their imports of about 27½ million barrels a day in the third quarter of 1973. Already, by the third quarter of 1974, their imports had been reduced to almost half the amount proposed for the third quarter of 1975. The cutback in consumption could alternatively be expressed in terms of reduction in consumption below levels which would have prevailed in the absence of new conservation measures.

13. Financial solidarity. Despite the reduction in oil import costs which can be achieved by additional conservation measures, and despite the desirable impact which such conservation may have in preventing further increases in oil prices and possibly in bringing about some price reductions, the industrialized countries are likely to be faced, in 1975 and later years, with enormous oil import bills. Vast changes in the pattern of international trade and investment flows will

result. Adjustment of these flows is likely to take place in many different ways, both through the many existing channels of contact between the oil-producing countries and the industrialized countries and through various new channels.

14. In this process, however, there is the danger that—in the absence of new measures of international cooperation—particular industrialized countries might be faced with acute economic hardship or with the necessity to rely on financial help from producing countries on terms which should be considered politically or economically unacceptable to the community of industrialized nations. To counter this danger, it would seem highly desirable that the industrialized countries develop among themselves a new set of commitments and procedures by which the group could provide economic support in the form of loans, when appropriate, to individual member countries of the group. What is needed is more likely to prove a safety net than an artificial limb, but the safety net would need to be designed for use in any emergency which might arise in order to provide countries in advance with a confidence which would allow them to avoid internationally disruptive economic policies which might otherwise be undertaken out of extreme fear of the future.

15. To be effective in combatting fear, the potentially available loans would have to be very large. On the other hand, such loans could not be promised to any member of the group automatically. The availability of the loans would have to be conditioned upon judgment on behalf of the group that a prospective borrowing nation was following reasonable policies of self-help.

16. As a preliminary proposal to meet the need for a safety net, it is suggested that consideration be given to an agreement among industrialized countries that they would—in the context of a larger program of collaboration on conservation and other energy matters—agree to undertake loan commitments callable on demand by a common fund when loan assistance was needed and approved for a particular member country.

17. The principles on which the fund would be based could be as follows: (A) The total size of the fund would be related to the estimated annual combined deficit on current account of participating countries vis-à-vis outside oil suppliers (an appropriate number for the first year might be one half, which would provide a fund on the order of \$20 or \$25 billion). (B) Each country's maximum lending obligation and maximum borrowing limit would be identical. (C) These limits would be determined basically by reference to an appropriate formula incorporating relevant considerations; an appropriate formula might be based on oil imports from outside the group, participation in foreign trade,

and GNP. (D) Participants would share in financing loans on the basis of their shares in the fund.

18. Additional commitments would be anticipated for 1976. Each loan from the common fund would be approved by a board of trustees acting on a qualified weighted voting basis on behalf of the member nations in the group. The discretion of the board should probably be limited by agreed guidelines. The board might well be associated with the OECD. Presumably, the loans to and from the common fund would be on commercial terms. Loan assistance from the common fund should probably be made conditional on the borrower making appropriate use of other assets available to it and making efforts to obtain capital from other sources on reasonable terms. Borrowers would also be expected not to take trade or other restrictive measures inconsistent with their GATT, IMF, and OECD obligations.

19. An important feature of the financial safety net, as described above, would be that the assistance to any particular nation would neither be, nor appear to be, dependent on the approval of one or more of the oil-producing countries. The assistance would be on a mutual self-help basis among the industrialized countries. Each of those countries could raise the funds for its contribution as it saw fit: from cash on hand, from taxation, or from new borrowing. Such new borrowing could, in effect, be from an oil-producing government if an oil producer happened to purchase the debt obligations sold by the borrowing government on the market, or if a loan were arranged directly by the borrowing country government from an oil producer. But, in the usual—and preferable—case, lending to the common fund would be but one of the many ways in which an industrialized country government was disbursing funds, and it would not be possible to make an unambiguous connection between one source of funds for the government and one use of funds by that government.

20. It would also be possible to provide that the trustees of the common fund would be empowered to make investments in promising internationally significant research and development projects when appropriate.

21. As an alternative to loans to the common fund, consideration could be given to borrowing by the fund on the strength of guaranties provided by the cooperating governments, presumably in about the same proportions as loans might be made to the common fund. In some countries, it might be that such guaranties would appear less onerous to legislatures than direct loans to a common fund, even though the risk exposure to the governments would be the same by either method. On the other hand, the guaranty method would have a significant political disadvantage in that the political credit for the assistance might tend to accrue in large measure to the provider of the loan funds, quite possibly

an oil producer, rather than to the providers of the guaranties who would be the real bearers of the risk. The guaranty route would also have the disadvantage that the rate of interest paid on the guaranteed borrowings would probably be higher than that paid on average by governments borrowing their separate shares of the needed funds directly on their own separate full legal obligations. In view of frequent public failure to understand the nature of guaranties, there would also be some danger that the guaranty route would be treated as a “something for nothing” method and would thus lead to less careful monitoring of the assistance involved.

22. It would also be possible, as an alternative to the common fund outlined above, to consider attempting to use the International Monetary Fund as the provider of the desired safety net for the industrialized countries. That alternative would have the advantage of making use of an existing institution without requiring establishment of a new common fund. On the other hand, there would be a number of disadvantages of attempting to use the IMF. Establishment within the IMF of a safety net of the large size necessary to accomplish the desired objective for the major industrialized countries would lead to extreme pressures within the IMF for large, comparable facilities for the less-developed countries, even though such facilities would not be appropriate to the needs of most such countries. For many of them, concessional lending in smaller amounts would be appropriate. It would also be more difficult to develop an integrated program of conservation, financial solidarity, and other supportive measures, if the safety net were attempted in the IMF, which includes in its membership both the oil-producing countries and many other countries which would not be likely participants in the proposed integrated program.

23. In any event, whatever method of financial support is chosen for industrial countries, the need to provide additional concessional assistance to developing countries will need to be considered. To the extent that financial solidarity leads to improved economic performance in industrial countries, lesser amounts of direct financial assistance to developing nations will be required however.

24. Other supportive measures. Although conservation efforts and financial solidarity would be the two most important individual components of a comprehensive program of cooperation, there are likely to be many other individual forms of cooperation which, in combination, could be significantly supportive of the two main measures. A comprehensive program should, therefore, include an undertaking by the governments involved to attempt cooperation in other ways contributing to the same objectives.

25. For this purpose economic relations with producers would be reviewed in an effort to identify ways and means in which oil company

policies on pricing and the distribution of liftings, consuming country import and export policies, export credits, and loans and policies of international financial institutions could be managed to yield a better balance of bargaining power with the producers. Timing and context of bilateral and eventual multilateral producer/consumer contacts should also be studied.

Ingersoll

16. Telegram From the Department of State to the Embassy in France¹

Washington, November 12, 1974, 0225Z.

248868. Subject: Response to Giscard Initiative. For the Chargé.

1. You should transmit the following letter to Sauvagnargues:

2. *Begin text:* Dear Mr. Foreign Minister: I wish to thank you for your letter of explanation on President Giscard's proposals for a producer-consumer conference.² We also appreciated the talks Mr. Brunet had in Washington.³

¹ Source: Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France—State Department Telegrams from SECSTATE–NODIS (1). Confidential; Immediate; Nodis. Drafted by Hartman, cleared by Enders and Sonnenfeldt, and approved by Kissinger.

² On October 23, Sauvagnargues wrote to Kissinger: "I wanted to let you know that the President of the Republic will mention, during his press conference tomorrow, the problem of energy, and will propose the convening of a conference grouping a certain number of states which produce oil and a certain number of industrial consumer states as well as certain non-industrial consumers. The President considers that it is indispensable to put the good will of the producing states to the test." (National Archives, RG 59, Central Foreign Policy Files, P820121–1459)

³ On November 1, Sauvagnargues sent a message to Kissinger, informing him that he wanted Brunet to travel to Washington on November 3 to "make clear" the French "point of view." (Telegram Tosec 459/240276 to Islamabad; *ibid.*, Central Foreign Policy Files, D740312–0249) Kissinger responded that he was "concerned" about the French proposal, in both substance and timing, in that "it was announced without any prior consultation" with the United States. (Telegram Secto 363/4 from Isfahan, November 2; *ibid.*, D740333–1058) Ingersoll reported that, in their November 5 meeting in Washington, Brunet began by giving him a "'non-paper' explaining French reasons for calling multilateral energy conference and its relationship to other aspects of an overall energy strategy," and in subsequent oral points went "beyond earlier French presentations and in some cases appeared to be attempts to respond to initial US criticism." (Telegram Tosec 717/243012 to Rome, November 5; *ibid.*, D740316–0548)

3. As you know, we have always favored a producer-consumer dialogue that is well-prepared and has some prospect for a constructive outcome. It has been our view that such an outcome requires the development of consumer solidarity in the fields of emergency sharing, conservation and financial management. We have felt that these were necessary ingredients and should move in parallel with the preparation of positive proposals to put before the producers.

4. We intend to proceed with this approach in the IEA and other forums and look forward to exchanging ideas with the French Government as well at an appropriate time when our thoughts are in more concrete form.

5. I have read an account of your speech in the National Assembly⁴ and I am disturbed by the fact that another French Foreign Minister has once again raised the specter of condominium. I do not understand the sensitivity to the June 22, 1973, agreement. It is never invoked or even referred to in the terms you used by anyone other than France. This is particularly regrettable because of the authoritative and solemn comments I made at last year's NATO Ministerial meeting in Brussels in response to your predecessor's statements.⁵ I take little comfort in the improved tone of our relations if so basic a suspicion remains and is promoted in public. In our interdependent world, Europe has as much or more interest in influencing American decisions as we do in influencing yours. I greatly fear for all our futures if we cannot overcome these barren philosophical disputes. We are facing a crisis in the West where all our energies must be devoted to constructive cooperation. Domination is not the issue; survival is.

⁴ The November 6 speech included a section on U.S.-Soviet relations in which the French Foreign Minister said: "Recent history, moreover, has shown the limits of the June 22, 1973 agreement by which the United States and the USSR appear to have sought to arrogate to themselves a kind of right to arbitrate the difficulties of others. The super powers showed themselves powerless to prevent the outbreak of conflicts, including one which could have, and still can, by its consequences, endanger world peace." (Telegram 26518 from Paris, November 8; *ibid.*, D740321-0774) The U.S.-Soviet accord to which Sauvagnargues referred is the Agreement on the Prevention of Nuclear War.

⁵ At the December 10, 1973, session, Michel Jobert said that the June 22 agreement between the United States and the Soviet Union "was of great concern to most of the countries represented in the Council," and asked whether "it was necessary for this cooperation between two 'adversary-partners' automatically to take priority over consultation within the Atlantic Alliance." Kissinger responded by accusing Jobert of misinterpreting the agreement and then repeated its provisions for clarification. He added that if Jobert continued to repeat his "erroneous" interpretation of the accord that it could not be "inadvertent." (Telegram 14640 from London, December 12, 1973; *ibid.*, [no film number])

6. I am also looking forward to our discussions when we meet in Brussels in December and later in Martinique.⁶ Warm regards. Henry A. Kissinger. *End text*.⁷

Kissinger

⁶ The NATO Foreign Ministers met in Brussels December 12–13, and Ford met with Giscard on the island of Martinique December 15–16.

⁷ The Embassy delivered Kissinger's letter on November 14. (Telegram 27112 from Paris, November 14; Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France—State Department Telegrams to SECSTATE–NODIS (1))

17. Telegram From the Department of State to the Embassy in West Germany¹

Washington, November 13, 1974, 0228Z.

249878. Subject: Letter to Chancellor Schmidt. For the Ambassador.

1. Please deliver the following letter from the Secretary to Chancellor Schmidt, and only repeat only to the Chancellor, the morning of Wednesday, November 13, pointing out that the Secretary hopes for an early reply.

2. *Begin text*: Dear Mr. Chancellor: President Ford has asked me to give you our views on the next stage of cooperative efforts to deal with the current oil crisis. I should emphasize that these views are being passed only to you, and have been communicated to no other officials outside the US Government.

3. From our discussions in July,² I know you share our concern over the corrosive effect that strains emanating from the oil crisis can have on the strength of the Western democracies and the Alliance. You have contributed significantly to efforts beginning with the Washington Energy Conference to build the unity of purpose among the

¹ Source: Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 6, Germany—State Department Telegrams from SECSTATE–NODIS (1). Confidential; Niact; Immediate; Nodis. Drafted by Enders and Paul H. Boeker (EB/IFD), cleared in EUR, and approved by Kissinger.

² Kissinger is presumably referring to his visit to Germany July 6–8 to brief West German officials on the Moscow Summit.

major Western powers which is necessary to deal with this threat. Foreign Minister Genscher and Finance Minister Apel have helped carry forward this effort in the Washington meetings in September.

4. In more recent discussions in Bonn, US representatives have reviewed the evolving strategy for consumer country cooperation with State Secretary Poehl, who will have reported these discussions to you.³ I want to raise with you two elements of this strategy in particular, financial solidarity and the organization of further discussions.

5. As you have stressed, financial cooperation is essential. We both realize that the US and the Federal Republic would be net providers of finance to any new recycling facility. That, of course, will mean persuading a potentially reluctant Congress and Bundestag. The President has, however, come to the conclusion that the US—and almost surely the Federal Republic—would be compelled to provide as much or more financing to the weaker economies bilaterally if we have no new facility. A suitably large facility would have such an effect on confidence in the financial system and the creditworthiness of participating governments that the eventual requirement for official financing would be reduced from what it otherwise would be. The Federal Republic should also find considerable advantage in having the strong economies of the US, Canada, and Japan join with it in a general consumer country facility rather than relying only on a European recycling system in which the Federal Republic alone is linked with most of the prospective net borrowers.

6. We see financial cooperation as an essential supportive element of a broader cooperative strategy. If all countries, the weak and the strong, are to stick together in a program of energy sharing in emergencies, conservation, and research and development of new non-OPEC energy supplies, some will require financial support. Assuming that the stronger economies cannot count on remaining islands of stability, it would appear in our interest to provide this support. If a consumer country recycling facility is to serve its purpose, I believe it should be convincingly sufficient to meet all contingencies. We intend to propose a \$25 billion facility of callable commitments for 1975.

7. Regarding further international discussions, I feel that the meetings of the Five have now progressed to the stage where the proposals they have considered and developed should be presented to a broader group of industrial countries. We suggest that we develop the programs on conservation and new supplies in the International Energy Agency and the recycling proposal in the Group of Ten. I also in-

³ According to telegram 14398 from Tokyo, November 6, Enders and Cooper were scheduled to meet with Poehl and Lautenschlager on the morning of November 8 in Bonn before returning to the United States. (National Archives, RG 59, Central Foreign Policy Files, D740318–0715) No other record of the meeting has been found.

tend to propose a January meeting of participating countries in these efforts, at the Ministerial level, to take the political decisions to put both into effect. Such a meeting of Ministers could conveniently convene in Washington in mid January just prior to the meeting of the IMF's Interim Committee of Governors.

8. We all will have political problems with a program of the magnitude we propose, but the magnitude is a reflection of the problem we face. In both our countries we will undoubtedly encounter critics who find it momentarily cheaper and safer to wait for miracles. But I suspect that you share my view that the oil price is not coming down now on its own and will not come down later unless we act now to create the objective conditions that will eventually accomplish this.

9. President Ford has asked me to advance some of these proposals in a speech I am giving November 14 in Chicago.⁴ At that time I also intend to say that we will attend a producer/consumer meeting, while stating that such a meeting should await action by consumers on the cooperative program we have begun.

10. We hope that you can support these suggestions which were in part generated by the concerns you expressed in June. If you have any urgent views prior to my speech we would be glad to consider them.

11. Warm regards, Henry A. Kissinger. *End text.*⁵

Kissinger

⁴ In the speech that he gave in Chicago on November 14 before a University of Chicago Board of Trustees banquet, Kissinger provided a "Blueprint for Consumer Cooperation" in which the consuming countries "must act in five interrelated areas": 1) accelerating "our national programs of energy conservation" and coordinating them "to insure their effectiveness"; 2) pressing on with the "development of new supplies of oil and alternative sources of energy"; 3) strengthening "economic security—to protect against oil emergencies and to safeguard the international financial system"; 4) assisting the "poor nations whose hopes and efforts for progress have been cruelly blunted by the oil price rises of the past year"; and 5) entering into a "dialogue with the producers to establish a fair and durable long-term relationship" on the "basis of consumer solidarity." For the text of the speech, see Department of State *Bulletin*, December 2, 1974, pp. 749–756.

⁵ According to telegram 17793 from Bonn, November 13, Schmidt told Deputy Chief of Mission Frank E. Cash that because he had not had time to consult with his Cabinet, he could not "do much more than give off-the-cuff reaction" to Kissinger's letter. The Chancellor believed that the proposal for a January meeting would lead to a "confrontation with the French" and, therefore, was "not a good idea," adding that Giscard's proposal was "not unnecessary." On financing, Schmidt was "not quite sure" that West Germany "would be compelled to provide financing to degree indicated" in Kissinger's letter and that public mention of the "big fund" project discussed in both the G-5 and the Library Group forums would put his country in a "very difficult spot." Finally, he "fully agreed" on the "necessity of sticking together in energy sharing, conservation, and research and development of new non-OPEC energy supplies" and that, if the industrialized powers could not achieve "essential cooperation" on energy, the consequences would be "very bad." (Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 6, Germany—State Department Telegrams from SECSTATE–NODIS (1))

18. Telegram From the Department of State to the Embassies in Japan, the United Kingdom, and France¹

Washington, November 14, 1974, 0554Z.

250994. Subject: Letter From Secretary to Foreign Minister.

1. Please deliver the following letter to the Foreign Minister not before 5:00 PM local time Thursday, November 14 in Europe, and as early as possible during the business day in Japan, Friday, November 15.² The Secretary's speech referred to in this letter will be delivered Thursday, November 14 in Chicago at 9:25 PM local time.³ You should ask that the Secretary's letter be held in strictest confidence until he delivers the speech.

2. Dear Mr. Minister: The effects of the energy crisis have now become manifest—in more rapid inflation, arrested growth, increasing strains on the international financial system and narrowing opportunities for governments to control their countries' own political and economic destiny. This relentless course of events lends new urgency to our joint efforts to design and carry out an effective strategy to overcome the problems emanating from the energy crisis.

3. The USG believes that the conclusion is inescapable that cooperation among the major oil consuming areas of Europe, North America and Japan is the fundamental prerequisite for an effective program of action. The crisis itself defies national solutions. But working together we do have options which we do not have separately. Whereas no country alone, except possibly the United States, can protect itself in a selective embargo, together we can do so.

4. We now need to move further in the cooperative endeavors begun this year at the Washington Energy Conference and carried forward in subsequent deliberations. Our work has now progressed to the stage where we should advance some of the proposals we have been considering among the Five to the broader group of countries that will need to act on them. As a part of this process, I intend to present some U.S. proposals in a speech on the evening of November 14 in Chicago. I want to share with you some of the reasoning behind these proposals, as well as the nature of the proposals themselves, although our general thoughts are already familiar to you.

¹ Source: Ford Library, National Security Adviser, Presidential Country Files for East Asia and the Pacific, Box 8, Japan—State Department Telegrams from SECSTATE–NODIS (1). Secret; Niact; Immediate; Nodis. Drafted by Boeker; cleared by Hartman, Enders, and Habib; and approved by Eagleburger.

² Kissinger sent the same letter to Genscher on November 14. (Telegram 250993 to Bonn; *ibid.*, Presidential Country Files for Europe and Canada, Box 6, Germany—State Department Telegrams from SECSTATE–NODIS (1))

³ See footnote 4, Document 17.

5. On the important question of oil price, the producers have made it clear that political persuasion or negotiation is not now going to result in any notable price decrease. The alternative left us is, therefore, the difficult but workable one of action on the consumer side (1) to create the objective conditions for an eventual price reduction, and (2) to protect the vitality of our economies in the interim period of high oil prices. To achieve the first objective consuming countries need major new efforts both to reduce demand for oil through conservation and to develop new sources of energy supply. In the period until these actions reach full effectiveness consuming countries, as we have recognized, need to complete two safety nets, one to deal with any new oil supply emergency and the other to deal with any potential inability of the financial system to recycle the huge flow of oil funds.

6. Energy conservation offers us the most immediate prospect of relief from high oil prices. For political as well as economic reasons effective conservation must be a collective effort. At a minimum we should collate our individual country programs for 1975 to make sure that we are doing enough. The U.S. will propose that the industrialized countries set the goal of reducing their consumption from what it otherwise would have been by three million barrels per day (150 million tons at an annual rate) by the end of 1975. The United States has already announced a program to reduce our consumption of imported oil by one million barrels per day in 1975. In the context of a common goal of consuming countries, the United States is prepared to achieve further savings.

7. In dealing with recycling of oil funds, we need to consider three basic objectives: to protect the integrity of our financial institutions, to ensure that no nation feels forced to pursue disruptive policies for lack of adequate finance and to make sure no consuming country is compelled to accept financing on intolerable political and economic terms. The task for governments is to provide a back-up, intergovernmental facility that can augment private recycling whenever necessary. Such a safety net would help assure the stability of the entire system and the creditworthiness of participating governments.

8. With these considerations in mind the United States is proposing that the industrialized countries create a common loan and guaranty facility to provide a means for recycling up to \$25 billion in 1975. Governments would individually choose how to meet their commitments to such a facility, but presumably most would choose to do so by borrowing. Calls on governments' commitments to provide funds to the facility would be made in connection with specific decisions of participating governments on support to countries in need of financing, after full resort to private opportunities and reasonable self-help measures.

9. We are already considering new ways of assisting developing countries in their acute financial problems. We need to consider new

possibilities of providing highly concessional financing to the developing countries most seriously hurt by the current crisis. In particular, special financing of the IMF needs to be provided on terms more suitable to these countries' needs.

10. As you know, the US has always been in favor of a constructive dialogue with oil producing countries. Consumer country cooperation is not antagonistic to consumer-producer cooperation, but an essential preparation for this broader dialogue.

11. The USG hopes that consuming countries can move promptly to broaden our cooperative effort. The new International Energy Agency is best placed to develop a program of action on conservation, new supplies and preparation of consumer positions for the eventual consumer-producer dialogue. We suggest that the Group of 10 Finance Ministers develop a proposal for financial cooperation looking to enactment within the OECD framework.

12. The issues and tasks before us comprise a program of considerable magnitude, requiring difficult political decisions. But just as the turmoil of the immediate post-war period became a moment of great creation in international cooperation, so can the energy crisis of today be one leading to historic achievement through cooperation. The economic facts of today are stark, as they were in 1947–1948. The structure emerging from that challenge has secured our democratic institutions, economic progress and security for a generation. These achievements are now threatened. But with the same political vision, courage, and above all, cooperation that sustained us in the earlier years, we can meet the new energy challenge.

13. I look forward to working with you on these tasks in the period immediately ahead, and hope that we can count on your support and that of your government for the proposals we have made.

Signed Henry A. Kissinger.

14. For Paris: Final sentence of letter should end with words "immediately ahead", eliminating all thereafter from "and hope" through "we have made."⁴

Kissinger

⁴ On November 17, Kissinger sent a note to Enders in Paris instructing him "to go to European capitals to brief key figures in greater detail on the initiatives in my Chicago speech and to begin the process of lining up support for our initiatives." He added: "I recognize that you will have opportunity to meet with some of these officials in Paris during meetings of IEA and Working Party Three. You should however go on to capitals for follow-on discussions unless you believe it would be totally redundant. You should report to me from each capital you visit as well as on the results of your talks in Paris." (Telegram 253541 to Paris; Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France—State Department Telegrams from SECSTATE–NODIS (1)) Enders was in Paris for the OECD Council meeting and the first meeting of the International Energy Agency. See Document 20.

19. Memorandum of Conversation¹

Tokyo, November 19, 1974, 11 a.m.

PARTICIPANTS

Prime Minister Kakuei Tanaka
Foreign Minister Toshio Kimura
Ambassador Takeshi Yasukawa
Deputy Foreign Minister Kiyohiko Tsurumi
Toshio Yamazaki, Director General, American Affairs Bureau, MOFA
Hidetoshi Ukawa, MOFA (Interpreter)
Akitane Kiuchi, Private Secretary to Prime Minister

The President
Secretary Kissinger
Ambassador Hodgson
General Scowcroft
Assistant Secretary Habib
James J. Wickel (Interpreter)

SUBJECT

President Ford–Prime Minister Tanaka—First Meeting

[Omitted here is discussion unrelated to energy issues.]

[President:] This leads to a new subject of great mutual interest to all of us. I personally appreciate Japan's cooperation in energy, in the IEG and the IEP. Both are vitally important to the consumers throughout the world. It is vitally important for us to have a IEG and a strong IEP. We should be prepared to move strongly, not to antagonize the producers, but to make sure that we consumers don't have to assume a defensive posture in bargaining with the producers without any strength. In our judgment it is essential for Japan to support both the IEG and the IEP firmly. I can assure you, Mr. Prime Minister, that we will continue to give the kind of leadership in this area, which Secretary Kissinger has been giving. Progress up to now has been encouraging, and we feel that anything which further strengthens the consumers will benefit both the consumers and the producers in the long run.

PM Tanaka: In my view energy is the greatest problem we face. I understand Secretary Kissinger's proposal² very well. Japan has a deep interest in the oil question, which is really at the root of the reason many countries around the world are eating less meat. However, I hope you understand that Japan's circumstances differ from some

¹ Source: Ford Library, National Security Adviser, Memoranda of Conversations, Box 7. Secret. The meeting was held in the Guest House. President Ford made an official visit to Tokyo November 18–22 en route to the Vladivostok Summit.

² See Document 18.

other countries, like the US, UK and France. For example, Japan has no coal; it is dependent on oil for most of its energy. Consuming about 300 million tons of oil per year—almost all of it imported—it is natural that Japan should try to conserve oil. However, 73% of Japan's oil is used for industrial purposes, and only 27% for private consumption. (note: Kiuchi gave PM Tanaka these figures in writing.) By comparison, the 31% of the United States consumption is for industrial purposes and 69% for private purposes. Therefore, any conservation program automatically means an immediate reduction of industrial production in Japan. I would hope that these special circumstances could be reflected in any program devised to deal with the oil question.

Secretary: May I, Mr. President, comment on two problems, consumer solidarity and the specific measures by which we hope to attain it. In preparing my Chicago speech, I linked consumption and the development of a new system because I recognize the special position of Japan. Obviously, all nations can't conserve oil to the same degree as the others, and therefore should try to compensate by increasing their reliance on alternative supplies. We would be prepared to work with Japan, within the framework of our joint agreement on uranium enrichment and other alternatives, to take into account Japan's specific requirements relating to industrial use in working out a conservation program for the consumers. I can assure you this energy program is not designed for conservation at the expense of growth, but instead is planned to achieve the conservation of energy and growth by also developing alternative sources of energy. If the consumers could achieve greater solidarity along these lines, it would improve their position to bargain for oil.

President: We are devoting a great deal of effort to R&D in potential alternative sources, such as solar and geothermal energy, and to make coal a more effective and cleaner source. We are thinking of sharing the results of these R&D programs as a part of the IEG and the IEP. The development of alternative sources lessens our dependence on oil, and thus increases our independence.

PM Tanaka: As I noted, Japan imports almost all of its oil, and our BOP cannot continue to bear the increased cost of oil. Therefore, the most serious consideration for us is the development of alternative sources of energy, including nuclear, solar and geothermal. However, Japan cannot conduct these programs alone—all of the advanced industrial democracies should combine their total efforts for this purpose.

Secretary Kissinger: We would like within a few weeks to meet quietly with a suitable official from Japan without any public dramatics to discuss this issue. Perhaps the Prime Minister could send someone to Washington, or we could send someone here to discuss our thinking on

this in detail, without making any dramatic announcements. In my speech I used forthright language to express what we think must be done to meet this situation.³

[Omitted here is discussion unrelated to energy issues.]

³ In a November 25 meeting in Tokyo, where Kissinger stopped after the Vladivostok Summit, Kimura informed Kissinger about his meetings with Sauvagnargues in Tokyo a few days earlier, which focused primarily on oil, and told the Secretary that his “impression” was that “there was no basic difference of views between the United States and France on the question of oil.” However, he added, there were “some differences which remain regarding the timing of implementing what is agreed, and the methodology.” Kissinger and Kimura concurred, as did Sauvagnargues according to Kimura’s account of their conversation, that the matter of recycling should be handled by the Group of Ten. Looking forward, Kissinger said, “if France cooperates with us in our consumer initiative, we are prepared to cooperate with them in their producer initiative.” (Memorandum of conversation, November 25; National Archives, RG 59, Records of Henry Kissinger, Lot 91D414, Box 21, Classified External Memcons, May–November 1974, Folder 7)

20. Editorial Note

The Governing Board of the newly-established International Energy Agency held its first meeting in Paris November 18–19, 1974. The IEA was formally established at the OECD Council meeting on November 15, at the same time the IEP Agreement was signed. See footnote 6, Document 9. At the inaugural session, the Governing Board elected Etienne Davignon of Belgium as its Chairman and Ulf Lantzke of West Germany as its Executive Director, adopted an energy program, and decided upon a schedule for “standing groups” to meet on various topics. Assistant Secretary of State Thomas Enders, who spoke last on November 18, delivered a strong statement on the immediate need to organize a long-term cooperation program. (Telegram 27638 from USOECD Paris, November 20; National Archives, RG 59, Central Foreign Policy Files, D740335–0870) He also submitted a U.S. proposal for such a program, which recommended “immediate action” in two areas to reduce dependence on imported oil: 1) “Establishment of a concrete framework of cooperation, including agreement on guiding principles and the establishment of procedures for the regular review and coordination of our national energy policies as they relate to our common goal of reduced dependence”; and 2) “prompt implementation of a joint work program, including jointly conceived and financed projects and common programs which tie together national activities

under a common set of goals and guidelines.” (Telegram 27839 from USOECD Paris, November 21; *ibid.*, D740355–0456)

On November 19, the Governing Board discussed the question of a producer/consumer dialogue, as well as a French proposal for a “tripartite conference” on oil. The consensus among the group was that there was “no urgency to make contact with producers,” and that it was “most important to prepare groundwork thoroughly” if consumers were to “create a position of maximum negotiating strength.” Enders argued that this strength could “only come through taking tough decisions soon on conservation and accelerated development,” creating a supply/demand shift that would force prices down sharply. The consumers could not “‘jawbone’ the producers out of income they clearly believe they are entitled to,” he said. At the conclusion of the discussions, Davignon said that on the issue of a “negotiating position for the consumers to take in meetings with producers” the IEA should manage the dialogue with France, which did not initially join the organization over concerns about alienating oil-producers. (Telegram 27921 from USOECD Paris, November 21; *ibid.*, D740337–0970) The original IEA membership included Austria, Belgium, Canada, Denmark, West Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

21. Telegram From the Embassy in France to the Department of State¹

Paris, November 20, 1974, 1104Z.

27637. Subject: US-French Energy Relations.

1. Summary: We recommend that USG propose tradeoff to GOF on current energy issues which would balance US acceptance in principle of producer-consumer conference in mid 1975 against GOF acceptance of close preparation for such conference within IEA, and support for US recycling proposal.² Consultations should begin soonest if this

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D740335–0877. Confidential; Priority; Limdis. Repeated to Bonn, Brussels for the Embassy and USEC, Copenhagen, Dublin, Luxembourg, London, Rome, The Hague, and Tokyo for the Secretary.

² See Document 15.

agreement to be formally reached, as it best would be, by two Presidents at Martinique. End summary.

2. While initial French reaction to Secretary Kissinger's speech³ has been to downplay differences between US and French positions, it appears clear to us and undoubtedly to GOF that serious differences remain over tactics and timing for a future oil conference. French efforts to convince other invitees to accept GOF ideas for such a conference may now run into stiffer resistance as result of USG reaction, and may cause rift among EC members.

3. We believe French are unlikely to abandon conference idea readily. This is not solely because of pride or because Giscard's opponents from both ends of political spectrum would jump on him for bowing to American pressure, but also because GOF firmly believes that dialogue with producers is required and should start as soon as possible; French balance of payments situation is such that GOF cannot afford new oil price increases while negotiating situation ripens. We believe however that French would be prepared to be flexible on timing if they were to know that oil negotiations would indeed take place before too long.

4. As seen from Paris, a USG–GOF clash over this issue would not be in our interest. It would prevent any real success at Martinique and would probably usher in a period of embittered relations with the new French Government. More importantly, it would split Europe on an issue which as we see it most European governments would rather see bridged over, and would also divert the EC from taking those joint energy policy steps—setting goals for reduced oil consumption and increased energy production—which are basically supportive of our goals in the IEA. Finally, it would probably provoke a French reversion to an aggressively independent energy policy and because of France's key role in the EC, energy cooperation among consuming countries will continue to be much more workable with than without France.

5. We believe that a US–GOF confrontation can be avoided, and that we have the elements of a compromise which can both strengthen the consumer cooperation in IEA and ease French fears that the US intends to use the IEA to prepare for a confrontation with the oil producers. The settlement we propose could be struck at Martinique in a way which moreover could open the way to more cooperative and productive US–French relations. Our proposal would consist essentially of trading US agreement in principle to the holding of a producer-consumer conference (possibly during the summer of 1975) against French agreement to cooperate and consult fully with the members of

³ See footnote 4, Document 17.

the IEA in preparing a common consumer position for such a conference, and to support our recycling proposal. Such an exchange would give Giscard the conference he wants—but only after a reasonable delay in which the consumer position could be further consolidated. In return, France would have to associate itself much more closely with the formulation of that consumer position within the IEA and, if possible, commit itself to joining the IEA in due process.

6. To reach this objective, preparation through high-level discussions with the GOF must begin immediately. Giscard has put the question of EC support for French conference proposal on the agenda of the EC Summit which will probably take place December 9–10. It is essential that we have at least a tacit understanding with GOF and adequate consultations with our major IEA partners before that date if we are to avoid a harmful clash between France and the EC 8, or to bring this proposed deal to a conclusion at Martinique. If the Department agrees with this proposal, I recommend that the process of consultation begin without delay.

Rush

22. Memorandum of Conversation¹

Washington, December 5, 1974, 11 a.m.

PARTICIPANTS

Helmut Schmidt, Chancellor, Federal Republic of Germany
 Hans-Dietrich Genscher, Vice Chancellor and Minister of Foreign Affairs
 Berndt Von Staden, Ambassador to the United States
 President Gerald R. Ford
 Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for
 National Security Affairs
 Ambassador Martin J. Hillenbrand, Ambassador to the Federal Republic of
 Germany
 Lt. General Brent Scowcroft, Deputy Assistant to the President for National
 Security Affairs

¹ Source: Ford Library, National Security Adviser, Memoranda of Conversations, Box 7. Secret. The meeting was held in the Oval Office.

[Omitted here is discussion unrelated to energy.]

Schmidt: Back to Giscard and oil. As I understand him, as a person—we have talked often over the last weeks—he is willing with you to bring about not only what looks like but really serves the purposes of consolidation. With his consent. I will sketch out a few ideas on which you and he might publicly agree.

We must avoid, if possible, a consumer-producer confrontation,² because the consumers are weaker—Europe much more than the United States. Europe is very dependent on Middle East oil. No one thinks we should risk confrontation if it can be avoided. So we need government-to-government working relations with the producers. We think we can combine the proposals raised by OECD, the U.S. ideas, and Giscard's carelessly launched ideas. (He consulted apparently no one).³

Why not a sequence of three phases?

(1) Giscard invites a February meeting of senior civil servants to Paris to set a date and invitations to a consumer-producer conference, maybe for June, and define what might be discussed. Then everyone will know a conference will happen and that consensus of consumers and producers (separately) must evolve.

(2) A consumer caucus, in which France then must join. And

(3) a consumer-producer meeting.

Giscard will buy this. Before all this, we should do something private—a small group of private citizens with access to their governments (12–15 people) to have a meeting of brains. You could send Shultz. Iran would send someone, and Saudi Arabia, and Algeria. There has never been a brainstorming conference like this in the economic area—it would be like Pugwash⁴—with the producers. The Shah is not capable of knowing what he has done to the world.

² During a conversation with the President and Scowcroft prior to the meeting with Schmidt, Kissinger asserted: "Schmidt will mumble about not wanting a confrontation. It is a false argument. We are not seeking one—but the key is the solidarity of the consumers. Schmidt will want a producer contribution to the fund. But that defeats the purpose and destroys our solidarity—they could contribute after the second year, after we get going. You must put this to him on the unity of the West. Schmidt worries that he and we will bear the burden and the others will relax. He is right. Tell him we will insist on a country putting its own house in order before it can borrow." (Ibid.)

³ Reference is to the October 24 press conference at which Giscard proposed a consumer-producer conference. See Document 12.

⁴ The 24th session of the Pugwash Conference on Science and World Affairs opened on August 28 in Vienna. The meetings first began 17 years earlier in Pugwash, Nova Scotia, Canada.

This is a personal idea. Someone would have to host, but governments would be recipients of the ideas.

The governments of the producers don't understand. The French Government doesn't. Giscard himself may.

President: Let me think about it. We strongly feel there must be a higher unity among the consumers—not on the basis of a confrontation, but to know that we as consumers know our options, and soon. Without that, if we go even to a preparatory conference, we will get off on the wrong foot.

Schmidt: I agree. Secretary Kissinger knows I am trying to help.

Kissinger: Indeed, I told the President about your help at the Washington Energy Conference.⁵

Schmidt: But it may appear, if you attempt to do this first, before anything, it looks like a consumer cartel. If you wrap it as I suggest, it avoids this. You must defuse French policy in the Middle East. In response, the French would have to participate.

Kissinger: Aside from the merits, there are a number of phony arguments. What confrontation is there? Our relations with the producers are as good as anybody's. The French are saying we want a confrontation.

Schmidt: And U.S. citizens traveling abroad.

President: Then they are ill-informed. But if consumers don't have some unison, we could go down the path to ineffective results.

Schmidt: I agree. But you are viewed as seeking a confrontation.

Kissinger: If bilateral relations with the producers aren't coordinated among the consumers before the meeting, a meeting will produce the same uncoordinated babble. We don't want a confrontation. You could argue that if we aren't coordinated, a conference would fail and then a confrontation would be inevitable.

Wise producers can't want the destruction of the consumers. I agree with Giscard. But French diplomats are stimulating these ideas of the U.S. wanting a confrontation.

Schmidt: How would you do it?

Kissinger: Giscard is committed to a producers conference. We are not opposed, and we could even agree on a tentative date. But we would reverse stages A and B. We first need consumer unity. We had a letter from Sauvagnargues in Tokyo, in which he said a producers conference only makes sense if preceded by consumer cooperation.⁶ If we

⁵ See footnote 3, Document 2.

⁶ Sauvagnargues's letter was not found. It was presumably a response to Kissinger's letter in Document 18.

start preparation for a consumer/producer conference, maneuvering would start. We can save Giscard's face by getting the President's commitment to a producers conference. The basic point is whether a producers conference is one where the West continues its civil war or whether we can get a unified approach.

French diplomats are using the producers conference in an anti-American campaign. It actually helps us because it makes us look tough.

We worry about an unstructured conference. We want a long-term solution which avoids confrontation.

Boumediene said to me, "If you want a slight political price cut we can talk; if a deep cut, we can't talk."

Schmidt: A private meeting would help to get an understanding on this point.

Kissinger: A producers conference could accentuate the sense of impotence of the West that could offset all policies.

Schmidt: I am convinced.

President: The problem is to save France's face and make it work. Let's try to find a formula which will work and let me finalize it at Martinique.

Schmidt: There are two technical problems: (1) Indexing. I am totally opposed. But there is some validity for producers to want a guarantee of the real price of oil.

Kissinger: It depends on the price.

Schmidt: The second problem is the \$25 billion fund, about which I am hesitant. It is an invitation for Britain and Italy to continue with inflation. It takes away from the Arabs the risks of investment and puts it on us. Third, I can't commit my country to that amount. \$4 billion is an enormous burden on our budget. It would explode my budget.

President: It gives us more freedom to have our own funds, so we are not then dependent on both the oil produced and the money invested.

Kissinger: It could be used to introduce discipline.

Schmidt: Italy wouldn't fulfill the conditions.

Kissinger: If we borrow from the producers now, we have instituted a producers/consumers dialogue right away.

Schmidt: The U.S. economy is 5 to 6 times as strong as ours. We are just a medium-size economy. I couldn't risk being called on to pay out billions. I would have to borrow from the Arabs.

Kissinger: Better you than the Italians.

Schmidt: Yes. But then I take all the bad risks and the Arabs get the good risks. I would have to get parliamentary approval.

President: If we had the right kind of consumer unanimity, we could get Congressional approval.

Schmidt: If it wouldn't be used, I could make it, but . . .⁷

⁷ Scowcroft's handwritten notes and the typed transcript end here. Before Ford's next meeting with Schmidt in the Oval Office on December 6, Kissinger told the President: "On a consumer-producers conference we must hold firm. We need to manage the energy thing for the political unity of the West. Military defense is not enough. We must have a big joint effort. The Japanese have in effect bit it. We can't go to a preliminary conference. We can agree to it in principle and a target date. But tell him we won't go to a badly prepared producers' conference. The faster we get consumer cooperation, the quicker we can have a consumer-producer conference. If he wants to do something with Giscard, we can immediately work on the consumer efforts." (Memorandum of conversation, December 6; Ford Library, National Security Adviser, Memoranda of Conversations, Box 7) In their meeting later that morning, Ford and Schmidt covered much of the same ground on energy cooperation that they had the previous day. (Ibid.)

23. Memorandum of Conversation¹

Washington, December 9, 1974, 6:20–6:40 p.m.

SUBJECT

Energy

PARTICIPANTS

The Honorable Henry A. Kissinger, Secretary of State
 The Honorable Robert S. Ingersoll, Deputy Secretary of State
 The Honorable Thomas O. Enders, Assistant Secretary of State
 The Honorable William E. Simon, Secretary of the Treasury
 The Honorable Charles A. Cooper, Assistant Secretary, Treasury
 Mr. Robert Hormats, NSC Senior Staff Member

Kissinger: I wanted to have a meeting on energy before we . . . (Secretary makes telephone call.) What are the issues? I realize it's interfering in Tom Enders' style to let Cabinet officers know what he is going to do before he does it.

Enders: Well, there are 3 major issues here.

Kissinger: I have 20 minutes.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P840153–1413. Secret; Sensitive; Nodis. Drafted by Bosworth on December 10. The meeting was held in the Secretary's office.

Enders: First, is the question whether we want some elements of a common import policy on oil in our overall approach.

Kissinger: Yes. The answer is Yes.

Enders: Fine.

Kissinger: But, having said that, you haven't said anything. The question is, How?

Enders: The question is, Shouldn't there be some differential between oil produced within the group of industrialized countries and OPEC oil?

Kissinger: I talked with George Shultz about this. He says we don't need a floor price across the board. He argues that we need to do different things for different energy industries.

Simon: I also talked to George Shultz. We don't need a floor price. We have to do something for some industries, and we should all do that.

Enders: But, Bill, how do we get a common policy with everybody subsidizing 300 different industries?

Kissinger: We do need some price protection.

Simon: Look, the current shale price is \$7.50. The price for coal gasification is \$8.25. What we did for the rubber industry in World War II could be a model for what we do now. The Government got into the first generation artificial rubber manufacture and then it was eventually turned over to private firms. Synthetic rubber is now better than the real thing.

Kissinger: But that sort of approach doesn't help us with the other countries.

Simon: Well, I shudder at the thought of having to persuade other governments to subsidize our shale oil development. I think that is going to be impossible.

Enders: What about an approach using an indicative price at \$6, \$7, or \$8 that we would apply and that would apply to any energy up to that price.

Kissinger: There are two arguments that are interesting here. One, we give the other industrialized countries something they have to do, and two, we create some pressure on OPEC to move prices down.

Simon: But that price is too high.

Kissinger: You think it is going below \$7.00?

Simon: Yes, in 10 years, certainly. For us to go up to Congress now and ask for that sort of protection will be very difficult.

Kissinger: But the economics only point in that direction. If we do something like this, they don't point in the opposite direction.

Simon: Not in terms of what's happening now. We don't have to do uneconomic things to solve this. We are soon going to be swimming in oil.

Enders: We could have a guide price but everyone could lock on to it as needed.

Kissinger: Chuck, what's your view on this?

Cooper: I want to make sure I understand what Tom is saying. Then, you're saying that everyone would agree to support everything up to that price? I would prefer a common tariff but it would take time to get there.

Kissinger: I think that the price will come down more rapidly as we are able to articulate consumer cooperation. Also, something like this would be very important for the political health of the West. It would be a tremendous accomplishment if we pull it off. We have all of these eunuchs from David Rockefeller's Trilateral Commission² running around town saying that we are trying to confront the Arabs. I don't know whatever possessed me to give those idiots my blessing. I shouldn't talk that way about the brother of a very good friend of mine, but it's true—George Ball,³ and all the rest, running around saying that we're confronting the Arabs. What else could you expect? Lehman Brothers is investing in those countries. Even Pete⁴ feels this way. That's the New York liberal line and he doesn't want to deviate from it. The fact is that we are having a producer/consumer dialogue now. We talk with the Saudis and the Iranians every day. The question is, Should we have a multilateral dialogue? Why should we have a multilateral dialogue if the consumers are not organized? Why should we tie France, Italy, and the rest around our necks? Believe me, gentlemen, they are going to use this and they are going to make it a big issue.

Simon: I would like to suggest that Tom Enders and Chuck Cooper and a few others sit down up at Camp David and think this thing through and scrub it up.

Enders: That's fine, and then we can present our recommendations to a Cabinet committee.

Kissinger: Do you think we could ever have a Cabinet committee meeting without people running out immediately afterwards and re-

² David Rockefeller, Chairman of Chase Manhattan Bank and Chairman of the Foreign Affairs Council, was the founder of the Trilateral Commission, a private group to discuss global issues and foster cooperation.

³ George Ball was Under Secretary of State for Economic Affairs in 1961, Under Secretary of State from 1961 to 1966, and Ambassador to the United Nations in 1968.

⁴ Apparently Peter G. Peterson, Assistant to the President for International Economic Policy and Executive Director of CIEP from 1971 until January 1972, and then Secretary of Commerce until February 1, 1973.

porting to the President. I talked to the President about that this morning. He was wild about the food paper. Isn't there something we can do? Can't we collect the papers after the meeting, or keep the group smaller?

Enders: It really does put the President in an impossible situation.

Kissinger: Yes, he has to take the heat for all the politically difficult positions and the other people grab the glory for the easy ones.

Enders: I suggest that we come back from Camp David and, you will be back on when, the 16th?

Kissinger: Yes, and I will have Simon with me. Between you, me, and Giscard d'Estaing, Bill, the President is not going to get a word in.

Enders: Well, let's get back on the 16th and get together with Simon, you and Rogers on the 17th and then take this directly into the President.

Kissinger: I have to testify on the Hill on the morning of the 17th; we can do it in the afternoon.

Simon: I am also testifying that morning.

Enders: We would have Morton, Zarb, and a paper.

Kissinger: Is that O.K. with you, Bill?

Simon: Yes.

Enders: O.K. then, Chuck and I and Parsky will scrub this up. One other issue. Should we decide now to spread out over the Congress on all of this?

Kissinger: No, not yet, it's too early. We'll look at this next week. I think Bill and I should initiate the process. Bill, we could get together with a large group of senators and congressmen. Let's get the policy to them. I could take the political point of view and Bill, you could make the economic case.

Enders: Arthur Burns could also be there.

Kissinger: Do we need him?

Enders: The only reason I suggested getting together now to decide how we will handle the Congress is a question of your time. It's going to be difficult for you.

Kissinger: I think this has to be kicked off at the Cabinet level. In the meantime, Tom, keep pushing the Europeans. Don't let them up for air. Go back at them on the \$25 billion.

Enders: Well, I am doing that, but I need a decision on this other issue.

Kissinger: Well, you and Chuck can work that out. Now, I would like three minutes of the Secretary of the Treasury's time. Are you free for a few moments, Bill?

Simon: Yes.

Meeting broke up at 6:40 p.m.

24. Memorandum of Conversation¹

Martinique, December 15, 1974, 10:50 a.m.–12:26 p.m.

PARTICIPANTS

Valéry Giscard d'Estaing, President of the French Republic
Jean Sauvagnargues, Minister of Foreign Affairs

President Gerald R. Ford
Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for
National Security Affairs
Lt. General Brent Scowcroft, Deputy Assistant to the President for National
Security Affairs

SUBJECT

Energy Cooperation

[At the beginning of the conversation the press was admitted briefly for photographs. The two Presidents engaged in small talk with the press. The press were then dismissed.]

Giscard: We will speak in English unless I have a particular problem.

I know that last winter and spring there was a problem in our relations, and I will not try to fix responsibility. There was the dispute over the energy organization. We were not a member, due to political circumstances, because we were on our own doing the same thing. It was also due to our producer relations. The producers are very violent against it as attempting to exert pressure. So our ministers went to work and I discussed the situation with Secretary Kissinger. Two things he reported to me: what to do about prices, and consumer cooperation.

So in my press conference I spoke of two things—how to adjust to the prices, and discussion with producers. I didn't mention indexation. Then the Nine supported our view, saying it had to be closely coordi-

¹ Source: Ford Library, National Security Adviser, Memoranda of Conversations, Box 8. Secret; Nodis. All brackets are in the original. The meeting was held in the Hotel Meridien.

nated with the United States.² We also had a positive reaction from the producers—Brazil, India, and the Arabs. This shows a desire for a kind of cooperation, with some problem of extending it to other raw materials. The producers don't want to seem the villain on the economic scene. They also want to talk about inflation and other materials. I said it is unrealistic to discuss it so broadly, but they wanted some mention of these things, not just oil.

I asked Sauvagnargues to call you. You were in Vladivostok. He couldn't, so he cabled before my talk.

We can't make an agreement without the support—not just the consent—of the United States. To go one step further, our view is there might be, at the end, some confrontation that is unavoidable. If the producers cartel is unyielding, we will not accept it. But this should come after the attempt to have discussions and cooperation. What is important is to show our desire to make agreement; and if this fails, we would be tough. The issues are: (1) to set up a consumer-producer conference, and (2) preparation between the consumers. To have a disorganized voice of the consumers would be very bad. We need to know what the structure would be, what the list of countries would be, and so on. Our suggestion is for a preliminary meeting for the producers, then a stage of two-to-three months for consumer preparation, and then a consumer-producer meeting.

President: I have always been a strong supporter of United States-French relations. Over the years we built a firm foundation, even though there were differences. One of the first important votes I cast in the Congress was for NATO. I believe the West depends on a strong Atlantic relation. I start from the basis that we have to work together, and with the other allies, broadened now to include Japan.

One thing which bothers Americans who are aware of this long relationship is the French actions and statements which seem to undercut U.S. positions and disparage the United States. We think that is not healthy.

You mentioned your consumer-producer suggestion. We understand the problem of timing, but that perception is not always conveyed to the United States. Also in the UN, we know we can't always be together but we would hope for a closer understanding. Having said that, we still have a close relationship.

² Giscard is referring to his October 24 press conference; see Document 12. The EC Summit was held in Paris December 9–10. Giscard's comments to the press on release of the communiqué are in telegram 29671 from Paris, December 11. The text of the communiqué is in telegram 29672, December 11. (Both in National Archives, RG 59, Central Foreign Policy Files, D740358–1103 and D740359–0073)

Giscard: To understand our relationship, we have to realize our relative size. It has been recognized since the 18th century. France was humiliated by the travails of its political system after World War II. When deGaulle came in he wanted to restore French dignity. That required antagonizing the major powers. For example: In the 1960's our ministers had to have visas to come to the United States, while American dignitaries came to Paris in American planes, and were met by cars, etcetera. When Kennedy was President, the United States press announced a new head of NATO, without any consultation. There was a de facto situation of inequality. French political life is especially sensitive to US-French relations. The Communists play on this issue.

Kissinger: It is compounded by the complexity of the French mind. I wish we were as clever as *Le Monde* thinks.

Giscard: So we have this compulsion for independence and self-esteem.

President: We have no interest in domination. We want cooperation, and those irritants should be eliminated so we can discuss substance.

Now on energy, first, price: Something has to be done. Second, there have been vast sums of dollars generated as a result of spiraling prices. The question is how to do it constructively. There are three steps: first, to have a consumer position. This is essential. We don't plan to go to a producer meeting for a confrontation, but we have to go to the meeting with a consumer position and an agenda. We do have to have substantive consumer solidarity. We need a high degree of solidarity before we sit down with the producers. Otherwise, some of our friends would be picked off individually—they have weaker positions and could be susceptible to producer suggestions which would undercut the positions of the U.S. and France and destroy the effort to resolve the problem. We don't need a document, but a consumer idea which gives us our strength to meet with the producers who are well organized. How can they complain when they themselves meet every three months, or oftener? They are forcing down our throats higher and higher prices while offering no solution to anything. It is in their interest to solve those two problems. I hope we can resolve this.

Giscard: I have no disagreement in substance with what you say—only in details. The producers are developing countries, with their frustrations, and they resent the consumer organization, not as their counterpart but as an attempt at economic warfare. When they speak of what you suggest—which is not aggressive—they talk of it as aggressive. It is a psychological problem. It is the interpretation given by the world community. If we agree that we will enter an agreement for a consumer-producer meeting, then an agreement among consumers is not aggressive. So the sequence should be that.

We are for stabilization and for restriction of the oil price, and are prepared to take a strong position on reducing dependence on imports. We are in favor of genuine exploration and cooperation.

Kissinger: There is a factual problem—the tendency when talking of the producers, to tend to think of Western-type bureaucracy. Abu Dhabi is far different from Iran. One can elicit different reactions from different countries. But never have the producers accused us of seeking confrontation—Saudi Arabia for example, or Iran. The producers tend to tell their interlocutors what they want to hear. At OPEC, a spokesman said he hopes the world would get on with an organization so a consumer-producer meeting could be held. Our experience is not that confrontation is feared.

Sauvagnargues: They tell me that strong consumer groups lead to confrontation.

Kissinger: I have seen Faisal five times and never has he spoken that way to me.

Sauvagnargues: The important thing is price and that can be solved only by consultation.

President: There are four things we should talk about: An agreement on conservation—on the concept itself and a decision on the amount. Second, the consumers should have a solid position on alternative sources. As you know, we have a massive U.S. program. It is essential for the industrial world. We need a procedure for sharing that technology. In the short range, what do we do in case of emergency? Again a plan is of common interest and requires consumer solidarity.

An agreement on these four things is essential before we sit down with the producers.

Sauvagnargues: I want to explain. At some point the price must be discussed. OPEC has just made another small increase, but have given nine months of essential price stability in the hope that within this time a dialogue can take place.³

Kissinger: It is essentially the same price, or maybe even, with inflation, a slight decrease.

³ At its 42nd meeting, held in Vienna December 12–13, OPEC adopted a new pricing system by which, according to its press release, “the average government take from the operating oil companies will be \$10.12 per barrel for the marker crude,” leading to the price increase mentioned by Sauvagnargues. In the press release, OPEC also announced: “The conference, recalling its previous position of welcoming dialogue, supports all initiative towards consultation between various groups of nations, among them developing countries and the industrialized nations, and condemns all actions and manoeuvres aimed at confrontation.” (Telegram 10378 from Vienna, December 13; *ibid.*, D740363–0219)

Sauvagnargues: President Giscard comes here with a sort of mandate to reconcile our positions. We agree with you on the consumer position, but need more explicitness on what you mean by it.

We can agree on consultation on conservation. But on developing new resources, that will take time. We want to have programs going in six-to-nine months and we can't stand a price increase in nine months. The prices won't go down by themselves. Maybe they won't anyway, but certainly they won't if we don't try.

Kissinger: We never thought that consumer solidarity would produce lower prices. Our concern is the economic consequences and the moral and political disintegration of the West. Consumer organization is a way to give the consumer nations a sense of control over their destiny. If the focus of preparation is on consumer-producer cooperation, we will push papers around like in CSCE, and there will be nothing coming out of it.

We want to build some real consumer cooperation on the issues we have outlined. France doesn't have to join IEA. On conservation, you are ahead of IEA. We can work out parallel paths. On the financial side, we would work within the Group of Ten. You are in that. We could ask your help with the Germans on this. On alternative sources—you have two. Time is required for implementation of alternative sources. We first want a start. Second, we would hope Europe would develop alternative sources as Europe. We are not trying to use alternative sources as a way to make Europe dependent on us. Emergency sharing I think we can work out satisfactorily. I think these can all be done in two months. We would think a target date of the end of June for the consumer-producer conference is possible. Our concern is that if we commit ourselves to this, talk will substitute for substance.

Giscard: In the first meeting, I am not trying to get a "victory."

President: I share that approach. The important thing is progress.

Giscard: I have two questions—how it relates to a possible confrontation and how it relates to cooperation in the West on energy. The part on conservation, we support. Alternative sources—some of our partners are not in good shape. They might prefer to deal bilaterally with the U.S. It is easier for them. On nuclear matters, for example. We need to work as a group on this and we need an indication of U.S. support. Your industry is much more advanced in alternative sources and we must be sure it doesn't give you further advantage.

The oil producers are weak—they have oil but they have to invest their oil. We could cooperate to give them some serious outlet for their money. We should study the question. The Swiss, for example, have done something. We could discuss a fund in the Group of Ten. There is confusion though. The Germans think this means it must be financed by producer money and passed out to consumers who have poorly

managed their countries. The funds would have to be for the oil-price impact, not to cover deficits from ill-managed economies.

The question of emergency measures is more difficult because it looks like confrontation. If there is a crisis, we would participate in joint action. But to announce it would look like confrontation. We can privately work something out without public participation.

On timing, June is a little late for a meeting. We will have had flat prices since September and a conference wouldn't be completed before a summer recess. We should be able to finish it before summer.

We can probably reach some consumer agreement over the next two months. But we need some preparatory measures at the technical level for a consumer-producer conference.

President: If it doesn't start with the assumption of consumer solidarity, what comes back is likely to break into differences which would affect the consumer-producer meeting. The impact of a position of solidarity aiming at a consumer-producer meeting, with preparation of the meeting to follow, seems a better approach. Our sequence is a consumer meeting, consumer solidarity, and a consumer-producer conference. We are not legalistic about the consumer cooperation—we want the substance.

Giscard: How do you envision it practically?

Kissinger: There will be a meeting of IEA next week.⁴ We will introduce ideas on conservation and alternative sources. In the Ten in January we will offer our proposals for financial measures. If the consumers move rapidly, we can agree on the main principles by the end of January. That is enough. Once we see consumer cooperation is going ahead we could move immediately into preparation for a consumer-producer conference. We just don't want to confuse the two. Whether the consumer-producer meeting is in June or April is not important.

Giscard: Are you ready to announce that a consumer-producer meeting is desirable?

⁴ The IEA Governing Board met in Paris December 18–19. Enders, the U.S. delegate, stressed that the group “must give serious attention to more rigorous conservation for 1975 both for obvious economic reasons” and to ensure that member countries were “in strongest possible position vis-à-vis the producers.” He also reiterated that the “consumer position on price question must evolve from consumer decisions on cooperative effort to reduce dependency on imported oil since these will have fundamental effect on medium-term supply/demand balance of OPEC oil.” A summary of the discussions as well as the Governing Board's formal conclusions on long-term cooperation and instructions to the Standing Group on Long Term Cooperation are in telegram 281468 to Tokyo and other capitals, December 24. (*Ibid.*, D740374–0780)

Kissinger: We don't want the producer conference used to wreck consumer cooperation. We can say we consider the principle of consumer-producer cooperation desirable if it is coupled with strengthened consumer cooperation. If it could be done this way, it would be okay.

Giscard: *Le Monde* would object! It doesn't like you or me!

Sauvagnargues: That is the core of the problem. We can start consumer cooperation now, but it will have to be strengthened over time. In fact, we have parallel actions. Couldn't we agree to use parallel courses by convening a preparatory conference, perhaps giving a slight edge to consumer solidarity? Parallelism is undeniable.

Giscard: What I don't see in your position is how different consumers could dissent from a joint position.

Kissinger: All it will take is for one producer to say that one position is contrary to the producers' interest to throw a monkey wrench into the consumers position. We need a concrete commitment for solidarity—otherwise we are better off bilaterally, unencumbered by the weaker countries.

Giscard: About conservation and alternative sources, what plan have you?

Kissinger: We have the general concern, based on experience, that we will keep hearing this is an instrument of confrontation, etc. and constantly more reasons not to proceed. If the consumers are totally dependent on what the producers think—like Iraq—it will weaken the West. We want rapid implementation of consumer solidarity, then rapid preparation for a conference.

Giscard: We are ready to have studies and conversations on views which we think are close to yours. We don't see the problem.

Kissinger: It is based on the experience of the last year.

President: If we get consumer positions first, it forces quick completion of action.

Giscard: Suppose we agree on the principle of a conference for spring and that this is preceded by consumer-producer preparation, and before that actions by consumers sufficient to guarantee cooperation. But we are not included in this structure. How would that appear?

Kissinger: That general formulation we could accept. We would express it in a way which would include France.

Giscard: We are not trying to hamper your efforts with the countries you are trying to organize. I don't know what Schmidt told you⁵ but we will not try to complicate your actions—but we are out of it.

⁵ See Document 22.

Your problem is with the partners of your agreements. We have no objection—except for joint European action for the substance. I am ready to say we will discuss with the Group of Ten about finances. So the distinction applies to your own actions.

Kissinger: And to the time. We can't proceed to prepare until we have a commitment to solidarity.

President: A commitment to solidarity is mandatory if we are to sit down to meet with the producers. If we get that with IEA and in parallel with you, it will be okay. We don't seek victory, but substance, and we think this will do it.

Giscard: Why are you so interested in France joining the agencies? If we were opposed to it, I would understand, but we aren't.

Kissinger: We haven't asked France to join.

Giscard: But our partners are.

Kissinger: That is between you.

Sauvagnargues: Not recently, but it was in the beginning. But it puts our partners in a difficult position to have one outside.

Kissinger: We are interested only in the substance, not in the legal form.

On the financial side, we and you agree more than we do with the Germans.

On alternative sources, we will encourage European cooperation as long as we agree on the program. It can be a vehicle for European cooperation.

Giscard: The procedure could be in four stages: First, to complete efforts for cooperation among the consumers and within the Group of Ten.

Kissinger: You could help with that.

Giscard: Yes. We would be a little out of the picture. Second would be the technical stage of talks with producers to see what questions would be discussed. Third would be concrete discussions among the consumers. Fourth, the conference, but not too late so it comes close to the OPEC meeting on prices.

Could this be expressed in the document?

Sauvagnargues: Yes, but I have a question about stage one. How long would it be?

Kissinger: If there is good faith by all sides and it is in the common interest, all this should be completed by the time of the conference. If there is obstructionism, then it would be delayed. We can't guarantee that.

Sauvagnargues: But if we could put it into a specific time limit.

Giscard: Like before the summer . . .

Kissinger: We can express it as a hope. It is a tactical question, whether we should be pushed by the producers.

Giscard: In the document, we are not required to agree. We could express differences on the timetable.

Sauvagnargues: In terms of the communiqué, we could put in the two thoughts—consumer solidarity and consumer-producer talks.

Giscard: The rights of the consumers to organize the issues as an objective from their own side.

Sauvagnargues: I have a paper here. [He reads a draft.]⁶

Kissinger: I like the President's formulation better. If we could use the four points that the President made, to work them into a statement.⁷

⁶ The paper is not attached and was not found.

⁷ The December 16 communiqué released at the close of the Martinique meeting declared that Ford and Giscard "stressed the importance of solidarity of oil importing nations" and announced that the two Presidents had agreed that these countries should take additional steps "within the framework of existing institutions and agreements to which they are a party, and in consultation with other interested consumers, to strengthen their cooperation" in areas such as conservation, financial solidarity, and the development of existing and alternative energy sources. Only after the oil-importing nations achieved "substantial progress" in these areas did Ford and Giscard agree that it would be "desirable" to hold "a preparatory meeting between consumers and producers to develop an agenda and procedures for a consumer/producer conference," the target date for which was March 1975. The full text of the communiqué is in *Public Papers of the Presidents of the United States: Gerald R. Ford, 1974*, pp. 754–757.

25. Memorandum From Director of Central Intelligence Colby to the President's Assistant for National Security Affairs (Kissinger)

Washington, December 16, 1974.

[Source: Central Intelligence Agency, Executive Registry Files, Job 80–M01009A, Box 31, Folder 466. Secret. 3 pages not declassified.]

26. Minutes of the Secretary of State's Staff Meeting¹

Washington, December 20, 1974, 8–9:02 a.m.

[Omitted here is discussion unrelated to energy.]

Secretary Kissinger: Which reminds me: I would like a very clear instruction sent to the members of the IEA of what the opposition is. There will be no work whatsoever on a preparatory meeting until consumer solidarity is further developed. The United States will not participate in any form whatsoever in consumer-producer preparation until solidarity is further advanced. There will be no March meeting, no preparation for a March meeting—no discussion of a March meeting.

Mr. Hartman: There's a difference between preparing for that meeting and going on with the work already started with the IEA. There's a subcommittee started dealing with consumer-producer relations.

Secretary Kissinger: That does not become the only expression of consumer-producer solidarity. Apparently it is not internal. You know, among the confidential cable levels, the top level that I get. (Laughter.) There is one by Hermes, or whoever that fellow is.

Mr. Hartman: Well, Hermes is a French—

Secretary Kissinger: There's not going to be any misunderstanding. There's going to be a cable today in which everybody is clearly informed on what the opposition is on the consumer-producer subcommittee of the IEA;² we will not drag our feet. We will handle it in our normal bureaucratic channels. That means Hermes can't touch it on the consumer-producer cooperation until there's more producer [*consumer*] cooperation.

Mr. Katz: Eward is the chairman of that group.³

¹ Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, Lot 78D443, Box 2, Secretary's Staff Meetings. Secret. Kissinger presided over the meeting, which was attended by all the principal officers of the Department or their designated alternates.

² In telegram 279263 to Ankara, Bern, Bonn, Brussels, USEC Brussels, Copenhagen, Dublin, London, Luxembourg, Madrid, Ottawa, Paris, USOECD Paris, and Rome, December 20, the Department instructed: "All Missions should understand clearly that sequential staging toward consumer/producer conference requires establishment of consumer solidarity prior to undertaking preparations for either preparatory meeting or for ultimate conference. The United States will not rpt not attend a preparatory meeting with producers until we have clear consumer decisions and programs with regard to conservation, new supplies, and financial solidarity. This position was expressed by President and Secretary to French and repeated to IEA Governing Board December 18/19." (Ibid., Central Foreign Policy Files, D740371–0467)

³ John Wilton of the United Kingdom was Chairman of the IEA's Standing Group on Producer-Consumer Relations.

Secretary Kissinger: So you're guaranteed that nothing is said. (Laughter.)

Mr. McCloskey: 48 hours. (Laughter.)

Secretary Kissinger: Art, are you sure you understand the strategy?

Mr. Hartman: I understand it perfectly. There's a lot of work to be done though, and the work has to go forward.

Secretary Kissinger: The work will be done after consumer cooperation is advanced. Anybody that wants to get energy or anything is going to work on consumer cooperation now.

I better get a paper that tells me what's going to be done in what time frame.⁴ I tell you: I'll just have to pull us out of a producer-consumer meeting until I'm satisfied there's consumer cooperation. We will not yield on that; we will not compromise on that.

Mr. Hartman: The biggest problem there is no trouble achieving progress in the conservation field, providing the U.S. has a program.

Secretary Kissinger: There will be progress on the financial facility. The big problem there is not one of wanting to go to a producer meeting. It's Schmidt and the 25 billion dollars; that will be what will hold it up. If Schmidt doesn't yield, we're not going to get a producer conference. It's our best card, and we're going to play it hard. And will you make sure that is made clear to the Germans in a tactful way (addressing Mr. Hartman)?

Mr. Hartman: Yes, sir.

Secretary Kissinger: They will all want to substitute talk for action. And then there will be nothing but talk at the producers conference.

[Omitted here is discussion unrelated to energy.]

Secretary Kissinger: You better make clear to the French so that there will not be a misunderstanding. We will not participate in anything until there is greater consumer solidarity. We don't want the Martinique thing⁵ to disintegrate.

Mr. Hartman: No.

Secretary Kissinger: If they want to have a March preparatory meeting, then the best road to it is to help us speed up consumer solidarity, and then we will work with great energy on the preparatory meeting. You and EB and your shop can prepare an agenda⁶ for this—

Mr. Katz: Yes, sir.

⁴ No paper was found.

⁵ See Document 24.

⁶ Not found.

Secretary Kissinger: —to make sure of what we can achieve in a preparatory meeting so it doesn't turn into a non-substantive meeting.

Mr. Katz: How are we going to bring the French into the consumer solidarity, Mr. Secretary? Brunet told our Embassy in Paris yesterday what their guidance was, to their posts abroad;⁷ and they said for those countries who are members of the IEA, consumer solidarity will be worked on in the IEA. For other countries it will be in the OECD.

That, I think, is not the approach that I think we'd like to pursue.

Secretary Kissinger: What road would you like to pursue?

Mr. Katz: Well, somehow dealing with the French bilaterally. Either having—

Secretary Kissinger: Well, there was no clear decision, but my impression was that the latter would be the road—that the French would, in parallel.

Mr. Katz: Right.

Secretary Kissinger: In fact, the French said they would make a secret agreement on the IEP, if necessary—if you can keep them now.

Mr. Hartman: Yes. I think that's the best way to do it—to have it formally in his hands, while we keep also our bilateral contacts with him, so we make sure we know what's going on.

Secretary Kissinger: I agree, because otherwise we're going to have the whole problem again.

Mr. Sonnenfeldt: We've given very hard guidance, on the basis of the phrase in the communiqué.

Secretary Kissinger: Yes, but there's going to be a great desire of many people to fuzz up the issues.

Mr. Hartman: Since I got back, I've told them that is our position; and I've told them in exactly what fields we want to have agreements on the program.

Mr. Sonnenfeldt: But that, as a matter of fact, everything thinks is the easiest—the French.

⁷ In telegram 30441 from Paris, December 19, the Embassy reported the "substance" of the French Foreign Ministry's guidance telegram on the economic elements of the Martinique communiqué. Its subjects included financial solidarity, the March target date for a preparatory conference, the close contact to be maintained among consuming countries between a preparatory conference and a producer-consumer conference, monetary questions, and economic coordination. It noted that consumer cooperation was "a condition to which the U.S. attaches great importance and one which we will find all the easier to satisfy because, as we have proposed, the EC will participate in the conference as a single entity, thus assuring that the views of the Nine will be carefully concerted." It also explained that the forum for consumer consultation would be the IEA, and for those countries that did not belong to the IEA, the OECD would serve as a coordinating body. (National Archives, RG 59, Central Foreign Policy Files, D740369–0364)

Mr. Hartman: No. We're going to have trouble with the Germans.

Secretary Kissinger: I think we can bring them around.

Mr. Katz: We have a proposal for you on Schmidt.⁸

Secretary Kissinger: Which is what?

Mr. Katz: This is by Burns.

Secretary Kissinger: But on which side of this debate is Burns?

Mr. Katz: I think he's on our side.

Mr. Ingersoll: He's on our side. He's committed to it.

Mr. Katz: But for guarantees, not for loans.

Mr. Hartman: Their problem is the appropriation of funds.

Secretary Kissinger: Yes, I know, but we need a mechanism for financial cooperation.

Even if this one is not ideal, we can then use it for other purposes, once it exists.

Mr. Hartman: You will see Walter Levy⁹ on Monday.

Secretary Kissinger: What makes you think I'm going to see Walter Levy on Monday?

Mr. Hartman: He told me. The whole Bundy group.¹⁰

Secretary Kissinger: Walter Levy is going to stay out of any diplomatic negotiations. He's an oil concern.

Mr. Hartman: Well, the proposal he will put forward is that we try for something like a one-year agreement.

Secretary Kissinger: You can tell Walter Levy not to advise us on oil, will you? We don't need a negotiator.

Mr. Sonnenfeldt: Giscard did tell, in the negotiations, he would talk to a U.S. representative—according to Giscard's press conference in Martinique.

Secretary Kissinger: Well, he's your consultant (addressing Mr. Robinson). Will you tell him if he doesn't? (Laughter.) If he gets out into the oil field again we're going to have to cut him off. I don't want to

⁸ Not found.

⁹ A well-known independent oil consultant who began writing about the international petroleum industry in the early 1940s. He became a White House and NSC consultant during the Carter administration.

¹⁰ No record of this meeting has been found. On January 10, 1975, Kissinger met with this group, which included McGeorge Bundy, President of the Ford Foundation and Assistant for National Security Affairs to Presidents Kennedy and Johnson; Hollis Chenery, Vice President of the World Bank; and Robert Roosa, Under Secretary of the Treasury for Monetary Affairs under Presidents Kennedy and Johnson, to discuss consumer-producer relations and the world economy. (Memorandum of conversation, January 10; National Archives, RG 59, Records of Henry Kissinger, Lot 91D414, Box 10)

hear any compromises. If this thing is worth doing, it's worth doing for two years.

I think it's just playing games. It's like these Congressional things. If Schmidt is going to do it, he's going to do it for two years as well as one year.

His hangup is the one you've described; it isn't the length of time. There's absolutely no sense in looking for some gimmick to get Schmidt around it. Schmidt has to make some decision on whatever steps he has to take.

Mr. Katz: As we presented the plan originally, it was loans by governments, or governments directly borrowing or directly guaranteeing borrowing in the markets.

Secretary Kissinger: Look, Schmidt's attitude was disgraceful. Basically, he said: "Let Britain go down the drain. If the Arabs don't help them, the hell with them." And then he wails at the political morals of the West. And I think he's got to come along, and he will come along. If Giscard brings pressure on him, he will come along. But we don't need Walter Levy offering a compromise for one year. For God sakes, that we can do by ourselves: And I don't think our decision depends on it—if we're good at it. (Laughter.)

No—it's absolutely senseless. Do you think it depends on the length of time?

Mr. Hartman: No. I think he's got to make a basic decision.

Secretary Kissinger: If Schmidt does it, he will do it for two years. If it isn't for two years it will do it—if it gives us a financial structure. Once the financial structure exists, we can use it for other purposes.

Mr. Sonnenfeldt: He's got to try and find something to get around this extra appropriation problem.

Secretary Kissinger: Well, that's his problem—once he makes up his mind he can do it. We're haggling over price; we're not haggling over the principle. And it's absolutely senseless to give too many wrong signals.

Can somebody talk to Levy?

Mr. Hartman: You will be the first one to see him. He's in Florida at the moment.

Secretary Kissinger: All right. Somebody better take him aside then and tell him if I catch him once more representing himself as talking for us, I'll have to separate him from it.

Mr. Katz: All right.

[Omitted here is discussion unrelated to energy.]

27. Telegram From the Department of State to the Embassy in Iran¹

Washington, December 24, 1974, 0538Z.

280710. Subject: Message to Major OPEC Governments.

1. Ambassador is requested to transmit following message from the Secretary to the Shah. FYI: Separate messages along similar lines are being sent to Algiers, Caracas, Jakarta, Jidda, Kuwait and Lagos.²

2. *Begin text.* Your Majesty:

3. I wish to share with you a few reflections on developments in energy which have occurred since our conversation in Tehran.³ Since the start of the energy crisis both producers and consumers, including my own country, have believed that at some point it would be helpful and desirable to supplement intensive bilateral contacts between producers and consumers with some form of multilateral contact. All of us sense that the time for such multilateral contact is drawing nearer.

4. During recent discussions at Martinique, we and the French reached agreement on a proposed approach to such multilateral contacts, an approach which has subsequently been endorsed by members of the International Energy Agency. This approach stipulates that consumer decisions on conservation, the development of alternative supplies of energy, and financial solidarity will be taken in a first phase. Thereafter will follow a preliminary meeting of representatives of producers and consumers to discuss agenda and procedure, intensive preparation of common positions, and the holding of a producer/consumer conference.

5. We have stressed the necessity of strong consumer decisions as the indispensable first step in this process because we believe that without them the objective conditions for success of a multilateral dialogue between producers and consumers do not exist. A failed conference would be seriously detrimental to all of us. Both these points, I believe, correspond to views which you have so eloquently and forcefully expressed in public and in private during the past year.

¹ Source: Ford Library, National Security Adviser, Presidential Country Files for Middle East and South Asia, Box 13, Iran—State Department Telegrams from SECSTATE–NODIS (2). Secret; Immediate; Nodis. Drafted by Paul D. Taylor and Lawrence R. Raicht (EB/ORF/FSE); cleared by Enders, Sonnenfeldt, and Atherton and in AF and EA; and approved by Kissinger.

² Telegram 280711 to these capitals, December 23. (National Archives, RG 59, Central Foreign Policy Files, [no film number])

³ Kissinger was in Iran November 1–3. The joint communiqué issued at the conclusion of his visit is in telegram 9236 from Tehran, November 1. (Ibid., D740313–0826) See also *Foreign Relations*, 1969–1976, volume XXVII, Iran; Iraq, 1973–1976, Documents 87–89.

6. That is not to say that we believe that the consumers alone can solve the energy crisis, or that we think that it can be approached most effectively on a bloc to bloc basis, or above all, that we seek a confrontation with the producing countries. Confrontation between producers and consumers would serve the interest of no one except the Soviets. And there is clearly no way in which the energy crisis can be solved without the full and open cooperation of all major producers and consumers. In this regard, I think it important that our own bilateral dialogue be deepened and enriched in every possible way. As one step in that direction, I have asked former Secretary of the Treasury George Shultz, who has the complete confidence of the President and myself, to conduct the conversation on various aspects of the energy problem which we talked about in Tehran. He is prepared to visit Tehran, or elsewhere if that were more convenient, at a time acceptable to you.

7. Within our own government, President Ford is now completing a series of major decisions on domestic energy policy.⁴ We expect these decisions to be announced towards the end of January, probably in a speech immediately after the State of the Union message. I believe they will make a significant contribution to the solution of the world energy problem.

8. Your Majesty, in conclusion let me say how pleased we are to learn of the important new measures you plan to help meet the world food crisis. Ambassador Helms informs me of your decision to pursue vigorous measures, notably in the field of fertilizer production in the region, to help alleviate the threat of famine in neighboring countries. This cooperative effort can become a central feature of the work of the Joint Commission in forthcoming months.

9. With warm regards, sincerely, Henry A. Kissinger. *End text.*

Kissinger

⁴ Following a December 14–15 meeting of Ford's economic and energy advisers at Camp David, Enders reported to Kissinger: "Group agreed to recommend to President three phased policy: (A) By end 1977 achievement of two million barrel a day savings, through demand restraint and demand management measures (this goal would overtake but not replace the one million barrel a day goal for end 1975; under most of the recommended scenarios we could come relatively close to but not achieve the one million barrels a day by end 1975, depending on how rapidly Congress acted); (B) By end 1985 achievement of capacity for full national self-sufficiency (this would mean the basic goal of no more than one million barrels a day imports set in your Chicago speech, augmented by storage capacity equivalent to up to three million barrels a day for a year). (C) Before the end of the century, reestablishment of the U.S. position as a net energy exporter both through new technology and through hydrocarbons." (Telegram Tosec 21 to Kissinger in Martinique, December 16; Ford Library, National Security Adviser, Presidential Subject File, Box 4, Energy (5))

28. Telegram From the Department of State to the Embassy in West Germany¹

Washington, December 24, 1974, 2228Z.

281378. Subject: Presidential Message to Chancellor Schmidt. Embassy requested transmit following message from President Ford to Chancellor Schmidt:

1. "Dear Mr. Chancellor: As I mentioned in my previous letter,² we and the French reached some understandings in Martinique on the elements of consumer country collaboration necessary before we can move on to subsequent steps. Progress on financial cooperation is of particular concern to us at this time. In all frankness I must tell you that I do not believe that the United States will be in a position to participate in a consumer-producer meeting until the consumers have established their solidarity in the financial field.

2. The Group of Ten Working Group has made some progress on resolving the issues necessary to enable us to make a final decision on financial cooperation among participating OECD countries. As I mentioned in Washington, however, I am convinced that a satisfactory outcome depends very much on the fullest possible exchange and understanding of views between your government and mine.

3. I hope, therefore, that we can remain in close contact on the remaining major issues that need to be resolved to assure that any new facility meets its objective of underpinning the economic health and cooperation of the industrial democracies. I have particularly in mind the questions relating to the size of the facility, the respective national quotas and the form of national commitments (loans, guarantees or some combination of the two).

4. I would like to have Arthur Burns discuss these questions with you on my behalf and would be grateful if you could meet with Arthur in Bonn for this purpose during the early part of January.³ With regard to this task of effective financial cooperation, as well as related en-

¹ Source: Ford Library, National Security Adviser, Presidential Correspondence with Foreign Leaders, Box 2, Germany (FRG)—Chancellor Schmidt (1). Secret; Immediate; Nodis. Drafted by Katz and approved by Kissinger.

² On December 16, Ford sent a letter to Schmidt to inform him about his talks with Giscard in Martinique. (Telegram Secto 21 to Bonn; *ibid.*) The memorandum of the December 15 meeting between Ford and Giscard is Document 24.

³ Burns met with Schmidt in Hamburg on January 11, 1975, and reported that the Chancellor accepted entirely the political concept underlying the U.S. plan for a financial safety net and would endorse it. Schmidt also felt that "speedy movement" on the plan was necessary. (Telegram 42 from Hamburg, January 11; National Archives, RG 59, Central Foreign Policy Files, P850104-1539)

deavors to secure the strength of our economies and our alliance, you can be assured of my fullest cooperation in the pursuit of solutions that serve our mutual interests. With warm regards, Gerald R. Ford."

Kissinger

29. Memorandum From Director of Central Intelligence Colby to the President's Assistant for National Security Affairs (Kissinger)

Washington, January 2, 1975.

[Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 22, Saudi Arabia (1). Secret; Sensitive. 5 pages not declassified.]

30. Editorial Note

On January 3, 1975, *The New York Times* reported that Secretary of State Henry Kissinger, in an interview with *Business Week* magazine shortly before Christmas, said that he could not rule out the use of force against oil-producing nations. He made clear, however, that such action "would be considered only in the gravest emergency." "I am not saying that there's no circumstances where we would not use force," he said, "but it is one thing to use it in the case of a dispute over price; it's another where there is some actual strangulation of the industrialized world." Asked about the interview, Kissinger remarked: "I have said it would not come to that point, and that the oil problem would be dealt with by other methods," but he reiterated that "there's no circumstances where we would not use force." The December 23 *Business Week* interview was reprinted in Department of State *Bulletin*, January 27, 1975, pp. 97–106.

The Embassy in Saudi Arabia reported that King Faisal and the Saudi Government were "disturbed" by the "threatening implications" of the statements that Kissinger made during the *Business Week* interview. A Royal adviser told Ambassador James Akins: "This represents a complete change in American policy and we must therefore revise

our own policy toward the United States." Akins responded that there was "no change" in U.S. policy and that he "had made the same statements" himself in a *Foreign Affairs* article 2 years before. He also reminded the adviser that he had declared, both publicly in the United States and privately in Saudi Arabia, that "invasion would be madness but when countries are reduced to desperation they take 'mad' actions." To help alleviate Saudi concerns, Akins requested additional information from the Department or a message from the Secretary. (Telegram 32 from Jidda, January 4; National Archives, RG 59, Central Foreign Policy Files, D750004–0636)

The Ambassador sent another telegram the following day informing the Department that Minister of Petroleum Sheikh Ahmad Yamani told him that the King was "depressed and worried by 'American threats' against Saudi Arabia." Yamani also said that he had never seen the King "so worried and so questioning of his relationship with the United States." Later that day, the King himself told Akins that he was "extremely disturbed" by the "series of 'American threats' against Saudi Arabia" that culminated in the *Business Week* interview. As for the prospect of occupying the Saudi oil fields, Yamani said that doing so would be "very difficult," that the fields could be "sabotaged easily," that a "'quick surgical operation' would be impossible," and that the result would be the "loss of Saudi production for years." Akins believed, however, that Saudi officials would "calm down" once they digested the Arabic translation of the complete text of Kissinger's statements. That said, he also thought that the Kingdom would be "stirred up again" when the next newspaper or magazine article reported that the United States proposed occupying Saudi Arabia or any other oil-producing country. (Telegram 67 from Jidda, January 5; *ibid.*, D750004–0773)

On January 8, the Department instructed Akins to tell the Saudi Government that the question about military action "arose with specific relation to oil prices," and that the Secretary "made it clear that we did not consider military action to be an appropriate response to oil prices." The Department also instructed the Ambassador to point out that the question itself was a hypothetical one regarding a "deliberate attempt" by oil producers to "strangle the industrialized world"—the "gravest emergency"—which Kissinger said did not apply to the "present situation," adding that he "did not foresee such a situation arising." The Department told Akins to point out that Kissinger never mentioned the possibility of an invasion of Saudi Arabia in particular, and that he had highlighted the "importance of maintaining the relationship of friendship between Saudi Arabia and the US." (Telegram 1955 to Jidda; *ibid.*, D750004–0717)

Kissinger replied personally in a note to Prince Sultan regarding the *Business Week* interview (telegram 7266 to Jidda, January 11; *ibid.*,

P850106–2309), a gesture for which the Prince expressed “deep appreciation.” Sultan also said that he hoped that the Secretary’s note, and a similar note from President Ford to King Faisal (telegram 7265 to Jidda, January 11; *ibid.*, P850106–2304) would result in “calming passions” in other Arab capitals. (Telegram 283 from Jidda, January 14; Ford Library, National Security Adviser, Presidential Country Files for Middle East and South Asia, Box 29, Saudi Arabia—State Department Telegrams to SECSTATE–NODIS (3))

Although U.S.-Saudi tensions over the interview had dissipated by mid-January, Yamani warned Akins that the Saudi National Guard “had orders to prepare to blow up certain sensitive sections of the Saudi oil fields and to fire certain wells should there be concrete plans to invade and occupy them.” Yamani added that “there had been inter-Arab discussion on the matter and any invasion would be followed by cutoff of all Arab oil.” (Telegram 251 from Jidda, January 13; *ibid.*, P850106–2311)

31. Telegram From the Department of State to the Embassies in the OPEC Capitals¹

Washington, January 13, 1975, 1757Z.

7457. Subject: Secretary’s Message to OPEC Governments. Ref: Doha 0021 (Notal); Abu Dhabi 0047 (Notal).² Beirut pass Baghdad for action.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D750013–0012. Confidential; Exdis. Drafted by George Q. Lumsden (NEA/ARP); cleared by Katz and in NEA, EB, ARA, and EUR; and approved by Sisco. Sent to Abu Dhabi, Doha, Tripoli, Beirut, and Quito, and repeated to Algiers, Caracas, Jakarta, Jidda, Kuwait, Lagos, and Tehran.

² In telegram 21 from Doha, the Embassy reported that Issa Kawari, Qatar Minister of Information, Chief of the Emir’s Office, and Acting Foreign Minister, asked “about press reports that Secretary had sent letters to five oil producing countries concerning proposed producer/consumer conference” and “expressed personal disappointment that Qatar did not rpt not receive letter.” (*Ibid.*, D750006–0211) In telegram 47 from Abu Dhabi, the Embassy reported increasing concern that the Department was “not doing enough to give UAEG timely briefings” on “developments in U.S. policy that are of vital concern” to the UAE. The Embassy also requested “guidance which could become basis for oral briefing” to the Ministers of Petroleum and Foreign Affairs. (*Ibid.*, D750007–0654)

1. On Dec 24, Secretary sent letters to seven OPEC governments³ (those listed as info addressees to this cable) which included outline of possible timetable and approach to multilateral producer/consumer conference. This proposal stemmed from agreement reached between Presidents Ford and Giscard d'Estaing during their Dec 14–16 meetings in Martinique. Secretary has, since that time, sent no rpt no subsequent messages on this subject to other OPEC governments. (N.B. At its discretion, Embassy Doha may wish to set record straight with Kawari: neither Qatar nor UAE was an original recipient of Secretary's letter.)

2. However, as result attention media have given Secretary's message and in awareness of sensitivities of other OPEC states such as those noted in reftels, action addressees are, at their discretion, authorized to make oral approach to their host governments at appropriately high level and to leave following aide-mémoire:

3. Following standard opening: "Ever since the start of the energy crisis and the Washington Energy Conference, many governments, including the United States, have felt that it would be useful at the right time and with the right preparations to supplement the intensive bilateral consultations that now exist between oil producing and oil consuming countries with some form of multilateral dialogue.

4. "Recent discussions between the United States and France in Martinique resulted in an agreement on a possible timetable and approach to such multilateral contacts, a proposal which has now been endorsed by the members of the International Energy Agency. Under this approach there would be a four phase schedule: first, basic decisions by the consumers on conservation, development of new sources of energy and financial solidarity; second, a meeting among representatives of producers and consumers to discuss the procedures and agenda for a conference; third, intensive preparation of common positions for that conference; and fourth, the conference itself.

5. "Particular stress has been placed on the need for major energy and financial decisions by the consuming countries in advance of the proposed conference because a failed conference would be seriously detrimental to all, consumers and producers alike. That is also a view expressed by many representatives of producing countries, who have repeatedly stressed the importance of conservation of energy, the development of new sources, and financial stabilization.

6. "Although preparation among consumers is thus necessary in advance, it should be stressed that the objective is cooperation, not confrontation. It is not intended that all contacts between producers and consumers be conducted as a bloc to bloc dialogue. On the contrary, the

³ See Document 27.

United States would like to strengthen its bilateral contacts with oil producing governments over the coming months so that cooperative efforts to solve the international oil crisis can be made more effective.

7. “President Ford is now completing a series of major decisions on domestic energy policy. These decisions will be announced in January. They are expected to make a significant contribution to the solution of the world energy problem.

8. “Over the coming months, the Government of the United States looks forward to keeping in close contact on these issues with the governments of OPEC states.” Complimentary close.

9. Please report host government reactions.

Kissinger

32. Minutes of Washington Special Actions Group Meeting¹

Washington, January 14, 1975, 10:42 a.m.–noon.

SUBJECT

Middle East

PARTICIPANTS

Chairman—Henry A. Kissinger

State

Robert Ingersoll

DOD

William Clements

JCS

Gen. George S. Brown

CIA

William Colby

NSC

Lt. Gen. Brent Scowcroft

Jeanne W. Davis

[Omitted here is discussion unrelated to oil. For this first portion of the minutes, see *Foreign Relations*, 1969–1976, volume XXVI, Arab-Israeli Dispute, August 1974–December 1976, Document 126.]

[Secretary Kissinger:] We need a contingency assessment of what happens in an Israeli-Arab war if the Russians want to play it rough. Have the Russians the capability of launching missiles with high explo-

¹ Source: Ford Library, National Security Council, Institutional Files, Box 24, WSAG Meeting Minutes, January 1975. Top Secret; Sensitive; Codeword. The meeting took place in the White House Situation Room.

sive warheads from Syrian territory? Suppose they wanted to raise the ante during a war?

Mr. Colby: They could.

Secretary Kissinger: The Russians have never played up to their full capability in a crisis. Suppose they do.

Mr. Clements: The Israelis, after they have had time to think about it, wouldn't be too excited about F-4s in Saudi Arabia. They would be a stabilizing influence. It's possible the Russians would move into Iraq. The most excited person would be the Shah.

Secretary Kissinger: The Shah may not like it, but he is manageable. He's nothing like the Israelis.

Mr. Clements: I think the Shah would go up the wall.

Mr. Colby: The Shah would think he could control the situation through us.

Secretary Kissinger: Bill's (Clements) argument might carry weight with the Shah but not the Israelis. There would be no chance of selling it to them, but that doesn't mean we shouldn't consider doing it. If we face the total oil embargo of the West, we have to have a plan to use force. I'm not saying we have to take over Saudi Arabia. How about Abu Dhabi, or Libya?

Mr. Clements: We want to get you over to the JCS think tank.
[2 lines not declassified]

Gen. Brown: [1 line not declassified]

Secretary Kissinger: You'd have trouble convincing Faisal.

Mr. Colby: He doesn't have to know.

Secretary Kissinger: I was joking. Faisal would be thrilled by F-4s.

Mr. Clements: We can do it [less than line not declassified].

Secretary Kissinger: Maybe. Why not Abu Dhabi?

Mr. Clements: They have no reserves and no production facilities.

Mr. Colby: You're talking about providing oil to Europe and Japan, not the US.

Mr. Clements: [1 line not declassified]

Mr. Ingersoll: Iran has a lot.

Mr. Clements: That's a different horse.

Secretary Kissinger: We're talking about something that hopefully won't last more than six months to a year. If we assume that Iranian supplies would continue and we concentrate on one country, which one should it be?

Mr. Clements: Saudi Arabia.

Mr. Colby: [2 lines not declassified]

Mr. Clements: [2 lines not declassified]

Mr. Ingersoll: How long would it take to restore the facilities if they were destroyed?

Mr. Colby: Three months.

Secretary Kissinger: They won't destroy them.

Mr. Ingersoll: Did you see the Yamani telegram?²

Secretary Kissinger: Yamani has the Americans psyched.

Mr. Colby: It could isolate Saudi Arabia from the Arabs.

Secretary Kissinger: (to Mr. Clements) I'll come over and look at your material. (to Gen. Scowcroft) Arrange it for next week.

Mr. Colby: May I come?

Mr. Clements: Sure.

Secretary Kissinger: We will have to have an NSC meeting on that subject.

Mr. Colby: When? I would like to get the Russian estimate done before the meeting.

Secretary Kissinger: Can you get it done by the end of next week. We won't have an NSC meeting for two weeks.

Mr. Colby: We can try.

Mr. Clements: (to Secretary Kissinger) I need to talk to you about POL. We're roughly 10 million barrels short in our storage facilities. We have located plus or minus 18 million barrels of storage scattered around in the Mediterranean, Singapore, etc. It is strategically located and we can rent it on a short-term lease for about a year. We need badly to get those filled.

Secretary Kissinger: How much are we down?

Mr. Clements: Our normal storage is 93 million barrels—we have 83 million. We have never recovered to the pre-hostilities rate.

Secretary Kissinger: What will it cost to fill them up?

Mr. Clements: Plenty; around \$350 million. We need to ask the Congress for it. We have to make them understand the possibilities and their responsibilities.

Secretary Kissinger: I will raise it with the President tomorrow morning.

Mr. Clements: Great.

² Presumably telegram 251 from Jidda; see Document 30.

33. Telegram From the Department of State to the Embassy in France¹

Washington, January 15, 1975, 0512Z.

9370. Subject: Presidential Letter. For the Ambassador. Please deliver the following letter from President Ford to President Giscard d'Estaing at the earliest opportunity on January 15 and in any event prior to noon Washington time.²

Begin text

Dear Mr. President:

This Wednesday, in my State of the Union Address, I will formally present policies to meet the economic and energy challenges which are of major importance to the United States and to the international community.³ I shall, at that time, make a number of detailed proposals, many of which I outlined in my speech to the American people on Monday night.⁴ I write you in the spirit of collaboration that animates our relations to share my thoughts on these new measures.

Our countries and our key trading partners have recently been struggling with unemployment, inflation, and energy shortages. There are, as we know, no easy answers to any of these problems, singly or in combination, but it is clear that we cannot afford to address one aspect of our difficulties while ignoring the others. Moreover, each country must act to achieve a balance consistent with its priorities and its particular economic circumstances while recognizing it must act in a manner which furthers rather than harms the economic well-being of other countries.

My policies aim to deal directly with the economic slowdown we now face without triggering the major inflationary pressures which might result from an overly expansionary policy. A tax cut, along with measures to stimulate investment, should reinvigorate the U.S. economy and improve confidence. Under present conditions we believe it will not restimulate the inflationary spiral.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P840083–0869. Secret; Niact; Immediate; Nodis; Cherokee. Drafted in the White House.

² In telegram 1131 from Paris, January 15, the Embassy reported that, since Giscard was at a Council of Ministers meeting all morning, Ford's letter was delivered to the Deputy Secretary General. (Ibid., P850038–2604)

³ The text of the address, which the President delivered on January 15, is in *Public Papers of the Presidents of the United States: Gerald R. Ford, 1975*, pp. 36–46. The President followed up the speech by sending "an omnibus energy bill," the 13-part Energy Independence Act of 1975, to Congress on January 30. See *ibid.*, pp. 136–138.

⁴ On January 13, President Ford addressed the nation on his programs to address the nation's economic problems and the energy crisis. See *ibid.*, pp. 30–35.

We are also taking major steps to reduce our dependence on imported oil. We are determined to reduce oil imports promptly and significantly and to end vulnerability to economic disruption by foreign suppliers by 1985. Immediate actions to cut energy imports and to increase both our domestic supplies and our ability to use our coal, gas, oil and nuclear power are clearly necessary as are strong measures to ensure adequate conservation and a new emergency storage program. [illegible text] make new demands on the American people. [illegible text] time, they provide the basis for a stronger U.S. economy in the future. This, in turn, should have a beneficial impact on the international economy.

In closing, let me emphasize the importance I have attached to having had the benefit of your views on these issues during our meeting in Martinique. We are strongly committed to working with your government and others in confronting our common problems. While much remains to be done, we are encouraged by the positive steps which have been taken recently. For our mutual well-being, it is imperative that we continue developing a common approach in dealing with energy problems and that we continue to coordinate closely in confronting our economic difficulties.

I look forward to staying in close touch with you on these important issues.⁵

Sincerely, Gerald R. Ford

His Excellency Valéry Giscard d'Estaing

President of the French Republic

Paris

End text.

Kissinger

⁵ Ford sent the same letter to Schmidt and Wilson. (Telegram 9369 to Bonn, January 15; National Archives, RG 59, Central Foreign Policy Files, P850014–1483 and telegram 9371 to London, January 15; *ibid.*, P840083–0885)

34. Memorandum From Robert Oakley of the National Security Council Staff to Secretary of State Kissinger¹

Washington, January 20, 1975.

SUBJECT

Economic Impact of Mid East Crisis—A WSAG Issue and Need for Formal Follow-Up

One of the issues on the approved agenda for last week's WSAG meeting on the Middle East² was the whole realm of possible economic ramifications of a new Middle East crisis and what steps could be taken to minimize the effects of Arab action in the economic (oil) sphere.

In the absence of in-depth discussion of this issue at the WSAG, Deputy Secretary of State Ingersoll and Deputy Secretary of Defense Clements both believe that some form of follow-up action is necessary.

Deputy Secretary Ingersoll has asked NEA (at Tab A)³ to take the lead in a follow-up study and to involve EB, S/P and other agencies such as CIA and Treasury. I see two problems with this approach: (a) There is no mention of involving NSC or DOD; (b) Treasury was not involved in the WSAG exercise.

Deputy Secretary Clements (at Tab B)⁴ has suggested that you request appropriate agencies to address the economic issues or that the NSC lead a study which would involve all of the relevant agencies. Clements' letter also contains some constructive observations on the various substantive issues.

¹ Source: Ford Library, National Security Adviser, "Outside the System" Chronological Files, Box 1, 1/10/75–1/21/75. Secret; Nodis; Sensitive. Sent for action. Colonel Clinton E. Granger of the NSC Staff concurred. Sent through Scowcroft.

² See Document 32.

³ Not attached. Ingersoll asked for a follow-up study to consider "what the Arabs could do with regards to oil prices," a boycott, and "the manipulation of their financial holdings abroad." He requested that the study examine "the effects such actions could have on the U.S. and other countries, what we could do about such moves, and the steps we need to take to prepare for such a crisis." (Memorandum from Pendleton to Atherton, Enders, and Lord, January 16; Ford Library, National Security Adviser, "Outside the System" Chronological Files, Box 1, 1/10/75–1/21/75)

⁴ Not attached. Clements sought to explore the "possible economic measures, short of war, that might be utilized to ease the economic/financial situation arising before or during an Arab oil embargo." He explained that such measures "might be designed to: 1) Make an Arab oil embargo less likely; 2) Limit its scope; and 3) Limit its effects, should it occur." Attached to Clements's memorandum is a Department of Defense background paper that outlines the "economic options available to the U.S., Western Europe, and Japan" that would help achieve the three goals Clements listed. He concluded that such options "would be most effective if taken long before an embargo begins and would also greatly increase the effectiveness of other U.S. and allied options after an embargo is imposed." (Ibid.)

In view of the interest in and the importance and sensitivity of this issue, you may wish to recommend that the NSC chair an inter-agency study on the economic issues of a possible Middle East conflict, as a follow-up to the WSAG meeting. Alternatively, you could have such a study done by the Under Secretaries Committee. In either case, the study should be completed within three weeks' time. In the interim, no action should be taken on various contingency measures without your explicit approval.

We assume that State, NSC, DOD and CIA—the original WSAG participants—should be involved in this matter. You may or may not wish to include Treasury or the Federal Energy Agency in this particular follow-on study.

Recommendation: That you agree to a formal follow-on study on the economic aspects of a Mid East conflict by indicating your preference for the following:⁵

Agree with study under the USC

Agree with study chaired by NSC in inter-agency framework

Prefer original WSAG participants only

Add Treasury

Add FEA

⁵ Kissinger checked the second and fourth options.

35. Memorandum for the 40 Committee

Washington, January 21, 1975.

[Source: National Security Council, Ford Intelligence Files, Subject Files, Box M-2/I012, Saudi Arabia, 24 October 1974–21 January 1975, Secret; Sensitive. 6 pages not declassified]

36. **Memorandum From Robert Hormats and Robert Oakley of the National Security Council Staff to Secretary of State Kissinger¹**

Washington, January 23, 1975.

SUBJECT

Consumer/Producer Dialogue

You have had considerable success to date in persuading the consumers to go along with our policies on international energy and recycling matters. However, pressures are building which could lead to divisions among the consumers. These could jeopardize our ability to get the essentials of what we want in the way of consumer policies and consumer solidarity.

—Concern in Europe that, because of differences between the Congress and the Executive Branch and serious domestic economic problems, the United States will be unable to deliver on its commitments, e.g., the “financial safety net.”

—A growing number of bilateral deals between oil producers and individual European countries (France, the UK, Germany and Italy). Some of these involve the sale of oil at below market prices. Such arrangements dilute enthusiasm for consumer cooperation and hold out the hope that the oil producers have a greater ability and will to aid Western Europe than does the US.

—The progressive weakening of the economies of Western Europe raising the prospects of new trade barriers, or other “beggar-thy-neighbor” policies, which will further weaken consumer cooperation.

—An increase in producer pressure on certain consumers, expressly designed to counter what the producers perceive as a United States wish to somehow “break” the producer position by trying to delay consumer-producer dialogue while we build up enough consumer solidarity for a successful confrontation with the producers. (This perception stems from several factors: our overall lack of enthusiasm about a producer-consumer conference, our lack of progress in beginning a serious bilateral dialogue with the producers on economic problems other than price; what is misunderstood as our threats to use military force, and the impression given in the Joint Commissions that

¹ Source: Ford Library, National Security Adviser, Presidential Subject File, Box 4, Energy (5). No classification marking. Sent for information. At the top of the page, Kissinger wrote: “Want to have oil group meeting, Burns, Simon, Robinson, Enders, early in the week. Want to discuss this paper which is good.”

we are stalling and do not want to get down to effecting specific projects.) We have reports of Saudi and Iranian operations with Italy, the UK and other countries where there is a clear link between large loans and other financial benefits from the producers and sympathetic policies from the consumers.

To counter these trends before they pose a serious threat to our economic strategy and before they begin to raise questions about our basic political relationship in the minds of leaders like the Shah and King Faisal, we suggest that the United States:

—Begin right away a series of bilateral talks at high levels with key producer governments (Iran, Saudi Arabia, Algeria, Kuwait, Nigeria and Venezuela) in order to have in-depth exchanges on the major themes outlined below. This would be in keeping with what you have already arranged between Shultz and the Shah and with the visit by a “senior colleague” to Algiers. If at all possible, these talks should take place prior to the OPEC “summit” in Algiers in mid-February.²

—Shift the immediate emphasis of our discussions with the producers from price to financial issues (without abandoning pressures for a lower price). Whether or not the price of oil is lowered, recycling poses massive problems, as does the large-scale transfer of resources to producers. While the producers feel compelled to maintain unity of price, they are far from unified on financial matters. We would have the opportunity to wean the moderates from the radicals on this issue. Saudi and Iranian acceptance of suggestions for a scheme of delayed oil payments (e.g., 75% now, 25% later) with a *low* interest rate and a *long* repayment period on the unpaid portion would effectively lower the oil price by nearly 25%. Both countries could do this without appearing to “break” the cartel.

—Begin to develop a strategy of rewards and punishments to cajole countries into producing more oil and, therefore, to put downward pressure on price. There is presently over 7 million barrels of “shut-in” oil capacity. Foreign exchange needs have already forced countries like Ecuador to increase pumping. A selective World Bank voting policy and Ex-Im lending policy to restrict loans to those countries with excessive shut-in policy would provide additional incentives. We could provide special considerations to countries which agree to increase percentage of capacity utilized.

—Engage in discussion with the holders of large amounts of reserves on “ground rules” for investment in industrialized countries. Trying to reach agreement on general guidelines on what percentage of what types of companies would be tolerable and on fair treatment

² The OPEC summit was held March 3–6. See Document 48.

(guarantees) for investment would have a highly beneficial reaction in countries such as Saudi Arabia, Kuwait or Iran. Moreover, it would better enable the US to attract continuing high levels of investment from the producers, investment which we need but which can be scared away by the absence of clearly understood guidelines.

—Seek common objectives and perhaps parallel programs for aid to developing countries taking advantage of international development institutions which can utilize OPEC funds in the most efficient way, and work toward getting maximum amount of concessional development funds from OPEC countries. This, too, would have the *effect* of lowering prices and the build up of OPEC revenues.

37. Minutes of the Secretary of State's Staff Meeting¹

Washington, January 27, 1975, 8–9:03 a.m.

[Omitted here is discussion unrelated to energy.]

Mr. Boeker: The OPEC Ministers communiqué² endorses a broad international conference on the state of the world economy, on the state of raw-materials development—which would appear to be the format we saw in the UN Special Session last April, which producers have shown they could control pretty well.

Our reaction would be that we welcome their endorsement of co-operation without commenting on this format. And we reiterate that we hope the consumers, by that time, will take the steps for that kind of a dialogue.

Secretary Kissinger: By what time? They haven't given any time for a communiqué [*conference?*], have they?

¹ Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, Lot 78D443, Box 3, Secretary's Staff Meetings. Secret. Kissinger presided over the meeting, which was attended by all the principal officers of the Department or their designated alternates. A table of contents and list of attendees are not printed.

² The OPEC conference took place in Algiers January 24–26. Although the Embassy in Algiers did not transmit the complete text of the communiqué, it reported that OPEC "agreed to what is called 'French proposal for meeting of industrialized countries and LDCs to study problems of raw materials and development' in order to further 'true international cooperation' and 'dialogue.'" The Embassy concluded: "Believe conference results better than we had anticipated as far as interests industrialized countries concerned. For whatever reasons, conference has decided take path of relative moderation. Hope we will be able to demonstrate that moderation pays." (Telegram 235 from Algiers, January 26; *ibid.*, Central Foreign Policy Files, D750029–0224)

Mr. Boeker: This year, it seems to me, by implications.

Mr. Hartman: It seems to me the Algerians have won their point on this one.

Secretary Kissinger: We can just say we've made our position clear. As late as Friday I said we're in favor of a dialogue.³ Just say we're in favor of a dialogue and we're willing to discuss it when consumer cooperation has reached a certain point.

Mr. Hartman: But you will be asked immediately: "Are you in favor of a dialogue on all commodities?"

Secretary Kissinger: We'll discuss that at the preparatory conference. That's what the preparatory conference is for. It depends on whether we want to screw the meeting up or have some progress.

Mr. Boeker: Right.

Secretary Kissinger: It's as simple as that. It's inconceivable to have one conference and discuss that and have anything other than what the Special Session came up with. Is it conceivable to you?

Mr. Hartman: No.

Mr. Boeker: No.

Mr. Hartman: But this is the thing that he's been pushing because he sees that if you get into a conference just on oil, there is a possibility that we can bring pressure on them via the LDCs. And so what he's trying to do is line up the LDCs.

Secretary Kissinger: Oh, come now! The LDCs won't bring pressure on them. That's one of these childish naivetés.

I would be just as happy if the LDC's didn't come. I understand some of the producers don't want them either. That's one of the illusions. That's like the Kennedy Administration used to think India would support us on Berlin. We spent a year and a half trying to get their support.

The LDCs will not support us against the producers in an open conference.

Mr. Lord: Now that we're going to get some aid—

Secretary Kissinger: It's out of the question. The LDCs sympathize with us—which is far from saying that they will support us. Is there one Latin American country that will support us?

Mr. Rogers: A.I.D. will keep its mouth shut! (Laughter.)

Secretary Kissinger: Name one LDC that will support us at the conference. Can anyone think of one?

³ January 24. Kissinger addressed the Los Angeles World Affairs Council. For the text of his speech, see Department of State *Bulletin*, February 17, 1975, pp. 197–204.

Mr. Habib: If we promise them enough aid.

Secretary Kissinger: Which? Name one.

Mr. Habib: I think Singapore! (Laughter.)

I think Korea would, if you gave them enough assurances that there wouldn't be a cut-off.

Secretary Kissinger: Korea won't even be at the conference. Korea will never be invited. I mean all these—let's not drown ourselves in platitudes. If the producers want to exclude the LDCs, we should be delighted to exclude them. There's nothing in it for us.

I think we ought to play it cool—just say that we note it, we welcome it—but in a low-key way—and say, as I pointed out on Friday, all our policy is geared to having a consumer-producer dialogue.

On what the contents should be, we'll discuss it at a preparatory meeting. But if you go across the whole range of economic issues, it's going to be a long process.

Mr. Atherton: OPEC is going to have three more meetings in the summer before anything else happens.

Secretary Kissinger: That's right. I think we should quite agree.

[Omitted here is discussion unrelated to energy.]

38. Memorandum of Conversation¹

Washington, January 30, 1975, 11 a.m.–12:50 p.m.

PARTICIPANTS

Prime Minister Harold Wilson

James Callaghan, Secretary of State for Foreign and Commonwealth Affairs

Sir John Hunt, Secretary to the Cabinet

President Ford

Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for
National Security Affairs

Lt. Gen. Brent Scowcroft, Deputy Assistant to the President for National Security
Affairs

SUBJECT

Economic Policy; Energy Cooperation; Africa

¹ Source: Ford Library, National Security Adviser, Memoranda of Conversations, Box 9. Secret; Nodis. The meeting was held in the Oval Office.

[Omitted here is discussion unrelated to energy.]

Energy Cooperation

Wilson: People see you in your State of the Union² really having a go at it.

President: It is a confidence-building program, even if it is changed somewhat by Congress.

Energy is a tougher problem, and I am accused of trying to ram something down their throats. But if I hadn't, Congress would have continued to drift. Congress is now trying to remove my authority to do it, but I will stick to it. They are trying to come up with something, but I don't think it will be comprehensive. We must save a million barrels a day; we must have better utilization of coal and develop other sources of energy.

Wilson: It takes a lot of time. During the war I was Chairman of the Production Resources Board of the U.S., Great Britain and Canada. So I know your resources.

Our newly discovered coal, you know, is equal to what we will gain from North Sea oil.

Kissinger: Where is this?

Wilson: In Yorkshire.

Callaghan: This is the first break we have had in a century.

Wilson: Our energy industry has been subsidized for years; now coal prices went up 75% last year. We are removing the subsidies from all the nationalized industries. We're also taxing gas more.

Callaghan: We have had no demand for rationing yet.

Wilson: What is popular is the idea of a two-tier pricing system. So it would be a somewhat lower price.

President: I am of the feeling that those who are proposing rationing have never experienced it. They don't realize we have to have a long-range program. This means five to ten years.

Wilson: We need a basic change in attitude if we are to be able to deal with the long-range problem. We are grateful for the international cooperative programs you have developed.

President: Henry has told me of the strong support you have given. We appreciate it.

Wilson: It was the right group to organize.

Callaghan: The next big problem is the consumer-producer conference. The French gave a friendly report of the Martinique meeting, but I still foresee them going in a somewhat different direction.

² See footnote 3, Document 33.

Kissinger: They tend to use the conference as a substitute for any other kind of action.

Wilson: At the EC–Nine Summit meeting, Giscard said he is prepared for a meeting of the consumers, but as the prelude to the consumer-producer conference.³ The first time he mentioned indexation, I said, OK, but it had to be at a lower price.

Callaghan: Timing is important. The French are already lining people up for the preparatory conference of consumers and producers in March.

Kissinger: But there can't be one if we won't come. And we will come to a conference when the preparations are made, but not when the consumers are still quarreling.

Callaghan: There won't be quarreling at the preparatory meeting. It is just to set up the consumer-producer conference.

The French want to chair it. They say it's because it was their idea, but it is deeper than that. I think the preparatory conference should be at the official, not the ministerial, level.⁴

Wilson: That way you could more easily preserve your position. We have a problem with the French, and I think Giscard has a problem. The Gaullists are putting out this stuff about his private life. Schmidt thinks they are putting out that if Mitterand would break with the Communists, Giscard could join them and isolate both extremes.

Callaghan: He wants better cooperation with the United States.

Kissinger: Since Martinique he has been better.

Callaghan: But you can assume they will play with the Arabs on the Mideast.

Your financial plan⁵ went very well.

Kissinger: Healey gave us a hard time for a couple of hours.

Wilson: Names got put on proposals unfortunately. Ours is too little but it was early. Yours works late but adequately.

Kissinger: They are totally complementary.

³ See footnote 2, Document 24.

⁴ On January 31, Kissinger told Davignon that to hold the conference at the Ministerial level "would give it bigger significance than it should have." He also said that he "would not be happy with the French as chairman." Davignon informed Kissinger that he was "getting nowhere with the French except on a purely bilateral and unofficial basis," adding that "on substance, though, they are close to all of us, but they remain stubborn on procedures," which he called a "silly position." Davignon hoped that, by March, the French would "be more reasonable—after the preliminary meeting," and was happy that they had at least agreed to IEA participation in the meeting. (Memorandum of conversation, January 31; National Archives, RG 59, Central Foreign Policy Files, P840157–0509)

⁵ See Document 15.

Callaghan: Our consumer solidarity, the other aspects are conservation and alternative sources. How far do you want to go before you are ready?

Kissinger: On alternative sources we will be ready with proposals for the IEA meeting next week. We would like to have agreement on the direction in which we'll go. We could have mutual investment in each other's programs and a country would get a return proportionate to its investment. If all these things work, we could have agreement on a common overall price to protect the new investment in alternative sources.

Wilson: Our proven oil reserves, at OPEC prices less 10%, amount to \$120 billion. By 1980 we will be self-sufficient. We will refine about two-thirds of it ourselves. The rest of it will be sold non-discriminatorily.

President: Do you have a refining capacity?

Wilson: Not enough. We have to build some. It is beautiful low-sulfur oil. I think there is more oil west of Britain and North of France.

The first gas strike is much shallower than in the North Sea. We will run into a boundary problem with France.

Callaghan: The Saudis offered us 300,000 barrels a day in exchange for repayment with our oil after 1980. We don't know what interest they would charge. We wanted to talk to you first. We would like to pursue it, but wanted to let you know about it first.

President: What percent of your imports is that?

Callaghan: It is quite sizable, maybe 15 to 20 percent.

Wilson: We should get the Arabs interested in other forms of energy, because they will run out.

Kissinger: We heard that the Saudis would offer bilateral deals with the Europeans to ease the pressure on them.

Wilson: In six years, when Jim is Chairman of OPEC . . .

Kissinger: A terrifying thought!

Wilson: Are you thinking about other "PEC's"? Many other raw materials prices are going down now, fortunately. But there's phosphate ore, copper, and so on. We are returning to the old producer cartels, which never worked. The tin agreement, the sugar agreement, never did well. But shouldn't we be looking into this?

Kissinger: We are looking at it, and we haven't come to any conclusion. We had a preliminary bureaucratic study which concluded it wasn't possible. We would be happy to study it jointly with you.

Callaghan: This question will be raised at the consumer-producer conference and at our next Commonwealth conference. If we could

start some work in this area, we could maybe break up the Group of 77.⁶ The UN is always against us.

Wilson: Oil is all tied up with the Mideast. To the extent that we can look at price rigging without the oil/political aspects, we can see what might be done on a purely economic basis.

President: Producer cartels work well in good times but I wonder about it in bad times.

Kissinger: What the Prime Minister is saying is if we could get something going in a commodity in which the Third World would be interested—like fertilizer—we could use it as an example of how to go about this.

Wilson: The Commonwealth Conference is a good forum for members to look at things from a perspective which they don't ordinarily use. We should use it more.

[Omitted here is discussion unrelated to energy, followed by a discussion of British and U.S. domestic energy policy.]

⁶ The Group of 77, or G-77, was a group of developing countries established in 1964.

39. Memorandum of Conversation¹

Washington, February 3, 1975, 5–6 p.m.

SUBJECT

Energy Policy

PARTICIPANTS

Honorable Henry A. Kissinger, Secretary of State
Honorable Charles W. Robinson, Under Secretary for Economic Affairs
Honorable Thomas O. Enders, Assistant Secretary/EB
Mr. Stephen W. Bosworth, Director, Office of Fuels and Energy/EB
Honorable William E. Simon, Secretary of the Treasury
Honorable Jack F. Bennett, Under Secretary for Monetary Affairs
Honorable Charles A. Cooper, Assistant Secretary/OAS/IA
Honorable Gerald L. Parsky, Assistant Secretary/TE&FR

¹ Source: National Archives, RG 59, Records of Henry Kissinger, Lot 91D414, Box 10, Classified External Memoranda of Conversations, January–April 1975. Secret; Nodis. Drafted by Bosworth. The meeting was held in the Secretary's office.

Kissinger: When are you leaving for Paris?

Parsky: No, Tom and I are going to Paris.²

Kissinger: Somehow I had heard that you, Bill, were going.

Simon: No, I just came back from London. I was there with a group of Congressmen and others taking care of your friend, Denis Healey, at the Ditchley Conference.³

I thought that with Gerry and Chuck going to Paris for these various negotiations and me testifying on the Hill, we should focus on some areas of our policy that appear to be most unclear. The major question I'm getting, Henry, from all people, is whether we have reversed our price objectives. Are we now trying to keep prices high rather than to get some lower? These are some questions that are growing out of your speech.

Kissinger: I understood that my speech⁴ had been cleared by Treasury.

Parsky: Oh yes, I read it and cleared it.

Kissinger: I had not planned to give that speech. The President specifically asked me to make it.

Simon: Well, on this price question, the line I'm taking is that higher prices now will bring down prices later.

Kissinger: Plus the fact that if OPEC puts in higher prices the money is lost through the balance of payments. These conservation price increases will be money for the USG and not for the producers.

Simon: So, you agree, our objective is still to bring down prices?

Kissinger: Definitely. The only person I know against lower prices is Enders. Seriously, is anyone against bringing down prices?

Enders: Absolutely not.

Parsky: The issue is really this question of a floor price.

Kissinger: Well, if we got prices down to \$7.00, that would be an effective 30 percent decrease. That certainly won't happen soon in any case.

² The monthly meeting of the Governing Board of the International Energy Agency convened in Paris on February 5.

³ The meeting was held February 1–2 at the Ditchley Park estate outside of Oxford, England, to discuss the financial problems stemming from surplus oil revenues. Simon, Burns, and other U.S. officials attended.

⁴ In a speech at the National Press Club, February 3, Kissinger outlined the proposal the United States would make at the February 5 IEA Governing Board meeting: "In order to bring about adequate investment in the development of conventional nuclear and fossil energy sources, the major oil-importing nations should agree that they will not allow imported oil to be sold domestically at prices that would make those new sources noncompetitive." Either the consumer nations could set a common floor price or the IEA nations could establish a common IEA tariff on oil imports. For text, see Department of State *Bulletin*, February 24, 1975, pp. 237–245.

Simon: Well, I'm not so sure, Henry. I'm personally convinced, though I don't go around saying this, that prices will come down soon, if we just let the market work.

Kissinger: But how can the market work if the sellers operate as a cartel?

Simon: Well, there's a lot of oil in the world.

Bennett: The question before us is really whether to go for a floor price or a tariff. The floor price strikes the producers as a completely inflexible position and offers them no incentive to raise production and cut prices.

Kissinger: Well, can't we put both forward at this time? Either must be geared in any case to a common price. We must also offer some price protection for our investors.

Bennett: Can't we find a balance between no price protection and no possibility of the market price ever going below the protected price? We don't need to eliminate all risk for the private companies. Companies are willing to take risks.

Kissinger: Do we have to settle this now?

Simon: The floor price is just one option. I don't believe a floor price is either politically or economically viable. But we don't have to settle this here.

Kissinger: Then what is the problem?

Simon: The problem is that in some quarters it is perceived that the floor price is the preferred US position.

Kissinger: But I still don't see what is the problem.

Bennett: Do you really have in mind using either a floor price or a tariff as options for getting a fixed bottom price?

Kissinger: I thought the tariff, frankly, was just another way of getting a floor price. But what is this sliding scale for a tariff and what does that mean? I'm confident that we can get the consumers to agree on a floor price.

Cooper: But at what level?

Kissinger: Around \$7.00. What do you think?

Cooper: I think you could get them at \$3 or \$4.

Kissinger: But that's trivial and meaningless.

Cooper: But when you get up to \$6 to \$7 it's much more difficult. That's why \$3 to \$4 tariff would be much better.

Simon: I for one believe that the future price will be below \$7 and when the price falls, the other consumers will say, why a floor price? and then they'll all fall away.

Enders: But Bill, at \$5 we'll be importing 20 million barrels of oil a day by 1985.

Simon: You economists make me sick. We can get a lot of oil at \$5. We can get Alaskan oil at \$5. Companies are willing to go do it right now.

Enders: Then why do the companies say that we'll be importing 15 MMBD by 1985? Jamieson⁵ says it's totally unrealistic to set a dependency figure of 5 million barrels.

Simon: Jamieson said that?

Bennett: I don't trust Jamieson's figures. I should know. I used to give them to him.

My feeling is that to sell something we must have a figure with some give in it. We must have some incentive to the Arabs to lower their price. We must strike a balance between protection for US investors and the need for a flexible position with which to begin talking with the producers. We can't begin to talk with the producers if we just have one set price.

Kissinger: Why not? We can do a 5 year agreement at prices below current levels, but above those which will exist in 10 years.

Cooper: That just says that in the long run you're going to be crushed. The producers just won't find that a convincing position.

Enders: At the moment producers don't believe any of this. They don't think we are really serious.

Bennett: When we get to a producer-consumer conference we must be able to show them that at a lower price they will get more income.

Kissinger: But even with a floor price, you will have all that area between \$7 and \$11 to play with in talking with producers.

Enders: Also, Jack, that kind of calculation overlooks the fact that demand is very inelastic. The producers know that and they gear their whole strategy to it. They stand to lose revenues by cutting prices.

Simon: That's just a short-term argument.

Kissinger: But let me see if I understand this. The major difference between Jack's proposal and my proposal of today doesn't exist between \$7 and \$11. The difference is you would like something with a variable floor price.

Enders: In addition, Jack would also have a tariff above the floor price.

Bennett: We've got one now.

Robinson: You are really proposing a variable tariff?

Kissinger: Jack, please give me a description of how your system would work. I'm sorry, but I need a tutorial.

⁵L. Kenneth Jamieson, Chairman and Chief Executive Officer of Exxon Corporation.

Bennett: Well, there are essentially two versions. Under the first, with a fixed tariff, Arab oil would always be more expensive. Under the second, you would have a variable tariff which would contract as the price fell.

Kissinger: Suppose I thought \$7 was the right price, then the price of oil would have to go below \$4 before there would be any difference between a floor price and \$3 tariff.

Bennett: There's another issue here. Are we going to guarantee OPEC an outlet for its oil? That's moving awfully fast toward socialism.

Kissinger: The companies are dumb enough for socialism, that idiot Warner, for example.

Simon: I think Warner⁶ is one of the best of the oil people.

Kissinger: But doesn't he believe the US should import more oil?

Enders: They all do, all the company people.

Jack, we have many alternative sources with known costs or relatively known costs—nuclear energy and conventional oil, for example. Maybe these costs will go down, but it's very unlikely. We want to give them basic protection.

Kissinger: Well, my first question is what is going to happen at the IEA? The US simply cannot afford another spectacle of our delegation presenting differing views. It would just be disastrous if, two days after my speech, we did something like that. Then the other question is what are we going to say here in town. And then how are we going to decide this question?

Do we have to decide the issue now? Since I don't believe mid-East oil is ever going below \$4, what is the argument against a \$3 tariff?

Enders: The question is, which is more negotiable?

Cooper: Well, the tariff could have a trigger point at, say, \$7.

Enders: If you have a trigger point, then it's the same proposal.

Kissinger: I want to prevent a situation in which the US carries all the water. We'll spend all this money to bring down energy prices and everyone else will reap all the benefits. If we don't get the Europeans locked onto something now, they'll take advantage of us in the future. We don't need them to develop our alternative energy, but my objective has always been to get them locked onto something that will protect us in the future.

Bennett: Exactly, we must have some commonality. That's essential.

⁶Rawleigh Warner, Chairman and Chief Executive Officer of Mobil Oil Corporation.

Kissinger: Right now they are weak, and they need us. Five years from now they won't be weak. When they catch on to how weak this country is domestically, they'll jump to take advantage of us. Already, as a result of my *Business Week* statement,⁷ they are getting special price treatment from the Arabs. I don't really mind that. It actually helps us in the Middle East. But the people most consistently opposing US initiatives are the Europeans. The Japanese at least move in response to their own self-interest. But the history of Europe is that countries always join together to cut up the strongest nation. Any system we can devise now on energy, which can prevent this from happening to us in the future, is fine with me.

Enders: This was the principle which was set forth in the President's State of the Union message—the need to provide some price protection for domestic investors.

Kissinger: My concern is that if we don't go into this meeting this week as though we know what we are doing, we are going to get killed. Can't we delay for three weeks on our decision on which of two approaches we will use? We could say that they need further technical study. We could also use that same line here in Washington.

Bennett: That's fine.

Kissinger: Look Jack, I don't want to try solutions which make no economic sense, so let's review this further and then, if necessary, we'll go to the President for a decision.

Enders: But the common tariff will be much more difficult to negotiate.

Kissinger: Perhaps, but you will get a reading on that this week. It's possible that we won't be able to sell either approach.

Simon: On another subject, Henry. At Ditchley last weekend there was great discussion of the producer-consumer conference. All the people there thought the conference should be scrubbed. Everyone thought what we should do is encourage more Arab investments in our countries.

Kissinger: Listen, if I can get Parsky and Robinson to run those bilateral commissions as I want, I'm prepared to run a producer-consumer conference bilaterally. We've got to come up with ways to soak up their dough. If those Bedouins want to use all of their money to build soccer stadiums, that's fine with me. I'm rather attracted to the Roosa plan.⁸ The idea of establishing such mutual funds appeals to me if we can do it bilaterally.

⁷ See Document 30.

⁸ Roosa wanted to establish a giant mutual fund in which OPEC nations could invest their accumulating petrodollars over the long term.

On Pan American, I told Peter Peterson last week that I had no foreign objection to Iranian purchase of Pan American stock.

I definitely think we should use the commissions. I don't care about a producer-consumer conference. You will all remember that I have never been very enthusiastic about it, and I've been stalling as much as possible. The French will just try to make us their straight men in any conference such as that.

Simon: Henry, another issue which is concerning us are the proposals coming out of State to limit OPEC investments to 10% in any one company.

Kissinger: Who has said that?

Simon: Enders.

Kissinger: Ah, Enders! Enders goes around town saying he has never had a Secretary out of whom he has gotten such good work. Let's get a paper together and get a policy decided. I think we should absorb as much of their money as we possibly can. I have no intention of putting all US interest into a producer-consumer conference.

Simon: Our objective of attracting more Arab money is going to be complicated if the Enders plan surfaces for a 10 percent limit.

Enders: That's neither a plan nor a proposal. My only objective was to ensure that all feasible options are considered. The original draft issue paper had only one option, and I just wanted to get others included for examination.

Kissinger: Well, can't we get a policy on this by the end of February? I do want them out of national security industries and those areas where their investment control would be demoralizing to US citizens. But, beyond that, our principal objective should be to maximize their dependence on us.

Simon: I'm glad to hear that. That's the only reason I'm here—to make sure you have not been brainwashed. I've been hearing different sorts of things from levels underneath ours.

Kissinger: Enders does not consider himself beneath any level. His psychological view of our relationship is symbolized by the difference in our heights. Seriously, we must at all cost avoid open dissent. We simply can't afford that.

Simon: I agree fully. One more point. On the Roosa recycling idea, I don't think we need the Roosa mechanism.

Kissinger: I've asked George Shultz to ask the Shah what he thinks about it. Shultz will simply ask him the question and won't put it forward as a US proposal. Then we will consider it in the light of the Shah's reaction. I'm very open-minded on these subjects. I am in favor of anything that will get the job done fast. The advantage I see in the Roosa proposal is that it couples the interest of the producers with the

objects of their potential political blackmail. What is your objection to it?

Simon: Just imagine what the Arabs will say if we tell them we will take their money and then tell them what to do with it.

Enders: But Roosa proposes doing that through private companies and through the US Government.

Robinson: I think we must look at this carefully. We have a growing political problem on this issue which might be blunted by something along the lines of the Roosa idea.

Bennett: I don't think that idea would blunt anything.

Kissinger: I'll only support it if a major producer such as the Shah says he likes it.

Well, let's see if we can summarize what we have agreed on. First, on the floor price—we will keep open the two alternatives, a floor price or a tariff—as long as it is a tariff on a sliding scale. We agree that any international agreement must be made now, not put off until the need actually arises. At this week's meeting we will put forward both concepts as feasible and give them equal exposure. Then, we will proceed with more technical study and, if necessary, go to the President for a decision.

On the investment question, we agree that we must have a short-term policy proposal to take to the President by March 1. I can't conceive that we won't agree on this one.

On the commissions, we will push hard to try to get as much done through them as possible. We will try to have a fait accompli at any producer-consumer conference. If we can handle investment through the commissions, so much the better.

Meeting Adjourned.

40. Paper Prepared in the Department of State¹

Washington, undated.

A CONTINGENT ENERGY STRATEGY

It is the object of this paper to demonstrate that *the U.S. should minimize its energy dependence upon the Persian Gulf and disperse its pattern of energy acquisition so as to maximize the political and geographic disparity of its suppliers*. Such a policy is both feasible and consistent with current U.S. energy initiatives internationally and in Project Independence.

If adopted, the *objective* of such a policy would be to *reduce acquisition of U.S. petroleum imports from the Persian Gulf and the Mediterranean* to an absolute minimum and to *maximize imports from Canada, Mexico, Indonesia, Nigeria, and Venezuela*.

Key Considerations

1. While U.S. oil interests in the Persian Gulf have been very substantial, the area was not a significant source of supply to the U.S. until recently. Historically, these U.S. corporate assets were developed to service primarily Europe and Japan, not the U.S. They are now in the process of being liquidated. The U.S. international oil industry anticipates it will very shortly have no fixed assets in the Gulf and, with their disappearance, will go a long-standing U.S. national interest—maintenance of the industry's concessionary stakes.

2. In contrast to the virtual insignificance of the Gulf as a source of U.S. petroleum imports, Canada and Venezuela have been very substantial suppliers to the U.S. market. In earlier days, Mexico supplied the U.S. and remains a logical and probably an increasingly important source. More recently, both Indonesia and Nigeria have expanded their position in the U.S. market. This is particularly true of Nigeria. With the possible exception of Canada, *these variegated sources are fully capable of satisfying all their domestic needs* and still provide an impressive export potential. Assuming U.S. import volumes decline chiefly as a result of the President's National Energy Program, *these sources—even without Canada—could meet U.S. import requirements*.

3. From the U.S. perspective, the Persian Gulf is geographically the most distant point of all significant petroleum sources. Strategically it is the least defensible because of the high concentration of the wells, pipelines, storage tanks, docking facilities, tankers, and increasingly, refin-

¹ Source: Ford Library, National Security Adviser, Backchannel Messages, Box 4, Middle East and Africa, Outgoing 2/75. Confidential. There is no drafting information on the paper. Kissinger was traveling in the Middle East February 10–15 and it was possibly prepared for his use.

eries. Moreover, tankers from the Persian Gulf must traverse the Straits of Hormuz and the African Coast routes which are, under almost any realistic situation, exceptionally vulnerable. A realistic assessment of the implications of defense appropriations in the United States in recent years does not warrant confidence that the Congress will provide adequate and timely resources to build an Indian Ocean fleet with the capacity to defend a U.S. petroleum lifeline transiting that region.

By contrast, Canada and Mexico are both contiguous with the United States; Venezuela is accessible via the Caribbean, and petroleum from both Nigeria and Indonesia can be given protection by the Atlantic and Pacific fleets respectively. *All of these represent far more secure sources; their role in supplying the U.S. should be deliberately and imaginatively encouraged.*

4. Geography, culture, and contemporary political affairs all constitute unifying factors above and beyond petroleum for the countries of the Persian Gulf. While this observation applies with less force to Iran, it nevertheless applies.

Since concerted action among petroleum suppliers is contrary to the interests of the United States, it follows that a policy of procuring petroleum from sources which are geographically, socially, and politically disparate minimizes U.S. vulnerability.

The five countries indicated above have the qualities of disparity. All have a voracious appetite for revenue; access to U.S. technology is clearly of major interest; and with the exception of Canada, all would pay a substantial price in their internal affairs were they to forego income resulting from an embargo. With the possible exception of Iran and Iraq, this is not now true of the countries of the Persian Gulf.

5. With political instability a widespread phenomenon among the states of the Persian Gulf, the instability of one significant supplier tends to be destabilizing to all of the others. *Thus endemic political instability in the Gulf compounds the problem of supply security.*

The same observation applies to the possibility of military conflict within the region and between Gulf states. Such conflict would tend to compound itself and spread to other countries. *There is no such compounding effect among the alternative sources.*

Current U.S. Strategy

Current U.S. strategy for dealing with the energy/fiscal crisis emanating from the producer states is to take steps (a) to limit our dependence upon foreign supply, (b) to stimulate the discovery of additional domestic petroleum and gas reserves and (c) to encourage research into and the most efficient use of alternative fuels. Simultaneously, the U.S. is making a major diplomatic effort to encourage similar efforts on the part of other consuming states. In addition, the U.S.

has committed itself to a concerted program with its allies for sharing oil in the event of an emergency.

1. *A major objective is to break the political and economic power of OPEC.* The principal tactic is to create a situation of consuming states' solidarity on emergency supply arrangements and common acceptance of a significant reduction over time of their dependence upon OPEC crude. Thus a clear signal is flown to OPEC states warning them they will have to decide amongst themselves how a diminishing market for their crude will be shared. *The fundamental assumption is that a mounting surplus producing capacity—unsold oil—will compel OPEC states to compete amongst themselves;* with OPEC states having different circumstances and needs, the resultant divisions will bring their house down.

2. The critical difficulties facing the U.S. initiatives rest on (a) the Arab-Israeli dispute and the extent to which this may continue to be seen by other consuming states as a problem in which the U.S. is the principal actor—and thus it is U.S. policy and actions in that arena which threatens oil supply; and, (b) the very significantly different degrees of consumer states' dependency upon OPEC oil; a severe cutback which seriously affected the U.S. might literally imperil others. *Hence the unwillingness of many consumer states to identify their energy interests and issues too closely with those of the United States.*

3. The forces which divide consumers and bind producers are such that *a prudent U.S. policy for the international acquisition of petroleum must be so designed that it will serve our vital economic and security needs regardless of the outcome of our broader efforts with both consumers and producers.*

Cohesion of consumers is less than complete. There is discord over the financial safety measures to be taken. The French continue to emphasize the differing degrees of interest of the Europeans vs. the United States. Most consumers wish to pursue a policy which they describe as avoiding all aspects of "confrontation".

On the producer side, there is mounting evidence that Kuwait, Saudi Arabia, and Iran may be pursuing a strategy of granting substantial loans or other emoluments to key consumers in return for their less-than-active participation in U.S. energy strategy. To Europeans and Japanese, this is a seductive approach.

OPEC pricing policy since the embargo has been to ratchet up the price, and in each instance exploit the differences among the consumers in order to lessen the chance of consumer cooperation. The use of financial resources to pursue this end further is simply an extension of current policy.

The critical question is whether or not Iran and Saudi Arabia will be able to coordinate their responses to pressures from the consumers and in particular the United States. If they are not, and they compete,

OPEC will be broken. Such a falling out, however, could be dangerously destabilizing in the Persian Gulf especially if it entails physical conflict.

4. Because of the hazards indicated above, *the U.S. pattern of petroleum acquisition should be such as to minimize its vulnerability under any circumstances*. This can be accomplished by (a) *diversifying the sources to the five countries indicated*, and (b) *creating with those countries a convincing mutuality of interests such that the arrangements made will stand a reasonable test of surviving changes in political regimes*. This can be accomplished by proceeding down two parallel “tracks” to diversify and secure U.S. petroleum sources abroad.

Track One

This approach entails the creation of a group in either the ERC or the NSC of experts on each country to:

(A) assess the oil and gas producing capabilities of each country over time,

(B) assure that the oil and gas qualities are such that they will meet U.S. import requirements,

(C) develop a careful survey of broad national economic needs with an evaluation of the particular contributions that the U.S. could make to each country’s development particularly but not exclusively in the area of energy. Because all five of these countries—Canada, Venezuela, Mexico, Nigeria and Indonesia—have limited proven oil reserves, means should be available to engage their national interests in this pursuit which could provide them with unique and privileged access to U.S. technology and markets. The implications of such findings to U.S. relations with each of the countries would transcend any other bilateral relationship the U.S. has ever attempted.

Track Two

This entails the launching of an unprecedented technological tri-lateral approach to the exploitation of the tar sands of Canada, Venezuela and the United States; each of the deposits presents unique problems. There are still key questions to be answered before they can be processed at reasonable capital costs; neither Canada nor Venezuela can realistically hope to master in a timely fashion the vast research and capital requirements entailed in the exploitation of these immense and untapped resources. Yet their development could unlock to the U.S., Canada and Venezuela, as well as others, huge reserves. The scale of this effort could be greater than any international research undertaking ever attempted. The benefits from a successful effort would be incalculable. The U.S. is presently the only nation which could make the necessary vital contribution. Nor need the energy resource tackled be lim-

ited to tar sands. Shale, solar power, nuclear fusion are available candidates.

This approach has a unique aspect. National sensitivities of Canada and Venezuela are met by each contributing to a common technological effort while they still retain the exclusive control over the tar sand reserves. *Progress down this track in tandem with the wider ranging programs proposed in Track One would provide a powerful incentive for Canada and Venezuela to reach energy agreements with the U.S. to supply us in the interim with a major portion of their surplus crude and gas thereby giving the U.S. a near equivalent of internal supply lines.*

While key emphasis would be given Canada and Venezuela, nothing need preclude attention to energy research opportunities in Mexico, Indonesia and Nigeria.

41. Memorandum of Conversation¹

Riyadh, February 15, 1975.

SUBJECT

Secretary's Meeting with Yamani

PARTICIPANTS

Ahmed Zaki Yamani, Minister of Petroleum, Saudi Arabia (Y)

The Secretary (K)

Ambassador James Akins (A)

Under Secretary Charles Robinson

Deputy Assistant Secretary Harold Saunders

K: We haven't had a chance to talk for a long time. There are so many things to talk about that I'm delighted to have this chance. What would you like to begin with? I suppose we should talk about oil.

Y: Oil should be the subject, yes.

K: Let me be very frank. I'm told you think I'm against a producer-consumer dialogue and want a confrontation between consumers and producers.

Y: I feel you're not in favor of the French proposal, which we Saudis originated.

¹ Source: National Archives, RG 59, Records of Henry Kissinger, Lot 91D414, Box 10, Classified External Memoranda of Conversations, January–April 1975. Secret; Nodis. Drafted by Saunders. The meeting was held in the Guest House in Riyadh.

K: I'll tell you exactly what my position is. There must be a cooperative relationship between producers and consumers. You want security for your investments. We want security of supply. You want a reasonable price for your oil. We want the lowest price that is compatible with your interests. We have an interest in a number of issues associated with development.

We have some special problems. We have to reduce our dependence on imported oil. Either that or we have to have an absolute assurance on the continuity of supply. It isn't tolerable for a major power to be as vulnerable as we now are.

These are the issues. The point is that the method for solving these problems has to be a cooperative one. We are ready on many of these issues to discuss our and your ideas.

My reservation on the French idea of a conference is that it is easy to start a conference but it is hard to make one produce results. Your original idea was a very small conference—just 3 on each side. We are not eager to let other countries maneuver with our chips. We want a technical conference, not a political conference. We, in our government are now trying to come up with substantive proposals for a conference. We support a conference. The only question is what will come out of a conference. If we follow the Algerian approach, it will be another UN Special Assembly. It will just produce a set of abstract principles that will not have any effect on the situation. Robinson can tell you in detail when you meet tomorrow exactly what we are trying to accomplish.

Y: We have nothing against your reducing your dependence on imported oil. Saudi Arabia is playing a difficult role in OPEC. Others want to raise the price to \$15–17 per barrel. We see no alternative but for us to have a producer-consumer meeting. We don't think you will reduce prices by reducing consumption. We will stand with you if it is in the form of cooperation. We think there should be a meeting. We think the UNGA was equivalent to having no meeting because it did not get to a serious discussion of the real issues.

The idea of a small conference with limited issues was fought by the Algerians. The U.S. did not help us.

K: We did not help you because we did not trust the other consumers.

Y: The Algerians wanted to discuss other issues in a large group. We think of the EEC, the U.S., Japan, Iran, Saudi Arabia, Algeria, Venezuela, India, Zaire, Brazil. The French have developed the same list. I was told you strongly opposed including the developing countries and that you oppose discussing issues other than price. I understand you oppose indexing.

K: No, I don't oppose discussing other issues. I don't see how you can discuss price without discussing other issues. You have to discuss investment and some development issues to discuss price.

On indexing, I have an open mind. I'd be willing to consider an index starting from a lower price.

Y: If the USG takes the lead, we are prepared before and during a conference to harmonize our views.

K: Why don't we begin trying to harmonize our views—right now? How do we do it?

Y: We are the only ones who have such closely related interests. I'll talk about how we are embarrassed by the new taxes. It's the high oil prices—now you are adding \$3. You are trying to serve a number of conflicting objectives at the same time.

I understand you have no objection to the tripartite meeting.

K: Right. I am willing to have an exploratory talk with you. If you try to relate all raw materials we'll end up with another UN Special Assembly.

Y: I won't object to raw materials as an item on the agenda but we don't have to talk about them all at once. The atmosphere is not healthy. We could find a reasonable way to talk about raw materials.

K: We have to separate two problems: (1) Mr. Robinson will talk to you about how a conference might be organized. (2) We will do our utmost to coordinate our positions.

My nightmare is that the actual conference will turn into a rhetorical exercise.

Y: The atmosphere can be better provided we have a meeting.

K: Well, as I understand it, we are planning on a preparatory meeting at the end of March or early April. If we could make progress in our talks together I would feel better about a conference.

Y: We'll have a discussion that no one will know about.

K: We will keep it secret.

Y: We agree on a preparatory meeting in late March. We agree that the number of countries would be 10 or 11.

K: That meeting should be at the officials' level.

Y: Experts.

K: Another reason this has to be kept secret is that we haven't said this even to the Europeans.

Y: You agree that the developing countries should be present?

K: Yes.

Y: We were told you were opposed to this.

K: By whom? I won't do anything.

Y: Your Ambassador in Algeria said you have reservations about including the developing nations and raw materials. On raw materials,

I am not thinking about putting everything on the agenda at once, but there are some issues that need to be discussed.

K: Talk to Robinson. My concern about raw materials is that it not be too theological. If you and Robinson and Jim (Akins) can work something out, I'll be very sympathetic.

I don't exclude raw materials. See what you can work out. I just want to be sure we know what we are doing when we go to this conference. To the degree that the U.S. and Saudi Arabia are coordinated, I have considerable confidence in the conference. But it is in our interest to keep our coordination quiet.

Y: Even in each capital or camp there are interests that are not all the same—for instance, Algeria and Saudi Arabia have different positions. The U.S. and Japan have different positions.

K: I'm trying to prevent the conference from becoming an auction.

Y: We cannot stop this entirely. So I can tell my friends you are not blocking a conference?

K: Absolutely. But I want it to succeed. The best way to block it would be to call it now and have it discuss all the issues. That would assure that nothing would come out of it.

Y: I don't know how well it will be prepared. I'm not a perfectionist. A well-prepared conference may not be in your interest. We have an area of mutual interest.

A: I think we both have an interest in a reduction of price, tied to indexing.

K: We have to keep our coordination quiet because there are very different views in our own government:

If I agreed to indexing . . . I could put it across in our government.

Y: We have discussed in OPEC a freeze price with an index but not at the full inflation rate. But not at \$2–3. Some American official has mentioned that.

K: Oh no. That is ridiculous.

(Rising) It has been very nice to see you again.²

² Kissinger also met with the Chiefs of Mission of the Embassies in the Gulf states on February 15 and told them: "There is no area with more nonsense spoken than energy. We are trying to reduce the power of OPEC. We are trying to decrease our dependence on OPEC and to restore the West's freedom to act. Without this a sense of impotence will seize Western Europe and Japan until vague fears about what the oil producers will do will create unmanageable abuse. I am not saying we want confrontation." Kissinger later explained: "We have meant to avoid three possibilities: 1. To discourage threats to use the oil weapon in the current situation; 2. To encourage moderates so they won't rely on the Soviet Union; 3. To decrease the readiness to go to war because they (Arab side) rely on the oil weapon." (Memorandum of conversation; *ibid.*)

42. Notes of a Meeting Between Secretary of State Kissinger and French President Giscard d'Estaing¹

Paris, February 19, 1975.

NOTES FOR THE SECRETARY—BREAKFAST MEETING WITH
PRESIDENT GISCARD D'ESTAING

1. February 19 breakfast meeting included President Giscard d'Estaing, Foreign Minister Sauvagnargues, Secretary Kissinger and myself. Atmosphere was relaxed and friendly. A broad range of subjects was covered, with particular emphasis on the Middle East and energy.

[Omitted here is discussion unrelated to energy.]

6. Turning to the question of energy, the Secretary and the President agreed from their recent meetings with the Shah² that he presently is more cooperative than was the case last November. He was more worried about the West's economy, and much less assured that all factors, including the pricing of oil, were under his control. The Secretary said that last November the Shah believed he was in complete control of the pricing situation. He is now less sure and may even be receptive to lowering prices. The President said the Shah was not even excited about the so-called "guaranteed price" now under discussion among the consumers. Secretary Kissinger explained that by "floor price" we mean a guaranteed price established below the current price. The producers, in order to protect themselves, might want to have long-term contracts which would include such a floor price. Americans and Europeans alike seem to be thinking in terms of \$6.00 or \$7.00 a barrel. Prices could be raised unilaterally by each country, but an agreement in principle among consumers not to go below the floor price should be reached in order to protect needed new investment. Chancellor Schmidt and Prime Minister Wilson seem to agree with this formula.

7. Replying to a question from the President, the Secretary said he had not thought through just how France could participate in guaranteed price procedures, but that this question should not present insurmountable problems.

¹ Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 140, Geopolitical File, France, February–March, 1975. Secret; Nodis. Drafted by Rush on February 19.

² Kissinger met with the Shah in Zurich on February 18.

8. The President noted that the French press had characterized Secretary Kissinger's introduction of the floor price proposals³ as "confrontation" and as a repudiation of important aspects of the Martinique understanding. The Secretary replied that this obviously was not the case and by way of analogy pointed out that the U.S. press always attempted to portray events or statements as being confrontational. The *Business Week* article⁴ was also brought up by the President, who noted that the French had not reacted adversely. The Secretary expressed appreciation.

9. Returning to the Middle East, the President said there are credible reports that the U.S. is increasing its military strength in the area. The Secretary replied that we did have an additional aircraft carrier there and some other vessels. Responding to the President's inquiry, he then outlined what he had meant in the *Business Week* article about the use of military force. The circumstances under which we would use force would have to be a massive onslaught on the economy of the West, and Europe would be very deeply affected. The US, of course, would not use military force without consultation. As of now, the Secretary could see no conceivable circumstances where the use of force would even be considered. Replying to the President's inquiries, he stated that it would be feasible to carry out military action and that in such an event he did not believe the USSR would react seriously.

10. With regard to the proposed consumer/producer conference, it was agreed that an attempt should be made to keep participation as presently envisioned, at least for the first round, that the Yamani list of countries looked about right, and that the conference should be restricted to the energy problem. The President said that prestige was not an issue, as far as France is concerned, in the conference; rather what is desired are substantive results. He said the Shah seemed to think the Saudis had agreed with the U.S. line and would be a stalking horse for the United States. To this the Secretary replied that we have no understanding with the Saudis concerning the line to be pursued at the conference and that the United States would speak for itself.

11. Concerning the question of when the conference should be convened, the Secretary pointed out that some work remains to be done.

(a) *Guaranteed Price*. What is wanted is a general agreement in principle. There is no requirement that a price be fixed precisely. A general range (\$6 to \$7) could be used. It would seem that this requirement could be quickly met.

³ See footnote 4, Document 39.

⁴ See Document 30.

(b) *A date.* Secretary Kissinger suggested the date for the preparatory meeting be April 10, rather than the latter part of March, as he will be in the Middle East in late March and will need some time after his return to help prepare the U.S. position. The President replied that this would pose no problem. The date is not a matter of principle, but he would like to send the invitations as quickly as possible.

(c) *Level.* It was agreed that participation in the preparatory conference should be at a high expert level. Secretary Kissinger said the U.S. delegate would probably be the new Under Secretary for Economic Affairs, Mr. Robinson, although it possibly might be Mr. Enders. The President said that the French representative would probably be M. de Guiringaud and agreed that this was the proper level.

12. With regard to the IEA being a participant in the meeting, President Giscard did not think that this would be advisable. The EEC, OECD, OPEC would be represented and Davignon could be physically present but not as a representative of the IEA. Secretary Kissinger will discuss this in Washington and *will inform the President or the Foreign Minister as to our decision next week.*⁵

13. The President said that he had understood that Secretary Kissinger had suggested to the Irish Foreign Minister that the conference be held in Dublin. The Secretary replied that this was not the case, that he had not made any such suggestion but that something might have been said in jest. The meeting should be in Paris, with the French taking the chair at the beginning and thereafter the chairmanship should rotate.

[Omitted here is discussion unrelated to energy.]

⁵ In a February 26 letter to Sauvagnargues, Kissinger wrote: "Now after careful examination of the question I wish to express to you my firm conviction that the IEA should be represented at the preparatory meeting. Such participation corresponds to the hopes we both have that the conference succeed. We both envision a serious conference to deal with issues of grave importance to the world economy. We will not be able to deal with these issues effectively if the oil consumer organization, the IEA, is not present. The OECD simply cannot fill this role. Although the OECD provides a framework for the IEA, it has not been the locus of consumer cooperation." (Telegram 43054 to Paris, February 26; Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France—State Department Telegrams from SECSTATE–NODIS (2))

43. Memorandum of Conversation¹

Washington, February 20, 1975, 3:50–4:10 p.m.

SUBJECT

Energy

PARTICIPANTS

The Honorable Henry A. Kissinger, Secretary of State
Deputy Secretary Ingersoll
Assistant Secretary Enders

Kissinger: I still don't understand how we got into this mess with Treasury. I thought this problem had been worked out with Simon's people.

Enders: I don't understand it either. Did you talk to the President about it?

Kissinger: Never mind the President. I know what he knows. He knows what I told him. Now how did this happen? Did you not tell me what Bennett's objections to the floor price were?

Enders: Yes I did. I thought we had worked it out. You had better ask Parsky.

Kissinger: I'm not talking to Parsky.

Enders: I was careful in Paris to put both the floor price and common tariff concept on the table, and this is the approach I took in my backgrounder with the press. Parsky, in his talks with the press, chose to emphasize the differences between the two approaches. I have the feeling that when he got back Simon told him he'd been had.²

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P860115–0948. Secret; Sensitive; Nodis. Drafted by Lawrence R. Raicht (EB/ORF/FSE). The meeting was held in the Secretary's office.

² At the February 5–7 IEA Governing Board meeting in Paris, Enders presented the price floor plan as an "administration proposal," whereas Parsky reportedly "denied" that it was "more than the State Department position." (*The Washington Post*, February 13, 1975, p. A19) The text of Enders's statements to the Board on February 5 and 6 are in telegrams 3210 and 3338 from USOECD Paris, February 6 and 7, respectively. (National Archives, RG 59, Central Foreign Policy Files D750043–1095, D750045–0740) According to their joint report on the meeting: "Canada, Netherlands, Switzerland, Denmark favored a floor price approach. Britain said the trend of their government discussions is towards the floor price. All of these countries but Canada would be interested in a low floor (i.e. \$5–\$7 a barrel); Canada might want a higher figure after the Athabasca tar sands bailout. Italy, Germany and Japan expressed serious reservations about the floor price on grounds of general economic policy, although Germany recognized that some coordinated action by the consumers is necessary, and Japan said it would not rule out the floor price if it were accompanied by assurances of access to energy within the group." (Telegram 3453 from USOECD Paris, February 7; Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France—State Department Telegrams to SECSTATE–NODIS (2))

Kissinger: But I don't understand their concept. If this approach is successful and the price falls, we will have worked to get low prices for the Europeans. Is that what they want?

Enders: I'm not sure they know what they want.

Kissinger: But they keep talking about \$4–5 oil prices. How can the market get alternative sources in that range?

Enders: It can't.

Kissinger: The price will never break below \$6 unless we have alternative sources. Either we protect them alone and give Europe a gift or we do it by an international agreement.

Ingersoll: Bill expects the cartel to collapse and prices to fall.

Kissinger: I don't believe that. If the cartel doesn't collapse we'll soon be up to 60% and OPEC will be charging \$25.

Enders: Bill believes we can do the same thing through the common tariff.

Kissinger: But Congress just legislated against the god damn tariff, didn't it?

Enders: Yes, the Treasury proposal is just not credible.

Ingersoll: He has not accepted the fact . . .

Kissinger: Is Bill back in town?

Enders: Yes, we appeared before Dingell's committee together on Monday.³ We both agreed in our statements on the need for some protection and indicated that the President would have to decide later on the mechanism to be used.

Kissinger: I don't care how we do it. That doesn't make any difference.

Enders: What reaction did you get from Faisal?

Kissinger: He has no problems with the concept.⁴ However, the press just doesn't understand. They keep asking whether I have obtained agreement from the producers to our floor price proposal.

I personally think we will be able to get a floor price within a year. If we do, we don't need agreement with the producers and we could tell them to go screw themselves.

Now where do we stand? The Germans, French and British are ready to go along with a protected price.

Enders: They're ready to accept the concept?

³ February 17. Representative John D. Dingell, Jr. (D-MI) was Chairman of the House Committee on Energy and Commerce.

⁴ No memorandum of conversation has been found of the February 15 meeting between Kissinger and King Faisal.

Kissinger: Giscard said he could agree to a price below \$7. The British want \$8.

Enders: Then the Japanese are the only major problem. They seem ready to go along with a protected price as long as they have assurances on participation.

Kissinger: Well why not let them buy in?

Enders: Your second tier lets them do that.

Kissinger: Are you discussing this with Treasury?

Enders: We haven't gotten anywhere in your absence.

Kissinger: Do they know I'm totally displeased with their actions?

Enders: They have been very docile while you were away, but I think they are ready to get on board now.

Kissinger: How do they explain the *Newsweek* interviews?⁵

Enders: Well they said they gave them.

Kissinger: Do they think it helps for them to admit it?

Enders: I don't know, but I think they are ready to go along with us.

Kissinger: Who gave the information to Joe Kraft on the PANAM thing?⁶

Enders: Treasury has been pushing it.

Kissinger: Well I was mildly favorable but I did not get a chance to study it in detail.

Next, in the IEA. You will continue to push for a floor price agreement. I will tell the French next week that we are ready to go to a meeting if they are prepared to go along with the floor price.

Enders: Should we try to set a level now or should we leave it flexible?

Kissinger: I think we ought to try for a range of \$6 to \$8. I would like you to draft a letter for me to Schmidt.

Enders: I take it you didn't like the other we sent you.

Kissinger: I was not ready, I thought it was premature. Schmidt is hipped about the danger of bank failures because of Arab maneuvering. He doesn't want to hear from us that there is no problem, he is convinced there is one. Every time he talks to Simon, Simon tells him there is no problem. Schmidt told me this doesn't help if a German

⁵ Kissinger is presumably referring to the February 10 issue of *Newsweek*. The cover story is entitled "All About the New Oil Money."

⁶ Syndicated columnist Joseph Kraft wrote about questions raised within the government about an Iranian loan to Pan American Airlines. *The Washington Post*, February 18, 1975, p. A15.

bank fails. All he wants from us is some kind of contingency plan. He is sending someone over to discuss it.

Enders: Who is he sending? Dr. Hiss? He is pretty good.

I think you should send a letter to Miki too.

Kissinger: OK, you draft it.

One more article about you in the papers, Enders and you are through. Now I'm serious about that.

Enders: Do you have any openings in Africa?

Kissinger: You know Bob, in my years here I have made one improvement. The press used to be masochistic. They used to say all the people I appointed were bad, that was wrong. Now they say all of the people I appoint are good, and that is equally inaccurate.

But Enders will you stop making inflammatory statements about economic blockade being like nuclear warfare?

Enders: Yes.

Kissinger: Next.

Enders: I'll try to work out an economic structure with Zarb for the floor price so that we'll have protection when prices drop below the trigger level.

But on the international side we'll need letters to the Japanese and Germans.

Kissinger: OK, we'll do the letters. Tell them I'm ready to go along with the meeting if they're ready to agree on a floor price. Emphasize two basic ideas: the importance of massive alternatives soon and the range of the floor price.

I talked with Giscard about Davignon's attendance at the meeting. He is agreeable to have him there as a member of the OECD Delegation.

Enders: We can't go along with that. OPEC will be there along with the UN and the OECD as observers. If we go without the IEA it signals that we are ready to drift back.

Kissinger: I'm never ready to drift back. Why should we give up our strongest assets? Tom, you deal with EUR on this. I want you to make clear that we won't go along.

Who is this Renner?

Ingersoll: He's one of Hartman's people in Brussels.⁷

Kissinger: Well send him an instruction that we don't accept the French idea.

Enders: Do you want to send a letter to Sauvagnargues?

⁷ John C. Renner was in the Office of Trade Policy, Bureau of Economic and Business Affairs.

Kissinger: Yes, but clear it with Hartman.

Enders: I'll do that. Is there anything else?

Kissinger: No.

Enders: What about our strategy on the Hill? Did you discuss this with the President this morning?

Kissinger: No.

Enders: I think we need to move quickly.

[Omitted here is discussion unrelated to energy.]

[Kissinger]: OK, I think I would like to talk without the note taker in the room.

(Note taker left at 4:10.)

44. Telegram From the Department of State to the Embassy in Japan¹

Washington, February 22, 1975, 0148Z.

40604. Subject: IEA Agreement on Alternative Sources.

1. Request you deliver the following letter from President Ford to Prime Minister Miki.

2. *Begin text.* Dear Mr. Prime Minister: Our two governments are now working with the other members of the International Energy Agency to complete an overall framework of consumer country cooperation on financial solidarity, energy conservation and the accelerated development of new energy supplies. We have already reached agreements on the first two of these. We must now complete our overall cooperative efforts with basic understandings on our approach to accelerated development.

As I see it, our common policy on accelerated development should fulfill the following requirements. It should assure rapid development of available energy opportunities in the consuming countries without giving investors a wholly risk-free opportunity. It should allow for the diversity in energy opportunities among the consuming countries, while recognizing that all consuming countries will benefit equally

¹ Source: Ford Library, National Security Adviser, Presidential Country Files for East Asia and the Pacific, Box 8, Japan—State Department Telegrams from SECSTATE–NODIS (6). Confidential; Immediate; Nodis. Drafted by Enders, cleared in FEA and by Parsky, and approved by Kissinger.

from the market impact of increased production of energy by any one of them. And it should create a basis on which stable economic and political relationships can be negotiated with the producing countries.

At my request, Secretary Kissinger has advanced a set of proposals for consumer cooperation on accelerated development. These proposals include a commitment by members of the International Energy Agency to provide protection against future price uncertainty for investors in conventional nuclear and fossil fuels in our countries, either by a common floor price or tariff; an agreement setting forth the general terms and conditions under which member countries could participate in each other's programs to develop synthetic fuels and other higher cost energy sources; and a similar agreement under which two or more member countries could pool their energy research and development efforts in specific areas and projects.

Within this framework, it should be possible to assure an equitable balance of cost and benefits among participating countries. Countries with large fossil fuel potential would achieve greater self-sufficiency, but would have to assume the larger share of the investment burden. Countries whose principal domestic energy opportunity is increased nuclear power would obtain the balance of payments and fiscal benefit of lower oil prices as investment in other parts of the IEA resulted in lower world prices. We would all agree not to increase our consumption of imported oil if prices fell.

I understand that countries such as Japan, which have relatively little domestic potential to develop fossil fuels, might be concerned over the need to assure that they would have access to the new energy supplies produced in other IEA countries under such a framework of cooperation. We understand this concern and believe that in an effort to strengthen our overall cooperative framework, we should examine the merits of possible undertakings regarding access to supply and to markets for energy produced within our countries.

I am optimistic that we will be able to make substantial progress in this area within the next few weeks and thus that we will be in a position to hold a preparatory meeting by the end of March for the formal dialogue with the oil producing countries. Clearly, we will not be able to reach detailed agreement on all aspects of our cooperation in accelerated development by the end of March.

However, I believe we must reach a firm understanding on the basic elements and principles of our overall approach on accelerated development before beginning discussions with the producers. We cannot hope to achieve agreement with producers on the elements of a long-term equilibrium of interests between us unless we as consumers have firmly established our own common measures of cooperation in this important area of our overall cooperative effort.

I would like to take this opportunity to convey to you personally my appreciation for the positive contribution Japan is making to the work of the International Energy Agency and your very constructive role in our joint effort to resolve the energy crisis. Sincerely, Gerald R. Ford. *End text.*²

3. You should raise in low key manner that it might be worthwhile to have bilateral discussions on this subject before the next meeting of the Governing Board of the IEA and inquire whether Prime Minister Miki believes that it would be useful for senior US officials to travel to Tokyo for this purpose early next month. US representatives would be Assistant Secretaries Enders and Parsky, FEA Assistant Administrator Conant.³

Kissinger

² A similar letter was sent to Schmidt on February 22. (Telegram 40613 to Bonn; *ibid.*, Presidential Country Files for Europe and Canada, Box 6, Germany—State Department Telegrams from SECSTATE–NODIS (2))

³ On February 24, Deputy Chief of Mission Thomas P. Shoesmith delivered Ford's letter to Vice Foreign Minister Togo, who assured him that he would convey it "promptly" to the Prime Minister. (Telegram 2364 from Tokyo; *ibid.*, Presidential Country Files for East Asia and the Pacific, Box 8, Japan—State Department Telegrams, To SECSTATE–NODIS (4)) Miki replied on March 4 and, raising the issue of the IEA, wrote: "In the Agency's formulation and the implementation of the specific cooperative measures for this purpose, full consideration should be given to the situation of those countries which have little energy sources to develop within their own countries and that care should be taken to present those measures in a least confrontational manner in relation to the oil producing countries." (Telegram 2828 from Tokyo, March 5; *ibid.*, Presidential Correspondence with Foreign Leaders, Box 2, Japan—Prime Minister Miki (1))

45. Telegram From the Department of State to the Embassy in France¹

Washington, March 1, 1975, 0332Z.

46576. Subject: French Invitations to Prepcn. For the Ambassador from the Secretary for delivery before 8 AM March 1. In response to Sauvagnargues' letter delivered to me February 28 and transmitted to

¹ Source: Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France—State Department Telegrams from SECSTATE–NODIS (2). Secret; Flash; Nodis. Drafted by Preeg, cleared by Enders and Hartman, and approved by Eagleburger.

you separately,² please deliver following message to Sauvagnargues in your call on him scheduled for March 1.³ This is a revised text that replaces message sent to you earlier today.⁴

Begin text: Dear Mr. Minister:

In response to your letter to me dated February 28, I have further considered carefully the arguments you put forward for sending out invitations to the preparatory meeting at this time. My strong view remains, however, that we should wait until the requisite consumer solidarity is achieved before proceeding to make formal proposals for such a meeting.

In support of this conclusion, I want to take strong exception once again to the notion that the consumers ought to gear themselves to OPEC meetings. This idea seems to be based on the premise that we cannot have a productive dialogue without taking measures to tranquilize the producers. On the contrary, as we explained in Martinique and subsequently, the preparations among consumers for meetings with producers are the indispensable elements for a successful and constructive dialogue with the producers. We intend to do our part in order to make the necessary preparations for such a meeting and, indeed, we look forward to making good progress on the major remaining issue at the next meeting of the IEA Governing Board scheduled for March 6–7.

Contrary to the suggestion that producing governments hope that the invitations will be issued prior to the Algiers summit, several members of OPEC have indicated to us that they made no final decision on the timing and composition of a preparatory meeting. Since France's intention to issue an invitation to producers, consumers, and developing countries can be a mystery to no one, it would seem prudent to de-

² Sent in telegram 46562 to Paris, March 1. (National Archives, RG 59, Central Foreign Policy Files, P850086–2207)

³ Rush delivered Kissinger's letter to Sauvagnargues on March 1. Before reading it, Sauvagnargues informed the Ambassador that France had sent the invitations to the producer-consumer conference the previous day. The Foreign Minister explained that the decision was Giscard's, which he made because he and Sauvagnargues believed that: 1) consumer solidarity had been achieved; 2) Algeria posed a potential problem in terms of agreeing to the conference's list of participants and agenda, prompting the French to distribute the invitations before the next OPEC summit meeting (which Yamani and other Arab representatives agreed was the right thing to do); and 3) "no approval of the U.S. or IEA was necessary for calling the meeting." (Telegram 5327 from Paris, March 1; Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France—State Department Telegrams to SECSTATE–NODIS (3)) Giscard sent invitations to the Chiefs of State of Algeria, Saudi Arabia, Brazil, India, Iran, Japan, Venezuela, Zaire, and the United States to attend the conference. A translation of the text is in telegram 5328 from Paris, March 1. (Ibid.)

⁴ Telegram 45836 to Paris, February 28. (Ibid., France—State Department Telegrams from SECSTATE–NODIS (2))

lay issuance of the invitations themselves until the main parties in question have made a decision on the mode and timing of their participation. To do otherwise would put at risk a process on which we both agree and which appears to be advancing properly.

I recognize of course that the French Government may be in a position in its discussions with producers wherein you might consider it desirable, even imperative, to communicate with them before the OPEC summit meeting next week regarding invitations for the preparatory conference. This may be possible with a communication that does not go to the point of a formal invitation to a preparatory meeting. You could inform the producers of the likelihood that invitations would be forthcoming shortly for a preparatory meeting along the lines of the timing we discussed last week. You might wish to relate this to the current status of deliberations in the IEA, including the importance of the March 6–7 meeting, as well as to the understanding reached with the United States at Martinique that proposals for holding a preparatory meeting would be contingent upon substantial progress among consumers in the fields of energy conservation, financial solidarity, and the development of new sources of energy.⁵

With best regards,

Sincerely, Henry A. Kissinger

His Excellency Jean Sauvagnargues,

Minister of Foreign Affairs,

Paris.

End text.

Kissinger

⁵ On March 3, Kissinger sent a message to Callaghan and Genscher regarding the conference invitations that France distributed on February 28. He relayed Sauvagnargues's justifications for sending them and told them of his previous efforts to prevent France from doing so "until the requirements specified in the Martinique agreement and in the December 19–20 IEA Governing Board decision had been satisfied." He wrote: "By issuing invitations before the OPEC meeting, we risk formation of a united OPEC stand. Algeria's reaction suggests that this is just what is going to happen." While he and Ford would do their "utmost to avoid any public debate with the French" over the issue, Kissinger said, he advised that the IEA Governing Board "take no action on the French invitation" until it reached "final agreement on alternate sources." He concluded: "For our part, we do not plan to respond to the French invitation until the established requirements are met." (Telegram 46724 to London and Bonn, March 3; *ibid.*, Box 15, United Kingdom—State Department Telegrams from SECSTATE–NODIS (3))

46. Memorandum of Conversation¹

Washington, March 3, 1975, 7:45–8:15 p.m.

SUBJECT

U.S. Energy Policy

PARTICIPANTS

Department of State

The Secretary

Assistant Secretary Enders

Mr. G.P. Balabanis (notetaker)

Treasury

Secretary Simon

Under Secretary Bennett

Assistant Secretary Cooper

Assistant Secretary Parsky

(Secretaries Kissinger and Simon met privately from 7:30–7:45)

Kissinger: Bill and I are trying to prevent contradictions from appearing about our policy. We can't have statements coming out that are contradictory.² At this juncture, we simply can't afford it.

Parsky: But that didn't happen . . . What happened was . . . if you are talking about the misrepresentation in the *Newsweek* article . . .

Kissinger: Whatever happened, we simply can't afford it being said that we have no firm policy. We can debate the mechanism of the policy, but we can't have the situation where Sauvagnargues can say the Americans really don't have a policy.

Parsky: I thought we had previously only agreed to a study of alternative mechanisms for achieving the general policy goal of encouraging conservation and development.

Kissinger: The President has approved the basic concept of a guaranteed floor price.³ We can let countries choose their own means of achieving it—whether you use peanut oil to support the price or a variable levy or whatever—but the concept of the guaranteed floor price has been agreed to.

Can we agree on this paper.⁴ This would be from Kissinger and Simon, directed to Parsky and Enders.

¹ Source: National Archives, RG 59, Records of Henry Kissinger, Lot 91D414, Box 10, Classified External Memoranda of Conversations, January–April 1975. Secret; Nodis. Drafted by Gordon P. Balabanis (EB/IFD/OMA). The meeting was held in the Secretary's office.

² See footnote 2, Document 43.

³ Ford and Kissinger discussed it during a meeting that morning. (Memorandum of conversation, March 3; Ford Library, National Security Adviser, Memoranda of Conversations, Box 9)

⁴ Not found.

What has to come out of this meeting isn't an academic study. I am concerned with our overall strategic aims. We need to have a maximum number of ties to keep the Europeans from trying to screw us. They've already screwed us in this call for the preparatory producer-consumer conference. That's why we can't afford to let them exploit public differences . . .

Parsky: But I didn't say . . .

Kissinger: I don't know what you said—all I know is that every newspaperman on my plane understood it that way. But let's not argue about the past. What we need to get settled is how we proceed from here. My boy Enders has a devious mind—he figures they won't agree to a common external tariff, so we need to have another proposal—right?

Enders: Right. They won't agree to adopt a tariff.

Kissinger: I can give you an absolute guarantee they won't.

Simon: If you think they won't agree to a tariff, why do you think they will agree to a floor price?

Kissinger: They will, if we really get behind it, and use some muscle.

Bennett: I'm worried about putting U.S. firms at a competitive disadvantage, if they have to operate with higher priced oil. That's why we need to get them to put on a tariff too.

Enders: The U.S. tariff will be phased out anyway—it is only temporary.

Bennett: What worries me is that we won't end up with an integrated program with the other consumers.

Kissinger: We're talking about entirely different things. You're saying . . . we're putting on a \$2 tariff, so you (the Europeans) do it too. What we're saying is—whatever you do now about conservation, we wish to protect against a drastic price drop later on—which will put us in a worse position of dependence than we're in now.

Bennett: What we're really talking about is getting investment in energy development. I'm absolutely convinced that a tariff will do a better job in getting the investment we need.

Kissinger: But a lot more will agree to a floor price than a tariff.

Enders: We can probably get agreement to a position which includes a fork of \$6–8.

Kissinger: What's the argument against both?

Enders: Fine, but others probably won't agree. We can't go to the Europeans and say, we are putting on a tariff, so, in order that our exporters won't be at a competitive disadvantage, you do too.

Bennett: But can't we put it this way—we all need to conserve in our own best interests . . .

Enders: They're already doing more in conservation than we are. Also, the burden of a tariff is greater on them, with their heavier reliance on imported oil.

Bennett: I don't think so. They get to keep the tariff proceeds.

Enders: Unless you can generate some support for the tariff, you need to go for the floor concept.

Cooper: I'm not sure a \$6–8 range is worth much.

Kissinger: What makes you think it's not worth much?

Enders: I think we can get \$7.

Kissinger: The French will accept it. The Germans will accept.

Enders: Maybe not Germany.

Kissinger: Schmidt told me he was for it.

Simon: The Germans will want to set a price so low it becomes inoperative.

Kissinger: I can understand your preference for a tariff, and I would go along if it were equally attainable. You've got the economic expertise, and I would yield to your judgment.

For me, having agreement on the floor price is a means of political warfare. We'll have a range going into the conference. The producers won't know what floor price we're aiming at—exactly where the trigger is—when we'll do nasty things to them.

What I want to avoid at the meeting is a discussion after which we end up doing nothing.

My preference would be to go for some bilateral deals myself. I have every intention of screwing the Europeans before they screw us.

Parsky: But they claim to like the floor price idea themselves.

Kissinger: Yes, but they claim to like a lot of things—conservation, for example. They're no longer talking so tough—saying they can put the oil price wherever they please. They no longer have that fighting spirit.

Can we agree to this paper?

Simon: I think this is the position we've had right along.

Kissinger: We can satisfy your theological points. You can go for your tariff, and they will turn you down. Then, the question is, what do we do then? Do we just go home to think it over? Or do we go right away for the floor price?

Now, I know that Enders is a pain in the neck—a genius, but a pain in the neck—

Parsky: Are we going to accept the last part of that statement?

Kissinger: You'd better watch Enders—make sure the tariff gets a fair hearing.

Parsky: Ok, then, we're anticipating that we can't get agreement on the tariff, then we go for floor price.

Kissinger: If we get them to agree to a tariff, I have no problems with that.

Parsky: You'll agree to a tariff.

Kissinger: A phased in tariff on the price drops doesn't seem very different from a floor price.

Enders: That's equivalent to a floor, what they're talking about is a tariff phased in independent of what happens to price.

Kissinger: You want to have my sense of the negotiations at this stage on getting the floor price. Once Congress has legislated the \$2 import fee, then, if we use enough muscle we can get them to substitute it or phase it in.

If everyone can live with this paper let's sign it. (to Parsky) If we sign this, will you take Simon's orders?

Parsky: I take them every day.

Kissinger: Enders never makes that claim, that he follows my orders every day. Can you imagine what it's like in a Department with both Enders and Sonnenfeldt?

I am no economist. I will take my economic lead from you—but I want to create the appearance of some objective ties—some obstacles to the Europeans going off on bilateral deals. Before any of these long-run contingencies occur, before all this happens, other things will change—I am convinced of that.

(meeting ended at 8:15 p.m.)

47. Memorandum From Robert Hormats of the National Security Council Staff to Secretary of State Kissinger¹

Washington, March 4, 1975.

SUBJECT

Report on Meetings in the Middle East

Under Secretary Robinson's trip² was a valuable step toward strengthened cooperation with OPEC and Middle East countries. Introducing Robinson to key officials as your representative gave the trip significant momentum. Robinson's meetings gave credibility to the position that we are genuinely interested in stronger bilateral ties and elicited a positive response by Arab and Iranian officials. The visit furthered our policy of "constructive cooperation" with OPEC countries on broader consumer/producer oil and financial issues, and removed much of the suspicion which had built up in Arab circles that the US was seeking a confrontation.

Several significant points emerged from our meetings. The decline in demand for oil is putting strains on OPEC. These will lead to greater friction among OPEC countries. But the common desire to maintain remunerative oil prices, and a common recognition that a price-cutting free-for-all harmful to all members could occur without some degree of organization still provides enough incentive to ensure cohesion sufficient to maintain OPEC as a viable organization.

But OPEC has lost some of its confidence. It is now searching for ways of dealing with the adverse impact on it resulting from the international economic problems it has in large measure caused. There is a possibility that, as a result of downward pressure on oil demand and thus on prices (resulting in part from conservation and new production in response to price increases of the past year, and from the worldwide recession) and of erosion of the value of reserves and oil receipts through inflation and the depreciation of the dollar, OPEC countries will take disruptive actions such as unilateral indexation, tying oil payments to SDR's, arbitrary cutbacks in production by major producers, and shifts in reserve holdings. Some countries, anxious to translate economic power into political power, will be attracted to investments which provide influence and leverage. Some will receive attractive offers from consuming countries attempting to minimize the adverse ef-

¹ Source: Ford Library, National Security Adviser, Presidential Country Files for Middle East and South Asia, Box 1, Middle East General (6). Secret.

² Robinson toured the Middle East during the last 2 weeks of February.

fects of their present economic circumstances by increasing exports and securing investment.

Our policies toward key OPEC countries should aim at achieving the following objectives: (a) reduction of the possibility of disruptive behavior by OPEC countries and their potential for separating other oil consumers from the US, (b) developing orderly international arrangements to ensure that OPEC financial resources are used constructively, (c) making other consumer countries more comfortable with an intensification of consumer cooperation by quieting fears about confrontation and easing OPEC pressures on the one hand while, on the other, letting them understand that we can beat them in competition for bilateral deals should they refuse to cooperate in a multilateral approach and indulge in excessive efforts to work out their own bilateral deals with producers and (d) complementing your political efforts to normalize relations with Arab nations and help to bring about a Middle East settlement by forging strong ties of economic self-interest.

In order to achieve the above results we should concentrate, in the following ways, on Iran, Saudi Arabia, Egypt and Algeria.

Iran, of the above mentioned nations, is politically, and economically, closest to us. It has no interest in using its oil to make life difficult for the US or the West (on the contrary, it wants to move closer to us) or to exert political pressure vis-à-vis Israel; and it has no interest in leading a crusade in behalf of the Third World. Iran wants to develop its economy and to play a growing and stabilizing political and military role in West Asia. While Iran clearly wants to prevent a decline in the purchasing power of its oil revenues (and thus has proposed indexation and a possible link of oil prices to SDR's), it is prepared to discuss with us the best method of achieving this rather than lead a unilateral OPEC effort to increase prices. Our interests lie in (a) sharing our analysis of these oil price proposals with Iran in order to avoid giving the impression that we do not take seriously Iranian concerns and (b) to find, if possible, common ground to meet our needs for oil price stability, reliable access to supplies, and constructive use of OPEC financial resources. Iran has tabled a constructive proposal for developed, developing, and OPEC cooperation to assist the poorest nations, and is willing to marry its proposal with our proposal for an IMF Trust Fund for LDC's.

In investing its own surplus revenues (which Iran expects will decrease substantially, with Iran suffering a deficit by 1977), Iran has demonstrated a genuine desire to work closely with the US. (A notable example was its ready agreement to our suggestions on how to handle the PanAm issue.) We clearly want to encourage an Iranian commitment to consult in a similar fashion before major new investments.

An ongoing process of assisting key areas of the Iranian economy (nuclear energy development, industrial projects, management and technology needs) building on the Joint Commission, and Robinson's relationship with Ansari and Amuzegar, will help strengthen our ties with the Iranians. At key points, you would want to keep the bureaucracy moving to develop specific proposals rather than generalities, and to be in touch with the Shah to stress the political context within which we are developing this relationship.

Saudi Arabia is less able to deliver the other OPEC countries behind price reductions and other constructive proposals than Yamani likes to have us believe, but is still the key actor in OPEC. Because of its huge oil reserves and excess producing capacity it will, for the next several years, be the one country which can, acting alone, significantly affect the oil market by increasing or decreasing production. It will also generate huge payments—half of total OPEC surpluses over the next decade. As a result, it will have an enormous capacity to reward or punish developed and developing countries alike through trade and financial policy. No international agreement on oil pricing or on use of OPEC reserves can have any meaning without Saudi support. If, on the other hand, we can reach agreement with the Saudis on issues of price and use of financial reserves, other countries will find it extremely difficult to disrupt the oil or financial market with any degree of success or for any significant length of time.

The key to dealing with Saudi Arabia in these areas lies in (a) constructive participation in Saudi development through the Bilateral Commission, particularly in improved cooperation between the USG, Saudi Arabia, and private US firms in manpower training and education, industrial development and agriculture, (b) ensuring a safe, profitable outlet for enormous Saudi payments reserves, giving the Saudis a stake in the health of US and other Western economies and a responsible role in the international financial system, (c) protecting Saudi Arabia from countries such as Algeria, Iraq and Libya, which can apply political pressure on the Saudis to take disruptive actions, (d) working discreetly to obtain parallel if not joint action by Saudi Arabia and Iran so the two are mutually reinforcing rather than competitive, (e) encouraging the Saudis to support constructive positions for the consumer/producer dialogue, and maintaining an ongoing bilateral dialogue on economic issues of mutual interest, (f) anticipating and developing constructive responses to criticism of Saudi policies such as the boycott, religious exclusions.

[Omitted here is a section on Egypt.]

Algeria's importance results in significant measure from its ideological leadership role. It has established itself as the policy leader for the so-called Third World, to the point where even the Saudis and Ira-

nians have difficulty in opposing outright its demagogic appeals. It is able to incite other developing countries to engage in inflammatory rhetoric or to take actions which are disruptive of the established economic order. In a political context it can put pressure on other OPEC countries to use their financial resources as policy instruments of a harder Arab position vis-à-vis Israel. And it is able to place substantial pressure on the Saudis vis-à-vis Israel. While Boumediene's depth of conviction makes it unlikely he can be "bought off," he is a pragmatist highly concerned with Algeria's domestic interests. A strengthening of our bilateral effort to support Algerian development would to some extent produce a trade-off in diminished Algerian opposition on world economic and, perhaps, political issues. Algeria's strong concern that we are seeking to push oil prices down to harm its economy, and therefore its strong resistance to any policy aimed at lower prices, might also be allayed by an effort to assist Algerian economic development. While one cannot but have serious doubts about the wisdom or the viability of certain aspects of Algeria's costly and ambitious development policy (which will lead to a \$2 billion trade deficit in 1975) there are areas in which we could make a limited contribution. We might also find ways of channeling Saudi and Kuwaiti capital into Algeria. These countries might see it in their interest to provide capital if it were helpful in bringing about a more constructive Algerian position on international political, economic, and energy problems.

Recommendations. The consumer/producer conference represents a psychologically important step toward a more constructive relationship with producers as well as an ideal opportunity to begin a dialogue which can prevent both producers and consumers from taking disruptive actions. Preparations within the USG for the conference should reflect not only the views of those immersed in IEA activities but also of those who are conversant with issues relating to the producers. They should focus on using the conference to begin a dialogue which places special emphasis on dealing with the most constructive and moderate producers in order to strengthen their influence and minimize that of the more radical countries. In order to do this and to have the best chance of achieving constructive understandings, the time devoted to the plenary session should be minimized; the emphasis should be placed on working groups established to deal with special issues—recycling, investment by producers in developed countries, development of producer nations, aid to developing countries, long-term security of oil supply, and a mutually acceptable understanding on oil prices (including a dialogue on inflation—i.e., how producers and consumers can cope with and minimize it—which would avoid commitments to indexation or unilateral action). In virtually all of the working groups, the Saudis and Iranians would be able to play the key role. With them

we could create a manageable atmosphere conducive to constructive solutions rather than rhetoric.

Your personal prestige will be called on increasingly to ensure progress both on bilateral cooperation (which is essential given the tendency of technicians to debate endlessly on many of these issues) and the multilateral energy and financial issues. Careful preparation and increased coordination within the USG will be necessary. It would be extremely useful for Chuck Robinson to assume responsibility for, and to work directly under you on, supervision and coordination of our various initiatives with producers. He is in a strong position to coordinate bilateral and multilateral initiatives, to ensure that these initiatives proceed in step with your political initiatives, and to maintain consistency between our evolving relationships with producers and preparations for the consumer/producer dialogue. Using the Under Secretaries Committee and other interagency and intradepartment apparatus, Robinson is in an excellent position to pull together the various policy threads and to develop a balance among our economic interests within your established political framework.

48. Editorial Note

On March 6, 1975, OPEC capped a 3-day summit in Algiers by issuing a 14-point "Solemn Declaration." The points most relevant to the industrialized oil-consuming nations included: the agreement "in principle to holding an international conference bringing together the developed and developing countries," but one that "can in no case be confined to an examination of the question of energy" and "includes the questions of raw materials of the developing countries"; the declaration that "their countries are willing to continue to make positive contributions towards the solution of the major problems affecting the world economy, and to promote genuine cooperation which is the key to the establishment of a new international economic order"; the recognition of "the present disorder in the international monetary system and the absence of rules and instruments essential to safeguard the terms of trade and the value of financial assets of developing countries"; and an expression of the belief that "an artificially low price for petroleum in the past has prompted over exploitation of this limited and depletable resource and that continuation of such policy would have proved to be disastrous from the point of view of conservation and world economy."

(Telegram 630 from Algiers, March 7; National Archives, RG 59, Central Foreign Policy Files, D750080–0645)

The next day, March 7, the International Energy Agency Governing Board addressed the last point by reaching an agreement on a “minimum price concept” and “other elements” from Secretary of State Henry Kissinger’s February 3 speech (see footnote 4, Document 39). The Board also recommended to the European Community, Japan, and the United States that they accept France’s invitation to a preparatory producer/consumer conference, referred to as “Prepcon.” (Telegram 5952 from USOECD Paris, March 7; Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France—State Department Telegrams to SECSTATE–NODIS (3))

At its March 20 meeting, the Board formally adopted a “three-tiered alternative sources policy” that included the “establishment of agreed common minimum price level below which imported oil will not be sold in domestic economies” and the “identification of price level by July 1, 1975.” Furthermore, because the Board felt that “satisfactory progress in the three areas of consumer solidarity” had been made, it formally recommended that the IEA membership accept France’s invitation to the Prepcon, which Assistant Secretary of State Thomas Enders believed appeared “more and more likely to result in little precise agreement.” (Telegram 7179 from USOECD Paris, March 20; *ibid.*)

49. Memorandum of Conversation¹

Washington, March 25, 1975, 3:45–4:05 p.m.

SUBJECT

Tactics for Producer/Consumer PrepCon

PARTICIPANTS

The Honorable Henry A. Kissinger, Secretary of State
 The Honorable Robert S. Ingersoll, Deputy Secretary of State
 The Honorable Charles W. Robinson, Under Secretary for Economic Affairs
 The Honorable Winston Lord, Director, Policy Planning Staff
 The Honorable Thomas O. Enders, Assistant Secretary of State
 Mr. Robert Hormats, NSC Senior Staff Member
 Mr. Samuel W. Lewis, Deputy Director, S/P
 Mr. Lawrence R. Raicht, Deputy Director, EB/ORF/FSE

Robinson: Rather than sending you four cables, we have put together a single paper to go over with you.² We have four additional questions requiring your decision. The issues are:

- How much we should aim to settle at the Prepcon, and whether we should go along with a request for a second preparatory meeting;
- How to play the representation issue with the Algerians and Europeans;
- What kind of press play we should aim for; and
- Our representation.

Kissinger: I think the more Prepcons we have, the better. As you know, I have never been eager for a conference with the producers.

Enders: We are concerned about having more than one Prepcon. It could become a continuing meeting which would eclipse the IEA and slide into substantive matters. We want to avoid this, but if we can't settle everything at this meeting there may be a push for a second prepcon.

Kissinger: Who wants another meeting?

Enders: The Europeans do to settle whether they will come as one or nine after the UK referendum on the EC.

Robinson: I believe that's scheduled for May.

¹ Source: National Archives, RG 59, Records of Henry Kissinger, Lot 91D414, Box 10, Classified External Memoranda of Conversations, January–April 1975. Secret; Nodis. Drafted by Raicht on March 26. The meeting was held in the Secretary's Conference Room.

² The paper, "Producer/Consumer Prepcon—Tactics," is actually an action memorandum that required decisions from Kissinger. (Ibid., Box 1, Nodis—Miscellaneous Documents and Telegrams)

Enders: The EC can not make up its mind whether they will be represented as one or separately. The smaller countries don't want to be left out and the UK has made clear that it expects to have its own seat. The other EC countries hope that after the British referendum, the UK will be able to agree to a single EC representative.

Kissinger: We certainly don't need a meeting just for that.

Robinson: Yes, but we should be aware of this problem.

Enders: On the first issue, the question is how much we want to close out at this meeting.

Kissinger: Before we get to that, who the hell represents us at the conference?

Robinson: That's covered in the 4th question. You have agreed we should avoid substantive issues. We've outlined 3 alternatives on representation on page 6. Myself, initially, with Tom to replace me, or Tom, or Jules Katz as the representative, to emphasize our intention to keep the prepcon strictly on procedural issues.

Kissinger: How long is this meeting going to last?

Robinson: There has been talk of a 2 week meeting.

Enders: I would guess about 1 week.

Kissinger: Well, I already told the Saudis that you (to Robinson) would be our representative, so I think you will have to do it. Who are the Saudis sending?

Robinson: It could be Prince Saud, or possibly Yamani after the King's death this morning.³

Kissinger: I think Saud was scheduled to be there, not Yamani.

Robinson: That's true, but there may be a change as a result of this morning's events.

Kissinger: Well, I think you (to Robinson) should be there.

Robinson: I agree, I think it would give me some continuity in my dealings with producer countries. I talked to Shultz about this and he agrees too.

Kissinger: What is this question you have raised in here about the US commitment to the IEA?

Enders: It's essentially playback I got at the last Governing Board meeting⁴ from several European delegations, from events in the Middle East.

Kissinger: From whom?

³ King Faisal was assassinated on March 25. Faisal's brother, Khalid, succeeded him as King of Saudi Arabia.

⁴ See Document 48.

Enders: I don't know from whom in the Middle East, but several delegations asked me if we had flipped our strategy.

Kissinger: Who?

Enders: The German delegation, the British, and Davignon all raised it.

Kissinger: Yes, and each of them are dealing separately with the producers on this.

Enders: Yes, that's true.

Kissinger: We are the only IEA virgins.

Enders: Well, we have to stick with them in the IEA.

Kissinger: First, we must protect ourselves against their treachery. I am convinced that we can expect the same kind of thing to develop in the conference with the producers as occurred during the European Security Conference.⁵

However, the IEA is a major effort to achieve consumer solidarity and we are not going to jettison it now.

Enders: I made that clear at the Governing Board meeting. I see my role at the prepcon basically as keeping the Europeans under control.

Kissinger: OK, but I want to maintain the option of going the bilateral route if they get unruly. We must not be the last to do bilaterals.

When is the conference?

Robinson: It's scheduled to start April 7.

Kissinger: When are you going to Moscow?

Robinson: Tonight.

Kissinger: You're coming back before the conference, aren't you?

Robinson: Yes, I'll be back at the end of the week.

Kissinger: Then we can meet again before the conference.

Were you planning to go to Jordan during your Middle East trip?

Robinson: No, I wasn't.

Kissinger: Well, I may want you to go there and to Saudi Arabia. I think in light of today's events we should show the flag there.

Enders: The next issue is, should we leave any of the procedural questions open at the prepcon?

Kissinger: I want the IEA to have the same status at the meeting as OPEC.

Enders: It does, in fact IEA is better positioned. It has been invited, OPEC has not.

⁵ The Conference on Security and Cooperation in Europe, the last meeting of which took place in December 1974.

Kissinger: What about a rotating chairmanship? I am attracted to that idea.

Enders: I think it's fine; it is not effective, but it would solve a lot of the political problems.

Hormats: But how do we solve who chairs within each of the 3 groups: LDCs, Producers, and Consumers?

Kissinger: I think we stick strictly to the Martinique formula.

Enders: That's exactly what I told the French. They agreed.

Kissinger: Don't the French think the formal conference is going to be in Paris?

Enders: Yes.

Kissinger: Well, I assumed it would be in Paris from the beginning but I would prefer Vienna.

How about Geneva?

Enders: That would be better; it might also enable you to do both the Producer/Consumer conference and the Arab/Israeli meeting.

Robinson: The French would never accept New York.

Kissinger: OK, I think we should go for Geneva.

Hormats: I wonder whether we should insist on unanimity.

Kissinger: What other options are there?

Enders: The other option is a UN-type of consensus. You recall the problems we had with that at the General Assembly Special Session.

Kissinger: The problem with unanimity is that it would give everybody a veto.

You know, I never felt this conference was needed. If everyone has a veto, I don't see what can come out of it.

Enders: I agree the unanimity approach would give everyone a veto, but I think we need this. Essentially, this means that either the Algerians or we could block decisions.

Kissinger: I don't believe the Algerians are looking for a confrontation.

Enders: Yes, but the Algerians don't want the conference to succeed. They are using it for the same reason we are, to build LDC solidarity.

Kissinger: Do we want it to succeed?

Enders: The Algerian objective is really to expand the dialogue to include all raw materials. We must avoid that.

Kissinger: What about the press play? What are you talking about here?

Enders: The Algerians will have all of their speeches in the press immediately. They will try to dominate the producer/LDC side. How do you want us to play it; should we deadpan?

Kissinger: I think you should give a briefing every day, but be matter of fact and cool with the press. Make it clear that we are not there to discuss substance, only procedure.

Robinson: I think that gives us the guidance we need on that. The rest of the recommendations are in line with the ones I got in my conversations with George Shultz.

Kissinger: I would give a thoughtful procedural speech. Let the Algerians dominate the substance but don't debate them. The art here is to look positive without getting carried away by your rhetoric.

Robinson: That's pretty much in line with our thoughts.

Lord: Are you clear on the representation issue? The 12/6/6⁶ formula?

Robinson: 12 consumers gets hung up with the UK representation issue.

Kissinger: Suppose all 9 of the EC come.

Enders: That means the conference will get substantially larger, but we may want that to happen.

Kissinger: I'm convinced that the French will do the same thing at this conference as they did at the European Security Conference, and I want to take out some insurance against that.

Robinson: Where do you want me to go on my trip to the Middle East?

Kissinger: I think you should visit Iran, Jordan, and Saudi Arabia.

Robinson: OK, we can talk about that later.

The meeting ended at 4:05 P.M.

⁶ Twelve oil-consuming countries, six oil-producing countries, and six LDCs.

50. Telegram From the Department of State to the Embassy in France¹

Washington, March 29, 1975, 2003Z.

71725. Subject: Letter From Secretary Kissinger to Minister Sauvagnargues.

1. Please pass the following message from Secretary Kissinger to Minister Sauvagnargues.

2. *Begin text.* Dear Mr. Minister: In President Giscard d'Estaing's letter to President Ford of February 28, 1975,² France extended an invitation to the United States to attend a preparatory meeting in Paris beginning on April 7 to organize an international conference on energy.

During our meeting at Martinique in December, we agreed that a formal conference with the oil producing nations and developing countries will be necessary and that it should be carefully prepared. In this regard, we were in agreement that a preparatory meeting should take place only after the oil consuming industrialized countries had made substantial progress toward cooperation in energy related financial matters, energy conservation and the development of new energy supplies.

Satisfactory progress in the first two of these three areas was achieved in January and February. At its meeting of March 20, 1975 the Governing Board of the International Energy Agency agreed on the principles and elements of a coordinated system of cooperation in the development of new supplies.³

Certain elements of that system—notably a minimum protected price for imported oil—may fall within the competence of the European Community, and I understand that their application will be discussed between France and the other members of the Community, participants in the IEA, in the near future.

As you know, Mr. Minister, our representatives have held several discussions of the concepts of the new IEA alternative supplies policies. From these discussions, we have formed the hypothesis that France is not hostile in principle to these concepts. On the basis of that hypothesis the United States is of the opinion that the first stage of the sequence agreed at Martinique has now been completed.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D750111–0616. Confidential; Priority. Drafted by Enders, cleared by Preeg and Sonnenfeldt, and approved by Kissinger.

² See footnote 3, Document 45.

³ See Document 48.

Therefore, Mr. Minister, I am pleased to accept your invitation to attend the preparatory meeting beginning on April 7. I understand that you intend the meeting to confine itself rigorously to procedural matters. That is a correct approach, in my view, which US representatives are instructed strongly to support. We very much desire a successful meeting, and the United States delegation will be prepared to work actively to that end. I agree that the problems which the international community now faces in the area of energy require our most urgent attention and close cooperation.

After the preparatory meeting, we can use Martinique's Phase III—intensive consultation on consumer positions—to determine the way in which alternative sources policy and other consumer positions should be implemented.

With warm regards, Henry A. Kissinger. *End text.*

Kissinger

51. Telegram From the Department of State to the Embassy in Saudi Arabia¹

Washington, April 1, 1975, 0035Z.

72746. Subject: Tactics for Forthcoming Prepcon and Consumer/Producer Conference.

1. At earliest opportunity and prior to departure Saudi delegation for Prepcon, you should meet with Oil Minister Yamani to convey our views and to discuss what we see as contributing to a successful conference.²

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D750111–0881. Secret; Immediate. Drafted by Dickman, cleared in EB and S/P and by Robinson and Hormats, and approved by Sidney Sober (NEA).

² On April 2, Akins reported that he had met with Yamani before receiving the instructions contained in this telegram, but that "many of the points were, however, discussed with the Minister." Yamani informed him that Prince Saud would not attend Prepcon and had not yet decided who would go to the meeting. Yamani stated that Saudi Arabia "would like to cooperate with the United States," but was "not sure how close or overt this cooperation should be." Regardless, he assured Akins that Saudi Arabia would "oppose any dramatic moves on the part of the OPEC radicals," and that "above all Saudi Arabia wishes to avoid confrontation" between the producers and the consumers. Because Akins had met with Yamani before the latter left for Beirut and Europe, he prepared a paper summarizing this telegram and left it with Yamani's office, which assured the Ambassador that Yamani would receive it before his departure. (Telegram 2391 from Jidda, April 2; *ibid.*, D750115–0559)

2. First express our pleasure that Yamani will continue as Minister of Petroleum under King Khalid and ask if Prince Saud is still scheduled to represent SAG at the Prepcon. Because of the very special relationship between our two countries, our position as the world's largest oil importer, and Saudi Arabia's position as a producer with considerable discretionary ability to swing its production up or down, we believe we will jointly benefit through close consultation and cooperation. We are well aware that Saudi Arabia will play a very significant role and we want to maintain close contact with the Saudi delegation in Paris.

3. You should mention to Yamani that we are also well aware of Saudi interest in making a producer/consumer conference a success. We assume the Saudis (like ourselves) do not want to see the conference degenerate into polemics or end up in a producer-consumer confrontation. We feel this is even more important now with the new leadership in the Kingdom following Faisal's assassination. As Yamani knows, we have been reluctant to go along with any producer/consumer conference until both sides were very well prepared because we thought it would fail otherwise. If the Prepcon and a future conference are to succeed, much will depend on whether we can agree on an agenda both sides can live with.

4. As Yamani knows from his last meetings with the Secretary in Riyadh,³ we intend the American approach to be cooperative. The Secretary in his latest press conference on March 26 said: "We believe that the consumer-producer conference is being conducted in the interests of both sides for the common benefit, for the interest of a developing and thriving world economy, which is in the interest of producers as well as consumers and should not be tied to the situation in the Middle East. Therefore, we are proceeding with our preparations for the consumer-producer conference, and progress is being made in that direction, and we find it essentially on schedule."⁴

5. You should tell Yamani that we think we are close on basic approaches to the conference: We agree that (A) we should keep the representation limited to a relatively few key countries; (B) we both have obligations toward the MSAs, including promotion of the production of fertilizers; (C) stable economic conditions in the Western world are needed to allow Saudi Arabia to pursue its goal of rapid economic development in the next decades and for the West to fend off Communism/radicalism; (D) measures for conservation and the search for alternative sources of petroleum must be accelerated; (E) we must work within and not outside of existing international monetary mechanisms;

³ See Document 41.

⁴ The text of Kissinger's press conference is in *Department of State Bulletin*, April 14, 1975, pp. 461–470.

and (F) whatever the causes of the present energy problem it can be turned into an opportunity for producer/consumer collaboration. We do not want to use a conference to assess blame on any particular parties because this would be unproductive and could lead to a confrontation. Rather, we want to look to the future on how, through close bilateral cooperation, we can bring about general cooperation between producers and consumers.

6. As we see it, Prepcon is beginning of a process which will give us a better basis for relating to each other on issues of mutual concern. To avoid misunderstandings, we would like to set forth to Yamani our hopes for the Prepcon which we hope Saudis could support: (A) an agenda which covers recycling, industrialization of producer economies, aid to LDCs, inward investment, and pricing and security of supply; (B) recognition of need for dialogue on other raw materials but maintaining focus of this conference on energy and leaving other commodities for discussion in more appropriate forums such as forthcoming UNGA Special Session; (C) holding participation in producer/consumer conference to manageable proportions so that it does not deteriorate into a circus; (D) a neutral site for future conference; and (E) agreeing in principle that conference should be held as soon as practicable but leaving actual date open to ensure that we are all adequately prepared.

Kissinger

52. Airgram From the Ambassador to Saudi Arabia (Akins) to the Department of State¹

A-23

Jidda, April 13, 1975.

SUBJECT

War for Oil

The attached paper was written to be given as a speech in the United States. Many Arabs, particularly Saudi Arabs who were most intimately threatened in the various articles on occupation of Arab oil

¹ Source: Washington National Records Center, OSD Files: FRC 330-78-0058, Box 70, Middle East 381, 1975. Confidential. Drafted by Akins on April 5. Repeated to selected posts in the Middle East, Europe, and the Far East and to COMIDEASTFOR, USMTM Dhahran, and USCINCEUR. A stamped notation reads: "Dep Sec has seen."

fields,² believed that the U.S. Government inspired the articles, that it was preparing the U.S. public for a new war. This Embassy believed the speculation should be stopped by a forthright condemnation of the idea of invasion. The Department, however, believed that it might stimulate more public doubt on the subject and suggested that the paper be submitted as an airgram or given as a classified talk to a Washington audience. It is herewith submitted. It could be given later as a speech.

The military aspect of invasion has been discussed with the American military officers in Saudi Arabia. The action of Iran which is crucial in many of the invasion articles, has been discussed with the Iranian Ambassador in Saudi Arabia. The technical aspects of destruction of the oil fields have been discussed with Aramco staff. The conclusion, of course, is my own.

Akins

Enclosure No. 1³

[Omitted here is a table of contents.]

WAR FOR OIL:
ARMAGEDDON AS FUN CITY

I. Introduction

Secretary of State Henry Kissinger in an interview in January said the United States would react with force if we were being *strangled* by a cutoff in oil deliveries. The question was hypothetical, but no one could maintain that there could have been any other response than the one he made. To have intimated that we would simply allow ourselves to be “strangled” would have called for his immediate impeachment. Secretary Kissinger in a subsequent interview said that he obviously had not meant there could be military action just to bring down oil prices.

The implications of the first remark nonetheless were noted with concern in most of the Organization of Petroleum Exporting Countries (OPEC) and in Europe. Many of them condemned the Secretary and the United States for this “provocation.” Saudi Arabia made no public statement and no representations to us. Saudi officials told us in private discussions that they understood what the Secretary meant and they trusted us. In spite of significant differences of opinion and actions on the Middle East problem they regarded their friendship with us as a cornerstone of their foreign policy. They knew we knew this and they

² See Document 30.

³ Drafted by Akins on March 1 and revised on March 30.

knew Saudi Arabia was too important to the United States and its allies for us to jeopardize this close association.

The invasion issue would probably have been quietly forgotten had it not been picked up, embellished, and presented to the world in five separate articles, all of which were widely quoted and discussed in the United States, Europe, and the Middle East. The first was in a prominent journal of intellectual opinion; it appeared shortly after Secretary Kissinger's statement and was reproduced in the Sunday edition of Washington's morning newspaper. Then there were two articles in widely-circulated American newspapers which were based on "sources" inside the Pentagon. Then in mid-February, the Sunday edition of another major newspaper carried a detailed account of how many actions could be taken against OPEC short of war but that even war could be carried out if necessary and occupation of Arabia should be easy. Most recently and most provocatively was the lead article in the March issue of a literary magazine. Some of the articles and the related commentary concentrated on military action against all the Arabs, some against the Arabs of the Persian Gulf, but a common theme to all of them was the necessity of occupying Saudi Arabia. Some insisted this move be taken immediately as the West was already being "strangled" by the high oil prices; all five articles agreed this would be done in time of war. And all five agreed that only Saudi Arabia had enough oil to force down world oil prices. The premise, on which all the articles were based, was that the high price of oil is the main problem the world's economy faces today; that inflation and unemployment are caused by the price of oil and that there is no way we could or should cooperate with the OPEC countries. This being accepted, the authors continued that we have the *right* to take the oil, that we could take it with a minimum of difficulty, that supplies would be disrupted for only a very short time, that Saudi Arabia and its OPEC allies would be powerless to react, and that the Soviet Union, because Saudi Arabia was a "friend" of the United States, would not intervene or allow its Middle East allies to intervene.

Invasion, it was argued, would be simple, cheap and easy. Furthermore, it would be morally justified. In fact, it is a moral imperative for us to take over Saudi Arabia, produce its oil and sell it for almost nothing. The world's inflation would then be cured; unemployment would end; and we would devote ourselves to the task of finding new energy sources when the Saudi oil would finally be exhausted. The losers would clearly be the Saudis. To some, the dispossession of six million Saudis would be regrettable, but—it would be argued—a small price to pay for world happiness. The 200 million living in other OPEC countries: Indonesia, Iran, Venezuela, Nigeria, Algeria, would of course also be hurt but they would not be invaded. Their loss of income

would just be one of life's difficulties to which they would have to adjust.

The January article was answered by I.F. Stone in the *New York Review of Books* February 6. In his essay "War for Oil," Mr. Stone condemned the immorality of the invasion proposal and details how it could lead the world and particularly the United States to disaster. The invasion proposal, as such, was attacked by Terence McCarthy in the March issue of *Ramparts*. His thesis was that the United States, unable to discipline itself into facing its internal economic problems, would attempt an external solution. It would try to seize the Arab oil fields, restore its own prosperity, and reduce Europe and Japan to vassalage. It would also run the very real risk of a nuclear war in which the Soviet Union, because of its still fairly primitive society, would be the *relative* winner.

I gave a press interview in Jidda in early March in which I characterized those who call for war as being criminally insane.⁴ The interview was widely quoted in Saudi Arabia and the Arab world and Prince Fahd, now the Saudi Crown Prince, said this went a long way toward defusing the issue. Secretary Kissinger in Riyadh on March 19 said again that war for economic reasons was impossible, that our policy was "cooperation not confrontation." His statement was quoted in the Arab world, but was lost in the United States in the flurry over the deterioration of Southeast Asia.

The feeling of unease in the Middle East continued. True, the polls and letters to the editors in the United States strongly condemned the invasion idea, and the articles by Stone and McCarthy were favorably quoted. Yet even those who opposed a war for oil assumed that it was a possibility. Some even publicly expressed their fears that the United States was preparing its people for a new military adventure. This fear, unfortunately, was shared by many in the Middle East—some even in Saudi Arabia.

There was another flurry of excitement in the Middle East—particularly in Saudi Arabia—at the time of the death of King Faisal. We were

⁴ In an interview with Robert D. Kaplan almost 2 decades later, Akins said: "I remember when a large number of reports appeared in the American media about the United States occupying the Arabian oil fields. I gave a TV interview saying that 'anyone who thinks that should happen is a madman, a criminal, and an agent of the Soviet Union.' Well, it turns out that Kissinger was the briefer behind those reports (it was Kissinger's way of making the Arabs nervous). Had I known that, I obviously would not have chosen the words I did. I may be brazen, but I'm not suicidal." (Robert D. Kaplan, *The Arabists: The Romance of an American Elite*, p. 176) This incident and the views expressed in this paper helped lead to Akins's recall from his post in August 1975. Kissinger's August 20 letter to Prince Saud informing him of Akins's recall from Saudi Arabia is scheduled for publication in *Foreign Relations, 1969–1976*, volume E-9, Documents on Middle East Region; Arabian Peninsula; North Africa, 1973–1976.

alleged to be alerting the Seventh Fleet, to be preparing our citizens for evacuation, to be spreading the story of disturbances in the Kingdom in order to justify occupation of the oil fields to prevent sabotage.⁵ No matter that there had been no disturbances.

The main reason for this continuing fear of war is almost certainly that there has been no strong, detailed condemnation of the invasion concept by a member of the American Administration, no analysis of why it could bring only disaster to the United States and to the world, and why it could not be considered for both moral and practical reasons. This is what I intend to do.

II. The Flaws in the Basic Premise and the Moral Issue

There can be no doubt that the sudden rise in oil prices by 400 percent has contributed to the world's current economic ills. But it is conveniently forgotten that the world faced a serious inflation before the massive oil price increases of 1974; that unemployment was large and growing; that wages were growing faster than productivity; in short, that we were living beyond our means. Imported energy helped our economic expansion for over twenty years. It enabled us to escape the consequences of increasing real wages faster than productivity increased. Oil was very cheap. Its price, even in current dollars, declined from 1950 to 1972 and its 1972 price in constant dollars was half that of the early 1950's. The oil producing states increased their incomes only by allowing production to grow faster than real prices declined. All of the oil producers, by 1970, had come to realize that their oil reserves were finite, in some cases quite small; all could see when their oil production would start to decline and all had begun to think of how to increase income per barrel. All, that is, except Saudi Arabia which was and is unique.

It is a truism to state that oil is a wasting asset, that once used it is gone forever. But most consumers chose to ignore this; they compared the profit on a barrel of oil with the profit on a bushel of wheat and they seemed convinced that the comparison was valid. The oil producers, on their side, believed they must maximize their income, invest their money and prepare to face the post-oil age.

With the shortages caused by the Arab oil boycott in late 1973, all OPEC countries saw what the world would pay for oil. The Shah of Iran announced that OPEC would no longer subsidize the industrialized West. The era of cheap oil, he said, was over forever. OPEC took

⁵ A July 19, 1973, analytical summary of contingency plans in the event of instability in Saudi Arabia, requested by Kissinger on July 12, 1973, is scheduled for publication *ibid.*

advantage of its new knowledge to increase oil prices, some say to intolerable levels.

It would surely have been far better if the world had agreed to a gradual increase in oil prices, but the consumers before 1973 were not willing to consider such ideas. Our professional soothsayers told us oil prices were low of necessity and would go even lower. We believed them and we did nothing to develop alternative sources of energy. But can it be pretended that the current high cost of oil is the sole source of our economic problems? Or can anyone seriously think that a forced reduction of oil prices could miraculously solve all our problems? To think so is to share the fairytale beliefs of certain academicians newly converted to the dubious pleasures of militarism. Alan Greenspan, the President's chief economic advisor put very well recently: We had inflation before the oil price increases and we would still have it if oil prices decline. Inflation, he said, is a productivity problem, not a commodity problem.

No discussion of price gouging would be complete without some reference to our own role in food exports. The same magazine which in March carried an article calling for the immediate invasion of Saudi Arabia carried in its February issue an article which asserted that our monopoly of food exports was more complete than OPEC's in oil and much more damaging to the underdeveloped countries. Wheat prices go up by 400 percent; rice by 300 percent; soybeans by as much and we speak only of "market forces" of "supply and demand" but the effect on the consumer is as brutal as that caused by any cartel.

Even if oil prices were as crucial to the world's economy as is pretended, and even if food prices or declining productivity were irrelevant, could we seriously propose invasion, an act of international brigandage so contrary to our national traditions and repugnant to our religious heritage? Senator James McClure of Idaho asked in January if our Viet-Nam venture would have been justified in the eyes of the New Hawks if we had said we had gone to South Asia to appropriate its rice to feed the world's poor.

To say that we have the right simply to take oil or any commodity because its price is too high, as our authors have suggested, threatens the relatively stable political order the United States has hammered together since the Second World War. After a successful seizure of the Arabian oil fields—why not foreign deposits of bauxite, lead, zinc, tin, chrome, and other resources in short supply? Even renewable resources such as rubber, cotton and food would seem fair game. To postulate that the United States and only the United States would be allowed dispensation for such imperialistic action would be naive. Yet one writer who purports to be a "defense consultant" concluded his article calling for invasion of Arabia by asking why we needed to spend

\$85 billion a year for our Armed Forces if we were not going to try to get something out of them. Presumably he had never heard of Defense or of Deterrence.

There are ample recent historical precedents for aggression of this sort, but they are not ones we should be quick to quote. Japan went to war to establish its "Greater East Asian Co-prosperity Sphere"; that is, to secure access to land, tin, rubber, rice and oil. Hitler said he had a "right" to Poland because the efficient Germans could use the land more effectively than the "lazy Slavs." Hitler also found the concentration of wealth in the hands of Jewish merchants an intolerable burden to Aryan pride. While neither the Japanese nor the Nazis pretended to benefit the entire world, the parallels between their actions and these new proposals are close enough to be uncomfortable.

Senator McClure commented on his amazement at the call for invasion and wonders why it had not been soundly denounced in the United States, particularly by those who deplored our Viet-Nam war. Why, he asked, is every newspaper in the country not besieged with letters decrying the immorality of such an idea? He and others have commented on the curious transformation of Viet-Nam doves into Middle East hawks.

The entire idea of invasion by the United States should be laid to rest solely by the moral argument. There should be a wave of indignation, of outrage that the idea is considered and even justified by respected intellectuals. Invasion for economic reasons is something one would expect to read only in standard communist propaganda describing the moral bankruptcy of America. Unfortunately, the idea continues to be discussed; and the conclusion in some parts of the world—at least Europe and the Middle East—is that someone may be trying to soften up the American people for a new war; that American morality—at least as publicly expressed—has been blunted. If such is the case, and I am certain it is not, then it would still be necessary for us to examine carefully how United States interests would be affected by such a war before advocacy of war be translated into policy.

[Omitted here are sections on "The Reactions of Others to Invasion," "The Invasion and its Costs," "Saudi Actions and Reactions," and "The Length of the Cutoff and the Consequences."]

VII. *The Alternatives to War*

This Armageddon scenario is postulated because it is alleged there are no alternatives. It is alleged that capital accumulation in the OPEC countries will be so enormous the world will not be able to adjust to it. The New Hawks heap scorn on those who say the problem can be handled in the context of normal trade, banking and investment.

Yet the alternatives to war are in fact straightforward and not at all esoteric. They would entail some transfer of real wealth, but this would not be the first time in history this had happened. They could entail some temporary leveling off in increasing standards of living, but this need be only of short duration. Charles Shultz, now with the Brookings Institute, wrote in the *Washington Post* the end of January that “over the Seventies we might have expected real consumption per capita to grow by 30 percent; the higher oil prices, when fully paid for, will reduce this to 27 or 28 percent. Important, yes. But worth a Middle East War?” Robert Roosa, Carroll Wilson and three non-Americans, in an excellent article in the January issue of *Foreign Affairs*, pointed out that high oil prices are a form of forced saving—a means of capital accumulation—and they suggest how this could be put into productive use in Europe, Japan, and the underdeveloped world. A proposal for an OPEC mutual fund would bring the money into the areas where it was needed, would supply capital for new ventures, would create a new wealth, and we would have a no-lose situation. Professor Richard Cooper of Yale even thinks there is an excellent chance “this second great Arab eruption into Western history will, in the end, leave both the West and the Middle East more sound and secure than ever before.”

The Arabs would profit through their investments and the developed world would also profit through a renovation or the expansion of its industry and increased employment. Some of the new American industry might be partially owned by foreigners, but this would not be a new experience in our history. Nor should it be objectionable to a country which itself has made such massive foreign investments.

The figures of surplus OPEC funds have been grossly exaggerated. We have heard of capital accumulations or unspent money of \$1.2–\$1.6 trillion in the next decade. The most recent U.S. Treasury studies indicate it will be more in the order of \$300 billion. Some of this will be invested in the United States, some will be invested elsewhere. If we are lucky enough to entice half of it to the United States, i.e., \$150 billion, this would amount to less than 4 percent of the \$4 trillion of *new* investment we need in the next decade.

While some OPEC countries might be able to gain positions of influence in a few companies, their accumulated capital scarcely would permit a “take over of American industry.” Some American companies do not find Arab or OPEC capital to be in any way offensive or dangerous and are now trying to get Saudi capital into the States. While relatively little has come yet, there is no doubt it will come unless legal obstacles are placed in its way.

Saudi Arabia has already agreed this year to place enough in Treasury notes and FNMA issues to cover more than half our balance of payment deficit—scarcely action of an enemy country. I would not

venture to say how much longer they will continue their investment in view of the provocative statements and articles coming out of the United States. Not very long if the invasion threats are taken seriously. I hope, however, we can end now all speculation that the United States could consider invasion of an oil producer merely to bring down oil prices—or indeed for any other reason than actual “strangulation” in its precise meaning: that is, we are dying and we take desperate action, no matter how dangerous, to save ourselves from death. Scarcely a description of the gasoline shortages of the winter of 1973–74, or of the economic situation in the world today—even if our problems could all be ascribed to high oil prices.

VIII. Conclusion

There are several crucial questions which need to be asked about all those who are advocating confrontation—economic or military. We need to know their motives. Why are they proposing risking the destruction of the Western alliance, even nuclear war? Why are they advocating a policy in which the only conceivable winners would be the two great communist nations? And neither of them could “win” a nuclear war, any more than could we. Why the concentration on the Arabs as the enemies when other countries in OPEC have been fully as anxious to maximize their income from oil? And why the concentration on Saudi Arabia, one of our closest friends in the Middle East? What interest do the advocates of aggression have in damaging relations with the Arabs in general and Saudi Arabia in particular? And why do they so resolutely reject the cooperative approach which has been advocated and described by Secretaries Kissinger and Simon, and by Messrs. Roosa, Wilson and Cooper? Is it simply to deprive the Arabs of their “oil weapon,” and remove pressure on Israel? This hardly seems possible, as even Israel could not “win” in such a world catastrophe. Perhaps these New Hawks have no motive at all; their guiding light may be simply malice and stupidity.

If the New Hawks are trying to frighten the OPEC countries into submission or into a dramatic reduction in their oil prices, they have not succeeded. If they are simply trying to disturb or destroy American relations with OPEC, with the Arabs and especially with Saudi Arabia, they have been somewhat more successful—primarily because, until now, there has been no detailed rebuttal of the war call. And they also seem to have put a fright into all those—in OPEC as well as the developed world—who know the ultimate victor in such an adventure would be Russian imperialism but nonetheless believe invasion *is* possible simply because they question America’s sanity.

Fortunately, the world can relax. The arguments for invasion fall of their own weight. Those who understand the difficulty in preparing a *major* secret operation are appalled at this call to war; they are joined

by those who know how an oil field is operated and who know the ease of its destruction and the difficulties in its restoration and by responsible political scientists who know what would happen in a Europe or a Japan deprived of oil for several years. In short, everyone who knows anything of the military, of our system of alliances, of the difficulties in producing oil after oilfield installation has been destroyed, concludes that talk of invasion for economic reasons must be one gigantic bluff perpetrated by writers of distorted and immoral imagination, of varied degrees of sanity and with varied motives *but with no authority*.

The United States is governed by moral men of good will. But “morality” is a subjective characteristic and we cannot expect the world to assume the United States, for *moral* reasons, would recoil from an imperialistic war. Self-interest is more objective and the world should know that we are governed by rational men who are not bent on committing national suicide.

The American public shows no tendency whatsoever to follow the New Hawks to Armageddon. The initial reaction in January to the invasion proposal seems now to have been one of pure disbelief. It was this troubling silence to which Senator McClure addressed himself. But as the stories of invasion continued and enlarged, American outrage has grown. If the provocateurs were launching trial balloons, they must have been surprised at the rapidity with which they were pricked. Let us now put this story to rest. We should not forget it, as it illustrates how fragile peace is; and it illustrates how we could be drawn into another disaster for “noble” motives. This time, however, we’ll look more critically at the consequences than we did in Viet-Nam.

53. Minutes of the Secretary of State’s Staff Meeting¹

Washington, April 14, 1975, 8–9:02 a.m.

[Omitted here is discussion unrelated to energy.]

[Kissinger:] O.K. Jules, what happened to the energy conference?²

¹ Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger’s Staff Meetings, Lot 78D443, Box 3, Secretary’s Staff Meetings. Secret. Kissinger presided over the meeting, which was attended by all the principal officers of the Department or their designated alternates. A table of contents is not printed.

² The preparatory producer-consumer conference opened in Paris on April 7, with Robinson heading the U.S. delegation. In his opening statement, he said: “Our purpose at this preparatory meeting is to organize the procedures for the conference that will build

Mr. Katz: It's still going. There's quite a lot of activity over the weekend. There's a new draft³ which allegedly represented some progress, but what was behind it I think was Giscard's visit to Algeria⁴ in coming back and putting apparently—telephoning colleagues—

Secretary Kissinger: Who are the seven?

Mr. Katz: The four producers and the three LDCs—the OPEC LDC bloc.

In response to this, there was an EC–US–Japan draft⁵ which went very far in their direction. In fact, the linkage with energy was very slight. They did remove references to indexation.

Secretary Kissinger: Well, yes, but just a minute. Why do we accept that?

Mr. Katz: Well, to keep the EC on board, and the Japanese. In any case, we were saved from ourselves because the seven rejected it. They put back the—

on the dialogue initiated at this meeting. Toward this end, we need to strike a balance between the immense scale and complexity of the world energy problem on the one hand and the constraint of realistic expectations for concrete results on the other." Later, Robinson continued: "I feel strongly that the work program to be developed here should be concentrated on the specifics of energy and related matters, and not become diluted with parallel discussions of other issues, however important they may be." For the full text of his statement, see Department of State *Bulletin*, May 12, 1975, pp. 619–621.

³ On the morning of April 11, the EC presented a draft agenda for the producer-consumer conference. In response, the group of OPEC/LDC countries—including Saudi Arabia, Iran, Algeria, Venezuela, Brazil, India, and Zaire—presented their own draft, which the U.S. delegation reported "merged and considerably softened the analytical and areas of cooperation sections of the EC agenda and then repeated earlier OPEC/LDC agenda points." (Telegram 9291 from Paris, April 12; National Archives, RG 59, Central Foreign Policy Files, D750127–0803)

⁴ Giscard visited Algeria April 10–12. While he was there he made a statement "to the effect that France and Algeria have no significant differences on conference agenda." (Telegram 9317 from Paris, April 13; *ibid.*, D750129–0233)

⁵ The IEA Governing Board convened at 11:30 p.m. on April 11 at which time it reviewed a revised EC draft agenda. While the U.S., EC, and Japanese delegates "generally approved the document," British, German, and Danish representatives "expressed some concern" that the new agenda "moved too far toward accommodating OPEC/LDC group." Everyone agreed, however, that the industrialized countries "should stand on" the new EC draft and "not go beyond it," and all of the delegates "expressed disappointment at apparent OPEC unwillingness to talk seriously about energy." (Telegram 9291 from Paris, April 12; *ibid.*) By the afternoon of April 13, the "OPEC/LDC's evidenced no intention to compromise by modifying their insistence that energy could only be treated either within overall rubric of raw materials or on parity with raw materials and problems of developing countries," according to U.S. representatives. The U.S. delegation informed the Department that it "took view (as did Japanese) that draft not repeat not acceptable without substantial change," adding that "it was agreed that three main requirements will be: A) to restore clear linkage to energy; B) to remove much of the detail on such issues as raw materials and development; and C) to avoid commitment to conclusions and recommendations under each of the headings [of the draft agenda]." (Telegram 9307 from Paris, April 13; *ibid.*, D750128–1167)

Secretary Kissinger: In other words, at the energy conference they no longer want to talk about energy.

Mr. Katz: They no longer want to talk about energy, really. They will talk about energy, but they call it a raw materials conference.

Secretary Kissinger: Look, there is to be no further American concession without my particular approval.

Mr. Katz: All right.

Secretary Kissinger: If we walk out alone from the conference, then we walk out alone from the conference. There can be no conference without us. And at every international conference from now on we're not going to be so pushable.

Mr. Katz: Well, actually, the tactics have worked very well throughout this.

Secretary Kissinger: Only because the other side is irrational.

Mr. Katz: I think that's right, at the last minute; but until Saturday⁶ night we had the EC out in front behaving very well. The Japanese were going along with everything. I think it was only after this push by Giscard on returning from Algiers that the Community became rather flabby. But last night—or this morning, I guess—at 1 a.m., they were awakened by the French Chairman to be given a response.⁷

Incidentally, these are non-papers at this point; nobody accepts any—

Secretary Kissinger: Look, the French are already doing what I said we wouldn't stand for—which is to act as a mediator between the consumers and the producers.

Mr. Katz: That's right.

Secretary Kissinger: We absolutely will not stand for this. And the only way we cannot stand for it is to get strict instructions to Enders and Robinson that we're going to be difficult.

Mr. Katz: O.K. I think that would be helpful at this point. I think they are looking for some answer.

Secretary Kissinger: What do you think, Hal?

Mr. Sonnenfeldt: I don't think you sent any instructions by telegram.

Mr. Katz: No, we haven't.

⁶ April 12.

⁷ The U.S., EC, and Japanese delegations "jointly informed the chair that [the OPEC/LDC draft] did not constitute a serious reply to the working paper submitted to the chair by the three delegations on April 13." (Telegram 9317 from Paris, April 13; National Archives, RG 59, Central Foreign Policy Files, D750129–0233) The OPEC/LDC draft was transmitted in telegram 9329 from Paris, April 14, and the U.S./EC/Japanese draft in telegram 9315 from Paris, April 14. (Both *ibid.*, D750129–0426 and D750129–0426)

Secretary Kissinger: I want Hal to see these things.

Mr. Katz: We've sent no instructions by telegram or otherwise. They've been operating on the basic scenario that you approved earlier.⁸

Secretary Kissinger: The basic scenario, however, does not include agreement at all costs—

Mr. Katz: That's right.

Secretary Kissinger: —and once the French understand it, we're going to be just as difficult as the LDCs, and we can do some of the things that the French do. They can add to the Community to use the producers; it is just the beginning of the nightmare.

Mr. Katz: The other issue on which they have taken a very strong position is on IEA participation at the full conference. The Algerians have said under no terms would they accept this, because IEA is a confrontationist organization.

Secretary Kissinger: In contrast to OPEC.

Mr. Katz: That's right. Of course, OPEC isn't there as OPEC. Although they were invited, they declined the invitation. The Governing Board decided unanimously yesterday, with the small countries saying that they absolutely had to have the IEA there because it was their own link to the conference. And this was presented back to the French Chairman, who has declined to do anything about it. But he's been told that that was a bottom-line issue for us.

Secretary Kissinger: Just a minute. Who is the French Chairman?

Mr. Katz: Guiringaud.

Secretary Kissinger: Just a minute. We are going to protest about the behavior of the French Chairman today.

Mr. Sonnenfeldt: You're supposed to see the French Ambassador for the past week.

Secretary Kissinger: I don't give a goddam. I won't see him today.

Mr. Katz: They've distorted the way they've put it.

Secretary Kissinger: Hal and Art—I don't want to hear all the details. Will you get the French Ambassador in and protest, in the sharpest terms, about the behavior of the French Chairman and say it raises serious questions in our mind about our participation in any French-sponsored conference?

Can you do that today, please? It doesn't require me.

Mr. Sonnenfeldt: No, but—well, there's a separate thing.

Secretary Kissinger: What does he want from me?

⁸ See Document 49.

Mr. Sonnenfeldt: He has instructions to explain to you there the agreement to come to an American-sponsored conference.

Secretary Kissinger: That's nonsense. Well, I'll see him as soon as I know what my speech drafts look like—Tuesday or Wednesday.⁹

Mr. Sonnenfeldt: Seriously, if you don't do it this week, we'll never get the other thing going.

Secretary Kissinger: All right, I'll do it Tuesday.

Mr. Sonnenfeldt: We'll prepare the ground today for this one.

Secretary Kissinger: Do you disagree on doing that?

Mr. Sonnenfeldt: I'd like to see a little more what happened in Paris the past two or three days. I think we should get the man in.¹⁰

Secretary Kissinger: We should get him in and point out to him if the French Chairman continues to play the role of the intermediary, then it is obvious we have to reconsider our whole approach to the consumer conference because we had approached that on the basis of consumer solidarity, including the French.

Mr. Katz: I don't think his question on the agenda is really objectionable. On the IEA I think it is.

Secretary Kissinger: Well, I want that pointed out.

Mr. Katz: O.K.

Secretary Kissinger: But I want our people to understand.

Mr. Katz: Yes, I understand.

Secretary Kissinger: But can you do that immediately?

Mr. Katz: Yes.

[Omitted here is discussion unrelated to energy.]

⁹ April 15 or 16.

¹⁰ Sonnenfeldt met with Minister de la Gorce on April 15 to protest de Guiringaud's role at the Prepcon. (Telegram 85231 to Paris, April 15; National Archives, RG 59, Central Foreign Policy Files, D750130–0674)

54. Telegram From the Department of State to the Embassy in France¹

Washington, April 14, 1975, 2013Z.

84578. Subject: Consumer/Producer Prepcon. For Robinson from Secretary.

1. Reading drafts of agenda exchanged over weekend² indicates that industrialized countries have shown very great and perhaps excessive flexibility on question of agenda. Central focus of conference on energy question is essential from our viewpoint. It is unclear how US–EC–Japan redraft of text in Paris 9306³ meets main requirement stated para 9 of Paris 9307⁴ with which we agree. Regardless of how final agenda comes out, it must be clear for public presentation purpose here that conference will be centered on world energy problems and actions which producers and consumers can take separately and together, to help alleviate these problems for all countries and MSA's in particular. You should therefore reiterate our requirement of clear linkage between other agenda issues and energy. You should also note that other issues such as participation, date, site and chairmanship have not yet been resolved. On question of participation you should maintain position that invitation to IEA is absolute prerequisite our attendance conference. You should not agree on final text of agenda and other conference issues without my prior approval.

2. In view likely outcome of Prepcon,⁵ I question whether you should not immediately reschedule visit to Tehran. I place a higher

¹ Source: Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France—State Department Telegrams from SECSTATE–NODIS (3). Confidential; Nodis; Flash. Drafted by Katz; cleared by Hartman, Atherton, and Sonnenfeldt; and approved by Kissinger. Repeated Immediate to Tehran.

² See footnotes 3, 5, and 7, Document 53.

³ Dated April 13. (National Archives, RG 59, Central Foreign Policy Files, D750128–1165)

⁴ See footnote 5, Document 53.

⁵ After meeting from 1 to 7 a.m. on April 15 in a "last ditch effort to resolve the agenda question," the two sides agreed that they could make no further progress on the issues that separated them, including the "scope of the full conference, indexation, maintenance of real value," and others. Because of the "lack of any prospect of reconciling respective negotiating mandates," the delegations decided that "it would not be productive to continue the exercise of the past nine days." At 1 p.m. that day, Chairman de Guiringaud tried to give the group of industrialized nations another agenda proposal on behalf of the seven OPEC/LDC countries. Robinson and the other delegation heads, however, "noted that the paper was not a formal proposal and refused to accept it on an informal basis." Furthermore, the U.S. representatives no longer wanted to permit the French Chairman to "exercise the role of an intermediary" and remarked that it seemed that only he among everyone present "refused to recognize" that the meeting was "dead." (Telegram 9533 from Paris, April 15; National Archives, RG 59, Central Foreign Policy Files, D750131–0570)

value on our bilateral relations with Iran than on rhetorical sparring with OPEC/LDC group. From Ansary's reaction Iranians apparently regard your visit there as urgent. You could set deadline your departure Paris Tuesday,⁶ either leaving Enders in charge of delegation or have all of U.S. delegation depart. You should decide this on basis which course best contributes to result we seek.

3. I wish it clearly understood by our entire delegation that outcome of preparatory meeting is of greater concern to me than whether we have unanimity with other countries. In final analysis they need US participation at conference. We remain ready to attend properly prepared energy conference between consumers and producers as originally called by French. We are not prepared to attend raw materials conference where energy issue has seen all but submerged. We will maintain this posture even at risk taking responsibility for failure of preparatory meeting.⁷

Kissinger

⁶ April 15. The conference ended on April 16.

⁷ In his closing remarks at the end of the conference, Enders said: "We were, of course, invited here by the President of the French Republic to prepare for a conference on energy and energy-related issues. We came here ready to discuss these issues, which are of central concern to all countries. Others have insisted on a much broader conference, extending to all aspects of the relationship between the industrialized countries and the developing world. We have been and will continue to be willing to discuss seriously raw materials and other development issues in forums more directly concerned with them and to attempt therein to seek mutually beneficial solutions. However, we believe that the proposed conference could achieve constructive results only if it were focused on a relatively limited number of points related to the central subject of energy." For the full text of his remarks, see Department of State *Bulletin*, May 12, 1975, p. 621.

Preparatory Conference II, April 1975–October 1975

55. Memorandum of Conversation¹

Washington, April 19, 1975.

SUBJECT

Meeting with Yamani—Middle East and the Paris Preparatory Conference

PARTICIPANTS

H.E. Ahmad Zaki Yamani, Minister of Petroleum and Mineral Resources
Ibrahim Obaid, Personal Secretary to the Minister

The Secretary
Charles Robinson, Under Secretary for Economic Affairs
Francois M. Dickman, Director, NEA/ARP

[Omitted here is discussion unrelated to the Paris preparatory conference.]

The Secretary: What do you think of the Paris Preparatory Conference? Did Robinson screw it up?

Yamani: Well, the Americans screwed it up. The Europeans and even your own people said that it was the US attitude which caused the conference to fail.

The Secretary: You can expect that from the Europeans.

Yamani: It was a great disappointment for me.

The Secretary: It was supposed to be an energy conference. Why did you try to transform it into a raw materials conference? I thought you wanted to discuss energy primarily, why did you change this to raw materials?

Yamani: As I told Mr. Robinson just before our meeting, it was not my understanding that this was the US attitude. I thought the US had accepted the Saudi position of a Conference which would deal with energy as well as with raw materials. Our proposal was very clear. You sent a message accepting the Saudi proposal.² You sent a message last

¹ Source: National Archives, RG 59, Records of Henry Kissinger, Lot 91D414, Box 11, Classified External Memoranda of Conversations, April 1975. Secret; Nodis. Drafted by Dickman.

² See footnote 9, Document 10.

September stating you accepted the Saudi proposal.³ Then the French came with their invitation. At first we were reluctant but we went along after we agreed on a small number of countries. Then we had our meeting in Riyadh in February.⁴ Perhaps I have misunderstood and maybe the gap is not so wide as we think.

The Secretary: That is what I think.

Yamani: The problem is that we have to have an agenda which deals with raw materials and not just energy alone.

The Secretary: We will be glad to discuss lower oil prices too!

Yamani: The Algerians wanted to solve everything at the same time. I can tell you that the Saudis, Venezuelans, and Iranians wanted and still want to discuss energy as an issue but do not expect to solve everything at the same time. What they do not want is to solve the energy issue and forget about the rest. They don't want to discuss energy and reach agreement on just that, but they expect to have some link that will guarantee your (US) presence to discuss other raw material issues.

The Secretary: That is fair enough. On that basis, we can discuss energy first, and we would be agreeable to give you assurances that we will discuss raw materials at another conference.

Yamani: We mean the same conference.

The Secretary: Or at a continuation of the same conference.

The Secretary: What we want to avoid is a special session of the General Assembly where everybody makes demands on us which we will reject. Why create an artificial forum to discuss raw materials? You know, there are some in the US Government who are opposed to this and believe free market forces should prevail. Secretary Simon says he is opposed to a raw materials conference. I recognize however that you cannot talk stability for items which interest us and not talk about stability for items which are of interest to other countries. But if you discuss all at the same time, it will turn into platitudes much like the Charter of Economic Rights and Duties of States⁵ which my friend Pres-

³ Akins sent a message to Yamani in Geneva that reads: "Sorry to have missed you in Jidda. The Department has just instructed me to inform you that your 'concept of a compact and tightly focused mini-conference' is attractive. 'We would want it to be in as low-key as possible to avoid raising expectations or, conversely, a sense of failure or despair if meeting did not result in agreement.' The instruction goes on to say that the 'low-key approach would also serve to diminish sense of drama of confrontation which we wish to avoid.' I think this corresponds exactly with your suggestion." (Telegram 5235 from Jidda, September 10, 1974; National Archives, RG 59, Central Foreign Policy Files, D740251-0334)

⁴ See Document 41.

⁵ UN General Assembly Resolution 3281 (XXIX), December 12, 1974, proclaimed the Charter, which affirmed "the need for strengthening international co-operation for development" and declared that "it is a fundamental purpose of the present Charter to promote the establishment of the new international economic order, based on equity,

ident Echeverria (of Mexico) has promoted. We want to find some practical way to discuss energy issues.

Yamani: We want to link energy to raw materials.

The Secretary: Well, what do you mean by a link? What is your idea of a link?

Yamani: We do not have an exact idea but we want your presence (at a raw materials conference).

The Secretary: Physical presence is not difficult.

Yamani: We want the industrial countries to agree on items of an agenda since now there is no objection to talk about raw materials.

The Secretary: Well, I personally believe we will have to come to some understanding on raw materials.

Robinson: We have a proposal we are considering.

The Secretary: All right, we have a proposal but we have to work it out within our own government. I am prepared to tell you that I do not specialize in losing interdepartmental arguments and I usually prevail, in fact I can't think of when I did not prevail, but I cannot give you a formal US position now. However, I would be prepared to move toward some understanding on raw materials but we would want to talk about energy on its own merits and not have it submerged with other raw materials.

Yamani: Why not have the following agenda: (1) raw materials . . .

The Secretary: Including energy?

Yamani: Yes, we will say raw materials including energy; (2) international cooperation; (3) financial flows. We will concentrate on energy.

The Secretary: The trouble with you is that every time you come and see me, you always manage to convince me (laughter).

Yamani: I can tell you that this will be the position of the Iranians, Venezuelans, and Saudis, though not the Algerians, to focus on energy but at the same time to see that the shade of our discussions also falls on other raw materials.

The Secretary: Well, what do you want to discuss with the other raw materials?

Yamani: We do not expect to reach agreement on the price of tea, coffee, rubber, etc.; we are prepared to separate things. But unless we are assured that you will discuss other raw materials and there is a link, we cannot just discuss energy alone.

sovereign equality, interdependence, common interest and co-operation among all States, irrespective of their economic and social systems." For the full text, see *Yearbook of the United Nations*, 1974, pp. 403–407.

Since you say that you will discuss other raw materials with good will, we take this seriously. I will talk to my other colleagues. We will form a strong front.

In the meantime, we hope you will do your homework (on raw materials) soon so that we can have another meeting.

The Secretary: Another Preparatory Conference?

Yamani: Yes, it has to be, and soon.

The Secretary: Why?

Yamani: The Algerians are already pressing very hard to have another OPEC meeting at the end of this month. They are concerned over their declining earnings. They sent a cable to OPEC countries asking that we link oil prices to SDRs or a basket of currencies. This in fact is a fair thing, but I know this is only a first step in raising prices. The second step might not be something we look for. So, the sooner the better.

Your friends in Iran are also very keen to have another price increase. They want a quick one, since they think inflation is going higher. They want another increase this year.

The Secretary: You realize that another oil price increase would have unfortunate repercussions, particularly on the Arab-Israel problem. It is not because of your position but the Israelis are trying to link the two—higher oil prices with Arab pressures.

Yamani: I know that, and we want to avoid that.

The Secretary: We are having the Shah in May and we will have a chance to talk.

Yamani: The Iranians have already issued their statement.

The Secretary: Who issued it?

Robinson: It was Mr. Yeganeh, he is the Governor of the Iranian Central Bank and represented Iran at the Preparatory Conference.

Yamani: The Iranians have said in their statement they wanted indexation.

Therefore, we would like to have another meeting early in May. We can have another Paris meeting to work out an agenda. Even if the Algerians don't want to come, we are prepared to move with our friends—the Venezuelans and Iranians.

The Secretary: Our friends tell us that we broke up the Conference. In fact I even saw reports that accused Robinson and members of his staff of not attending the meetings.

Robinson: That was the night that I let the staff leave at 11:00 pm. The report the next day was that the US was not attending the meetings.

The Secretary: We did everything we could to keep the Paris meeting going. At the last moment, we sent an instruction to our dele-

gation telling it to take an even more active role.⁶ I am not saying that you would have liked everything we said but I will take responsibility for those actions where we took the lead with the consumers.

Yamani: Did you organize the consumers?

Robinson: The consumers were unified.

The Secretary: It really does not make any difference. They (consumers) will say that the Americans made them do it.

Yamani: What about the number of countries attending a conference. As I told you in Riyadh, we want a limited group. The prevailing idea in Paris was that 24 countries should attend a producer/consumer conference. Did you agree?

Robinson: We agreed, we did not object, but the issue was academic since the conference broke down.

Yamani: I understood that you would not have any objection if we talked about 20 countries. Once we went to the Paris Conference, there were pressures for representation from the major industrialized countries and the developing countries to widen the representation. We think the smaller the conference, the better is the atmosphere for bilateral talks.

The Secretary: We do not have strong views on increasing the number to 24. It is not a breaking point for us.

Yamani: I had strong views to hold the number to 20 but France and the LDCs wanted more. The Algerians wanted 30! But I do not want another UN.

The Secretary: How do we have concrete discussions so that we understand each other better on this issue? Through Akins?

Yamani: Yes. Besides, if we have another meeting in Paris, I can come and meet behind the doors with you.

The Secretary: I will keep this in mind.

Yamani: What we do not want is for OPEC to meet and take action against you.

The Secretary: Let us agree that when there is another meeting, we will coordinate our positions more closely.

Yamani: But we need more definitive information from you on how you stand on raw materials.

The Secretary: But we need more information from you on what you mean by a link between energy and other raw materials.

Yamani: It is the timetable, the sequence.

⁶ Document 54.

The Secretary: The differences do not seem that great. You don't want to fix a price for energy without a guarantee that we will discuss raw materials and we don't want to discuss raw materials without a guarantee from you that energy issues will be decided first.

Robinson: We have to be careful when we talk about links. All basic resources are related to energy. We are prepared to talk about other resources as they relate to energy.

The Secretary: Let us do some thinking about this and we will get word to you. I have never thought that this was an insoluble problem. We will see what we can do.

(At this point, the Secretary asked if he could speak to Minister Yamani alone for a few minutes.)

56. Memorandum of Conversation¹

Washington, April 26, 1975, 3:08–4:30 p.m.

SUBJECT

Energy Strategy

PARTICIPANTS

Honorable Henry A. Kissinger, Secretary of State
Honorable Robert S. Ingersoll, Deputy Secretary of State
Honorable Charles W. Robinson, Under Secretary for Economic Affairs
Honorable Helmut Sonnenfeldt, Counselor of the Department
Honorable Thomas O. Enders, Assistant Secretary, Economic & Business Affairs
Honorable Winston Lord, Director, Policy Planning Staff
Mr. Paul Bremer—S

Kissinger: My God, Enders, I thought you weren't here and panic set in.

OK, let's talk first about energy strategy. My own views are . . . I'm rather torn . . . In my opinion the outcome of the Prepcon was absolutely correct. I have seen an intelligence report indicating that Giscard is blaming the failure on us. In retrospect, perhaps we should have coordinated with the French before the meeting.

¹ Source: National Archives, RG 59, Records of Henry Kissinger, Lot 91D414, Box 11, Classified External Memoranda of Conversations, April 1975. Secret; Sensitive; Nodis. Drafted by Raicht on April 28. The meeting was held in the Secretary's office.

Enders: We did do that. We met bilaterally with the French every 2 weeks and told them what we expected to happen.

Kissinger: I mean, with them especially.

Enders: That's exactly what we did.

Kissinger: I am not being critical of you Tom, I'm just wondering if we should have coordinated with them at my level.

At any rate, the outcome was clearly correct. We could not have Giscard racing around Algeria trying to sell us out to Boumedienne² like the French did at the CSCE. On another level, I am somewhat upset at our refusal to discuss raw materials. I think we must agree to do this.

Robinson: We made clear during the Prepcon that we were prepared to discuss raw materials.

Kissinger: I don't believe an energy conference can do anything but cause us a great deal of damage. For that reason I do not believe an energy conference would be in our interest. In any kind of conference like that, it is quite clear that the OPEC and LDC countries will stick together. The French will join them. The IEA countries will stay with us but only for a while and then collapse.

I wonder, as a question of strategy, whether it would be better to have a conference that can't possibly succeed. If the French want a big conference, since our judgment is it can't succeed, why not settle for a non-energy conference? Clearly our own interest in an energy conference is next to none.

Robinson: I would agree with your judgment.

Kissinger: So our only interest is to hold the IEA together . . . If the IEA is ready to stick with us—which I doubt. When the French and the Arabs press them they will fall away.

Enders: That's OK. But let them come to us and make them give us something for our agreement to go to a conference.

Sonnenfeldt: The problem is if a multilateral effort fails too blatantly, the Europeans will go the bilateral route.

Kissinger: Chuck, what are your views?

Robinson: The process of multilateralism did . . .

Kissinger: We can't be for bilaterals at this point.

Robinson: I agree. I think we should sit back on the multilateral process and move forward on our bilaterals with Iran and Saudi Arabia. The real problem is how to bring them around. I think if we

² See footnote 4, Document 53.

work quietly with them along the lines suggested by Yamani,³ we could eventually have a conference.

Kissinger: What is your conception of the Yamani approach (to Robinson)? I understood Yamani to say that the producers could go along with discussion of energy in a first conference provided we agreed to have a second conference devoted to raw materials.

Robinson: Algeria wants to index oil and commodity prices. They expect in this way to revamp the free enterprise system. This would be a fundamental change—a basic revamping of the existing economic system. I believe we can work with Yamani. I believe Iran and Saudi Arabia are ready to take a realistic approach to this problem and bring this back to a manageable forum. But I think we should neither push nor block a multilateral dialogue.

Kissinger: Yes, but I need to take a position on this.

Robinson: I think you need to take the position that we are prepared to talk about commodities but not in a way that goes along the lines of the new International Economic Order.⁴

Kissinger: We need an idea now where we want to be at the end of this process.

Robinson: I think we want to be ready to discuss these issues.

Kissinger: I will have to take a position on the producer/consumer dialogue at the IEA Ministerial.⁵

Enders: That is what the Ministerial will be about.

Chuck, I have a somewhat different view . . .

Kissinger: Enders will end up as President of OPEC and Chairman of IEA.

Enders: I don't think . . .

Kissinger: At least I am not surrounded by weak men.

³ See Document 55.

⁴ On May 1, 1974, the UN General Assembly adopted Resolution 3201 (S-VI), "Declaration on the Establishment of a New Economic World Order," which proclaimed "the united determination" of the UN members "to work urgently for the establishment of a *new international economic order* based on equity, sovereign equality, interdependence, common interest and co-operation among all States, irrespective of their economic and social systems which shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and the developing countries and ensure steadily accelerating economic and social development and peace and justice for present and future generations." The Sixth Special Session, at the end of which the resolution was passed, studied "for the first time the problems of raw materials and development" and was "devoted to the consideration of the most important economic problems facing the world community." The full text of the resolution is in *Yearbook of the United Nations*, 1974, pp. 324–332.

⁵ Kissinger was scheduled to attend the OECD and IEA Ministerial meetings in Paris May 26–28.

Enders: I don't think we want to discuss commodities. Our ultimate strategy will be to define—in our own interest—to take a position unilaterally on the commodities problem. The ideas of the Saudis are counterproductive. We may want to push for a conference along the lines of the Special Session; that gave a result that discredited itself.

Kissinger: Well, what is your strategy?

Enders: In terms of the dialogue, to create conditions so that it becomes like the Special Session. In this way actions taken by us on commodities are taken unilaterally, coldly, in our own self-interest. We can do this bilaterally or multilaterally as appropriate. This would let the LDCs each lean as their own interests determine. As we move toward conference—we should keep a multilateral conference goal and agree to a producer/consumer conference—we should press for wider representation. The leverage on the US in a larger grouping would be reduced. We also want to give the IEA a sense of participation in the bilateral exercise and we may wish to consider small multilateral groupings.

Kissinger: Bilaterals between who and who?

Enders: They have shied away from bilaterals because of the position we adopted during and after the embargo.

Kissinger: The US has?

Enders: No, we have continued with our bilaterals.

Kissinger: My confidence in the IEA is zero. I have played with the idea of bilaterals with the producers because my confidence in the US is greater than my confidence in the IEA. I don't think we should encourage them to proceed with bilaterals. They are too greedy and too undisciplined.

Enders: They'll do it anyhow. Through the IEA we can impose collective discipline.

Robinson: I can't see that.

Kissinger: Will you explain the scheme set out in your paper⁶ (to Enders)?

Enders: When oil supplies are short in the market, as was the case during the embargo, bilateral deals are dangerous because they are preclusive. They tie up oil for certain consumers and the rest are forced to compete for a smaller supply. But where there is excess capacity the situation is reversed. There is a large excess available now and there will still be relative ease in the market as demand picks up. If production can be increased substantially in Saudi Arabia, the radical states will have to compete for a smaller share of available demand.

⁶ Not found.

Robinson: Tom, we differ on that. I do think we need a coordinated policy in the IEA. However, if we try to do what you are proposing we can't achieve it because IEA members will not confront the producers.

Kissinger: The Italians will go directly to the Libyans and tell them about it as soon as you propose it.

Lord: I sent Tom a memo⁷ outlining some of the problems I saw with his bilateral approach.

Kissinger: How many people in the Department know about this? 95? When did S/P become involved in this exercise?

Lord: We have been in on all aspects of energy policy since the beginning.⁸

Kissinger: Hormats sent me a memo saying he has done a paper on food reserves.⁹ Have you seen this Tom? I think you should look at it in connection with my speech.

Enders: No, I haven't seen it. Should I ask him for a copy?

Bremer: I'll take care of getting you a copy.

Kissinger: Have you seen these questions Tom? (referring to the Lord paper.)

Enders: Yes.

Kissinger: I assume all that they do is confirm your own views.

Enders: Well, I think I can answer them all.

Kissinger: Go ahead.

Enders: Well, on No. 1, concerning the shift among sources of crude supply, I think the answer is Yes, it is technically feasible to shift.

Kissinger: I want to understand what you want to do Tom. You want to have an agreement in IEA to target liftings in certain producer countries, is that right?

Enders: Yes. But camouflaged through a bilateral framework on a security of supply basis.

Kissinger: None of the producers will agree to this.

Enders: It's worth a try. We can't do it alone since a bilateral approach by the US only will not have much of an impact, only 500,000 b/d. But, if we can get the Europeans to go along we would have some pressure on the radical producers.

Kissinger: Unless Libya agreed to give them a security of supply guarantee.

⁷ Not found.

⁸ See, for example, Document 7.

⁹ Neither found.

Enders: Yes, but if the Libyans give them better terms this would be a movement toward our goal.

Kissinger: Your strategy is to coordinate an IEA approach. I don't think we can do this. It would be a good strategy if it could be implemented.

Lord: What kind of camouflage are you talking about, Tom?

Enders: If we want to lift only from Saudi Arabia, we could talk in surrogates, like bilateral deals.

Kissinger: What other kind of guarantees would you require?

Enders: That the producers put no artificial limitations on liftings.

Kissinger: Saudi Arabia will never agree to this.

Enders: They don't have them now.

Robinson: I was talking to the Aramco people yesterday and they told me that liftings in Saudi Arabia in April would be down to an average of 4.5 million b/d.

Enders: I don't think Saudi Arabia will put a limit on liftings. They never have done that except during the embargo.

Robinson: You are talking about the difference between what the US can do alone and what the IEA can do acting together.

Kissinger: But if the Saudis are down on production already by 50 percent, that's the limitation on this strategy.

Enders: No, the Saudis say it is market forces which have created this.

Robinson: I am not sure of that. I think the Saudis are doing this deliberately. Based on my conversation with the Aramco people yesterday, I think the Saudis are reducing production to ease the pressure on the other producers.

Kissinger: Besides, Aramco is its own customer.

Enders: At the present time the cuts in production are being managed by the companies and we have not interfered with that process. The cartel is having an easy time managing the surplus in the market.

Kissinger: I think if this is proposed to the IEA it would be explosive.

Enders: I don't think we should propose it that explicitly. We could just say that we think the time is right to reexamine our position on bilateral arrangements in view of the changes that have occurred in the market. There already are some bilateral deals under discussion, for example the German proposal with Iran for joint construction of a refinery with Iran having preferential access for product in the German market to harden the arrangement. I don't think this would be explo-

sive. The real question is whether we can stop any deals between the consumers and Iraq and the other radical producers.

Kissinger: Why wouldn't the IEA countries break when the time is right?

Enders: I don't think they would. In any case we can add additional criteria besides security of supply to force the radical producers to absorb the additional cuts in production.

Kissinger: Another way to do this would be to force the moderates to absorb the cuts. They are already screaming about reduced production. The Shah would play along. The Algerians would too. I know the Moslems but I don't know the Nigerians and other producers. Does Indonesia have excess capacity? The point is that when the moderates have to absorb the cuts they will reach a point beyond which they will not go. The radicals will do it for political reasons.

Enders: But the Libyans are already low, and are hurting. I would agree that the best way to approach this and add to the pressure on OPEC would be by targeting the moderates. But, I don't think we can engineer that.

Kissinger: I don't know if we can do this either. Do you think we can (to Sonnenfeldt)?

Sonnenfeldt: For the six months after the embargo we were successful in restraining bilateral efforts by other countries; perhaps we can do the same thing in the other direction. But, it will be a sharp turn-around from what we have been saying in the past.

Robinson: If we do anything like this it will have to be carefully coordinated.

Enders: We have an analogous situation in the trade field and were successful in getting the other members of OECD to sign the trade pledge. I think we can try to do the same for energy.

Sonnenfeldt: We must try to prevent a ruinous competition amongst consumer countries.

Lord: Yes, we could have bilaterals without the IEA.

Enders: That's going on at present. Their self-interest has prevented it from getting out of hand.

Robinson: I think we also need to take account of a point made by the Aramco people—I think it was Hedlund of Exxon—who said that the substantial excess in capacity everyone is talking about now is not real.

Kissinger: Who said that?

Robinson: The Aramco people I met with yesterday. They pointed out that excess capacity is lost fairly quickly unless there is a continuing investment in the fields to keep production up. They do not think cur-

rent capacity is anything like 38 million b/d. For example, they do not believe that Libyan production can be raised much above 1.5 million b/d in less than 3 years.

Enders: I was referring to the level of their exports, not their capacity.

Robinson: Yes, but their point is that time is required, and fairly heavy investment as well, to maintain productive capacity at the levels we have been talking about.

Kissinger: Would there be any internal bureaucratic problem in the Administration in doing this?

Enders: No. We already have a \$1.00 import fee in place. We could give a preference to preferred buyers to harden this.

Kissinger: We will have a \$2.00 fee soon.

Enders: I hope we can move it from \$2 to \$3 also.

Robinson: Mr. Secretary, I think we need two decisions today:

—the first is the position Tom should take at next week's Governing Board meeting;

—the second is whether I should go ahead with my proposed visits to Iran and Egypt.

Kissinger: I definitely think you should go to Iran. I think it is essential for psychological reasons before the Shah gets here. Egypt can wait for two weeks or so, but I think it is important that you do this, especially with the Israelis coming here.

Robinson: I will need something definite to discuss with the Egyptians. This will be our first high level contact with the new government.

Kissinger: Well, we could propose to build a dam along the Nile with stones from some of the pyramids. Personally, I'd like to see Enders over there talking to them.

Enders: At one time I was a student of Arabic, Malay, and other esoteric languages.

Kissinger: Did any of you ever see the movie "Sitting Pretty" with Clifton Webb? Tom, you were probably too young. He was hired as a baby sitter but in the film he could do everything. That's how I see you sometimes Tom, and why I'd like to see you in the Middle East talking to the Arabs.

Enders: I no longer speak the language.

Kissinger: How would you do it? (to Enders)

Enders: The President already has the legal authority and we would only need a 50 cent preference to make it work.

Robinson: The real problem is how to get the IEA countries together on a coherent plan which will effectively undermine OPEC.

Enders: I think OPEC is showing definite signs of strength politically. The deal on the Kurds¹⁰ is a good example.

Kissinger: That was not done in the OPEC context.

Enders: Yes, but it was at an OPEC meeting.

Kissinger: In my opinion that was just an excuse by the Shah to do what he wanted to do anyhow.

Enders: Agreed, but it is certainly an indicator that OPEC is holding together politically.

Kissinger: It is your view then that OPEC is getting stronger, and that we should attack before it gets too strong?

Enders: Yes.

Kissinger: What do you plan to discuss at the Governing Board next week?¹¹

Enders: The discussions will naturally focus on why the Prepcon broke down. In my own view I think we should go back to your November speech on the need to establish the objective conditions for equilibrium in the oil market¹² before any progress can be made. We need more time to implement our policies. We should continue to keep a multilateral meeting on energy as a goal, but some way off. What we need to decide is what to do between now and then. We may wish to consider the bilaterals. You have my paper on that.

Kissinger: I don't think we are ready for that yet.

Enders: I didn't mean we should lay the whole thing out this week, but I thought we might begin the process of exchanging information on bilaterals in the IEA.

Kissinger: We have the most contacts, why should we give this away?

¹⁰ Reference is to the Algiers Accord, signed by Iran and Iraq on March 6 during the March 4–6 OPEC meeting in Algiers. Iraq relinquished territory on the Shatt al-Arab River in return for Iran's agreement to stop funding Kurdish insurgents in Iraq. Documentation is in *Foreign Relations*, 1969–1976, volume XXVII, Iran; Iraq, 1973–1976.

¹¹ At the April 28–29 IEA Governing Board meeting, the Board "blocked out" preliminary conclusions and proposals on a producer/consumer dialogue including: "As a result of the Prepcon the link between raw materials and energy is a political fact. But a single conference on the New International Economic Order is not rpt not in the interest of industrialized countries"; "one possible way out is to defer a new attempt at dialogue on energy, but for the OECD countries to take the initiative on raw materials at the OECD Ministerial"; "to give industrialized countries market power they need and cohesion, it is now more important than ever to carry through implementation of IEA energy program of conservation, alternative sources, R&D"; "at the same time, IEA must go on preparing and be seen to prepare new ideas on dialogue with producers, even though timing and efficacy are uncertain." (Telegram 10921 from USOECD Paris, April 29; Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France—State Department Telegrams to SECSTATE–NODIS (3))

¹² See footnote 4, Document 17.

Robinson: I'm not sure what interest we have in doing this.

Kissinger: What is your conception (to Enders)?

Enders: I think we must give them some action in the producer/consumer field for the next few months.

Kissinger: They will get suspicious if we use the word bilaterals. It will trigger a frenzy of bilaterals on their part, and they are rapacious bastards.

Enders: I agree with you but I think we need to give them something to do where we can maintain some control.

Kissinger: Why can't we just sit through the meeting? Give them our analysis of what happened at the Prepcon. It is not my impression that precision of thought is an IEA forte.

Sonnenfeldt: We could give them more on the accelerated development idea.

Kissinger: I think we need a low key meeting. If we decide to go the bilateral route with them I can float this at the Ministerial.

Enders: We also need to do more staff work. We may wish to talk to Treasury about it.

Kissinger: We don't want another Prepcon quickly, but don't dump all over the idea. I want the French to hear that we are talking about this in a conciliatory and favorable manner. But I don't want you to say that you think we should be going the bilateral route now.

Enders: That is not what I am saying. I am saying only that the multilateral route seems to have been premature and for the immediate future we will have to return to bilaterals.

Kissinger: We can conduct our own bilaterals. We don't need theirs and we are unlikely to have much effect on them. If we launch a big new initiative on bilaterals at this meeting I think it will trigger:

—The US is a son of a bitch and deliberately acted to blow up the Prepcon;

—This will permit the French to say that we didn't want the Prepcon to succeed and deliberately sabotaged it;

—Once the other Europeans are convinced of this they will go the bilateral route as quickly as possible and eventually will be forced into a producer/consumer multilateral meeting, stripped of the solidarity we have been able to achieve.

Hal, what is your view?

Sonnenfeldt: We agreed to trade off solidarity amongst the consumers for our agreement to go to a multilateral conference. We need the multilateral umbrella to conduct our bilaterals or perhaps small multilaterals.

Kissinger: What do you mean by small multilaterals?

Sonnenfeldt: We need some compartmentalization.

Enders: An obvious one would be to expand the Group of Five Finance Ministers to include Saudi Arabia and Iran for discussion on monetary issues.

Lord: That's what the French want.

Sonnenfeldt: The IEA will look to us for a road map.

Kissinger: I don't think we should mention bilaterals. It permits them to evade their responsibilities and they will gobble it up. Tom, talk like the Israelis. Say that a suspension is not a set back. Give them something not too intellectually rigorous to chew on.

(The Secretary received a telephone call.)

Kissinger: I only have 15 minutes left and then I have another appointment. Tom, play it low key. Don't raise the bilateral approach at this time. I want to think about it.

Robinson: One subject which is sure to come up is how we relate to the commodities problem.

Kissinger: We want to make sure the LDCs get the word that we are taking a new look at this.

Enders: I think it's too soon for that.

Kissinger: You should appear extremely conciliatory at the meeting.

Enders: We are. They got 95 percent of what they want.

Kissinger: I'm concerned with what gets to the French and what gets to the Arabs.

Enders: I'll take a very serene posture. On the analysis I'll focus on how to do it better.

Kissinger: You should say we are willing to look at this again. Yamani will get the word around to the producers. I told him to think about a link between an energy conference and a second conference on raw materials. I said that in principle we were willing to consider this.¹³

Weren't you at the meeting (to Robinson)?

Robinson: Yes.

Kissinger: I said it was not beyond the intellectual capacity of man to resolve this.

Enders: I don't think we will have a problem at this meeting. Our problem will be in deciding on a policy to dominate them.

Kissinger: Bilaterals won't do that. Go through the countries.

Will the Germans give up their Libyan deals?

Will the Italians give up their special arrangements in Libya?

¹³ See Document 55.

What kind of bilaterals do you mean?

Enders: I was thinking about long term arrangements at market prices with a security of supply guarantee which are hardened by some sort of preferential access to our market, for example, so Iran can go to full capacity.

Kissinger: So, you would only discriminate against those countries who won't give a guarantee on security of supplies? Suppose they all do it?

Enders: We will use other criteria to ensure that guarantees from the radicals are not acceptable.

Kissinger: Hal?

Sonnenfeldt: If we release them from the constraints now they will all run off. Schmidt wants to coordinate with us but if we signal that we are moving towards bilaterals, in effect they will go to the original French position. I don't know about the UK; I have not seen their position on this. They are all making deals under the table.

Enders: They could do that now.

Kissinger: Tom, what would you have discussed if the Prepcon had succeeded.

Enders: The same thing.

Kissinger: Except that you would have done this without checking with me first.

Enders: No, I would have told you 24 hours beforehand.

We need a new concept . . .

Kissinger: Well, I want to reserve my position on this.

Enders: We need to do more staff work. We should get Treasury involved.

Kissinger: This must be closely held. If you discuss it with Treasury it will be in the newspapers the next day.

Enders: Would you have any objections to my raising this with Cooper?

Kissinger: Let's discuss that after the Governing Board meeting but do not, under any circumstances, raise it there.

Enders: Meanwhile, the President is making a decision on energy policy this weekend. I think if he goes to \$2 or \$3 on the import fee we can implement the floor price without going to Congress.

Lord: Oh, victory with Vietnam! Can you explain that Tom?

Enders: It's clear we cannot get Congress to agree to our floor price proposal because it won't agree with any serious energy proposals. But if we had an import fee of \$3 or even \$2, when the price fell it would have to go below \$4 or \$5 before we would need additional authority from Congress. We could argue plausibly that we already had taken ac-

tion to ensure that domestic oil prices do not fall below a minimum price level of about \$7. This would have an additional advantage by enabling us to renew our alliance with Treasury. They favor the tariff approach.

Kissinger: I like the idea of getting back together with Treasury. They've been useful at times in the past.

Robinson: I'm not sure the IEA will go along.

Kissinger: The President is sure to go for the second dollar this weekend. The Democrats want him to do it. They prefer to run against him than to run on their energy policy.

What do I do at the IEA Ministerial? I should not focus only on producer/consumer dialogue. My statement should include an analysis of consumer cooperation but I will not say the IEA is designed to produce consumer cooperation. It is the vehicle but not the mechanism for this. I need a document with some vista of consumer cooperation. We need to think further about producer/consumer relations.

Enders: I was thinking of a document that would be a ministerial laying on of hands on the work that has been done at the official level since November and that gives some forward perspective.

Kissinger: I think it should contain considerable forward perspective. Where is the document?

Enders: We have something in rough form you could see now, or we will have a more elaborated piece ready by Tuesday.¹⁴

Kissinger: I'll wait until Tuesday. OK, let's turn to the OECD Ministerial.

[Omitted here is discussion unrelated to energy.]

¹⁴ April 29. The paper was not found.

57. Paper Prepared in the Department of the Navy¹

Washington, undated.

VULNERABILITY OF OIL FIELD FACILITIES—IMPACT ON
CONTINGENCY PLANNING

Attempting to get at the facts of this issue is like an emotional court case where prosecution and defense lawyers drag in “expert” witnesses who attempt to make the case for each side couched in scientific terminology.

Shortly after Secretary Kissinger was quoted in *Business Week* suggesting intervention in the case of strangulation,² a series of articles appeared in which “experts” were quoted either making the case that the facilities were highly vulnerable, or that they were not. Ambassador Akins prepared a controversial paper³ arguing it would be impossible to seize the installations without major sabotage that would put Saudi fields out of operation for “years.” He introduced his paper stating one would have to be criminally insane to even contemplate such seizure. It is rumored that this comment was taken as a personal slap at SecState, and that it was one of the reasons Akins was fired.

It is a fact that the main 30-inch line of the tapline that carries Saudi oil to Lebanese ports was blown in the early 1970s by unknown saboteurs. One thousand feet were taken out by the explosion and resultant fire, and it took three months to get the pipeline back in operation. It was suspected that either Palestinian fedayeen did the job to warn the SAG to resume payoffs it had terminated, or by the Iraqis to pressure the SAG to settle outstanding border disputes. The story never got much publicity, and was never resolved—but the tapline does run above ground for much of its length, and this incident proved it can be blown.

¹ Source: Washington National Records Center, OSD Files: FRC 330–79–0049, Box 82, Saudi Arabia. Unclassified. Attached to this paper is a note from Rear Admiral Staser Holcomb to Schlesinger that reads: “You asked about an oil ‘chokepoint’ in Saudi Arabia . . . it must be the Straits of Hormuz, to which you referred. It is not as vulnerable to blockage as was suggested, according to the Navy. Point is that the ‘tapline’ piping system could serve as an alternate . . . and also more vulnerable. The 4/27 NSC Staff tasking bears on the question. Tab D.” The “4/27 NSC Staff tasking” refers to this paper. It is unknown if the White House received this paper.

² See Document 30.

³ Enclosure to Document 52.

The Library of Congress did a study for Hamilton Subcommittee on Investigations of the House Committee on International Relations in August 1975 which concluded (NESA reference copy attached):⁴

—The United States could easily defeat OPEC Armed Forces to seize oil fields and facilities, but preserving installations intact would be a chancy proposition under ideal conditions.

—Saboteurs could wreak havoc before adequate forces could seize control. Although the pipelines are somewhat vulnerable, the oil wells themselves and pumping stations are far more vulnerable, and are scattered over a core area of 10,000 square miles.

—Once seized and restored, constant security against sabotage would require two to four divisions with proportionate support on land, sea, and in the air.

—Soviet intervention is possible through a variety of scenarios from aerial mining of the Straits of Hormuz, to positioning ground forces as a counter force.

The Library of Congress Study concluded: "Success would largely depend on two prerequisites:

—Slight damage to key installations.

—Soviet abstinence from armed intervention.

"Since neither essential could be assured, military operations to rescue the United States (much less its key allies) from an air-tight OPEC embargo would combine high costs with high risks wherever we focused our efforts. This country would so deplete its strategic reserves that little would be left for contingencies elsewhere. Prospects would be poor, with plights of far-reaching political, economic, social, psychological, and perhaps military consequence the penalty for failure."

The Navy is of the opinion that the Strait of Homuz, though a natural choke point, is not highly vulnerable to interdiction in that the channel is sufficiently wide and deep to accept the sinkage of one or more tankers without impeding the traffic flow. In addition, Iran and Oman control this Strait and have repeatedly stated their intentions to protect it.⁵

⁴ The study, "Oil Fields as Military Objectives: A Feasibility Study," August 21, is attached but not printed.

⁵ A CIA paper, "Middle East Pipelines and Choke Points," undated, is also attached. It highlighted the three pipelines that "would become vital in the event that the key choke points in seaborne delivery were blocked for whatever reason," including the Strait of Hormuz and the Shatt-al-Arab "from which all Iraqi crude and much Iranian consortium crude leave the Persian Gulf." The three pipelines were TAPLINE, TIPLINE, which carried crude from Eilat, Israel, on the Gulf of Aqaba to Ashkellon, Israel on the Mediterranean, and the pipeline that linked Iraq's Kirkuk oil fields to the Mediterranean via Tripoli, Lebanon and Banias, Syria.

58. **Letter From President Ford to West German Chancellor Schmidt¹**

Washington, April 29, 1975.

Dear Mr. Chancellor:

I agree with the conviction expressed in your April 21 letter² that the meetings of experts of industrialized countries have been extremely useful and that it is now time to begin arrangements for discussions with representatives from the major producer countries. We would, of course, want to make clear from the beginning that this producer-consumer meeting of experts was completely private and that governments would not necessarily be bound by its results.

Your talk with Minister Ansari should help clarify the subjects which could be fruitfully discussed at such a gathering and elicit Iran's suggestions concerning countries that might be represented. Perhaps after you see the Minister, we should have further contact to coordinate final preparations for the meeting, including the definitive list of participants. George Shultz would continue to represent the United States.

For our part, we are convinced, especially in the wake of the abortive preparatory meeting in Paris, that the industrialized countries must continue to strengthen their cooperative efforts on conservation, financial solidarity and substitution of domestic for imported energy. In my view, it is only through such unity of purpose and action by the major consumers that any discussions, private or governmental, with the producers can be productive.

Sincerely,

Gerald R. Ford

¹ Source: Ford Library, National Security Adviser, Presidential Correspondence with Foreign Leaders, Box 2, Germany (FRG)—Chancellor Schmidt (1). No classification marking. At the bottom of the page is a handwritten note: "Original letter sent to Sonnenfeldt to deliver to German Embassy, 4/29/75."

² Schmidt's letter is *ibid.*, NSC Europe, Canada, and Ocean Affairs Staff: Convenience Files, Box 69, May–June 1975, European Trip, NATO Summit (1).

59. Minutes of the Secretary of State's Staff Meeting¹

Washington, May 1, 1975, 8:13–9 a.m.

[Omitted here is discussion unrelated to energy.]

Secretary Kissinger: Tom, do you want to say something about the IEA?²

Mr. Enders: I think it's basically a hard line, Mr. Secretary, the two countries—Japan and Sweden—both—took this week. The alternative sources and conservation policy showed some signs of withdrawal symptoms after the failure of the prep.con. The other countries, however, took quite firmly and directly the line that we must now go ahead and make sure that we implement the substantive policies that we have adopted in the past and that we keep the goal of a producer-consumer dialogue perhaps also—if possible, a consumer-producer meeting—and at the forefront of the organization try to develop a new means of achieving it, but recognizing that this is going to be much more difficult in the future.

They would be looking, of course, very carefully to see what success the United States has in putting across its own energy program. Assuming that we have some, I think it will hold all right.

Much of the next month will be spent in preparations for the Ministerial. There was very strong sentiment towards trying to deal with the raw materials-energy link by having the OECD take the lead in the raw-materials issue—allowing, eventually, for a separate conference, or series of conferences, on raw materials, first, rather than the link of a raw materials-energy conference.

Secretary Kissinger: Whose sentiment was that? Yours?

Mr. Enders: I joined it, but it was basically others.

Secretary Kissinger: Like who—Luxembourg? (Laughter.) Whom did you line up your support to? (Laughter.)

Mr. Eagleburger: Liechtenstein. (Laughter.)

Secretary Kissinger: I just don't believe that it's going to go that way. I think the Europeans are going to edge up, step by step, towards linking them one way or the other.

Mr. Enders: Well, this—

¹ Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, Lot 78D443, Box 3, Secretary's Staff Meetings. Secret. Kissinger presided over the meeting, which was attended by all the principal officers of the Department or their designated alternates. A table of contents and list of attendees are not printed.

² The IEA Governing Board met April 28–29; see footnote 11, Document 56.

Secretary Kissinger: They have a compulsive fear of confrontation and, therefore, thinking that the producers, say, will cause a confrontation—in their mind sooner or later produce one.

Mr. Enders: Well, this was not a proposal which I made or led. In fact, it was by the Europeans. And I think it gives us something to go with now.

Mr. Hartman: That was not the experience of that last conference. They were tougher than we were. I think it will last; but it was a pretty good performance at the last meeting, I think. Don't you? (Addresses Mr. Robinson.)

Secretary Kissinger: Yes, but it won't last.

Mr. Robinson: Germany has apparently reversed their position, or appears to be reversing their position a hundred-eighty degrees on that issue.

Secretary Kissinger: That's exactly right. That's my view. And so will the others.

Mr. Enders: That may be, Mr. Secretary, but I don't think we should predict now and write them off, it seems to me—

Secretary Kissinger: I don't think we should write them off. But I think we should take a position that's realistic and that meets our objectives, instead of being the only ones left screaming for energy when they're all going the other way. All the more so, when they have never understood what we have to gain at an energy conference. And we're against the energy conference, to begin with. It would be sort of absurd for us to sort of wind up as the last defense of an energy conference that everybody else has abandoned. (Laughter.)

Mr. Enders: It was very clear at the IEA meeting that nobody there wanted to have an energy conference. As a matter of politics, they thought they had to be all for it and would continue to work in that direction.

Secretary Kissinger: Like the European Security Conference. For years everyone has just said it was a matter of politics, and suddenly they were stuck with it.

Mr. Enders: There was no early action or movement in this direction, other than in the case of Japanese.

Secretary Kissinger: We've got to get a strategy that we can sustain, and we haven't got it now. What happens if the OECD people put it into raw materials and OECD and Treasury insists on putting it into the Five or Ten?

Mr. Enders: Do both.

Secretary Kissinger: What?

Mr. Enders: Do both.

Secretary Kissinger: But what will happen, in effect?

Mr. Enders: Both will do. Both will do it.

Secretary Kissinger: Both will do it?

Mr. Hartman: 20 has the less developed countries in there. If you turn that into a debate, you won't get anything.

The main thing I think the less developed countries have to decide is what kind of proposals they want to have.

Mr. Robinson: We feel very strongly about the OECD as a vehicle for bringing in the Industrialized Nations. Simon feels equally strongly, maybe more. We'll have a paper outlining the issues.³

Secretary Kissinger: O.K. Well, thank you.

(Whereupon at 9:00 a.m., the Secretary's Staff Meeting was concluded.)

³ Not found.

60. Paper Prepared in the Department of State¹

Washington, undated.

INTERNATIONAL ENERGY POLICY

I. The International Energy Program—Overview

Our principal policy objective vis-à-vis the other major oil importing countries continues to be the construction of a comprehensive framework of cooperation on energy. This effort is designed:

—to establish under US leadership a political and economic counterweight to OPEC, rejuvenating consumer country confidence in their ability to respond to the energy crisis and limiting the corrosive impact

¹ Source: Ford Library, National Security Council, Institutional Files, Box 112, International Economic Policy Review. Confidential. The Department of State submitted this paper for the International Economic Policy Review meeting, which took place May 2–3 at the Old Executive Office Building. Secretary of the Treasury Simon chaired the meeting, and the paper was prepared for the May 2, 11:15 a.m., session, "Energy: International Economic Implications." The Departments of the Treasury, Defense, and Agriculture, as well as the Federal Energy Administration and the Office of Management and Budget also contributed papers, all of which are *ibid*.

of the crisis on our overall relationship with other industrialized countries; and

—*to accelerate the impact of market forces* on both supply and demand and thereby weaken OPEC's ability to maintain high prices over the medium term.

Our efforts in the ECG and later in the IEA have concentrated on (1) the establishment of an institutional framework for cooperation and the establishment of an emergency arrangement, and (2) the creation of a program of long-term cooperation in conservation and accelerated development of new energy.

A. *Emergency Program*: The first of these tasks is largely completed. The International Energy Agency is firmly in place, and the emergency program is in the final stages of implementation. The emergency program is designed to limit in the short-term the political and economic vulnerability we face as a result of excessive dependence on imported oil. It offers three major benefits:

—*political unity*: countries are committed in advance to share oil with any one country which is the target of a selective embargo;

—*limitation of economic damage*: prepositioned demand restraint programs and emergency supplies greatly enhance our collective ability to withstand the economic impact of an embargo; and

—*strategic, diplomatic and military freedom of action*: countries that are better protected against the political and economic disruption of an embargo thereby also are better protected against the potential military and diplomatic impact of an embargo, and are better able to retain their overall strategic freedom of action.

B. *Long-Term Cooperation*: By itself, however, the emergency program would have only limited validity over the medium-term. The IEA countries have recognized explicitly that a permanent solution to the problem of vulnerability can only be achieved by reducing dependence on imported oil.

On the demand side, we have achieved agreement on a 2 MMBD target for reduced consumption of imported oil by the end of 1975. Similar targets will be set for future years. While specific country quotas were not assigned for 1975, the US share of the overall target is the 1 MMBD saving established in the President's program. This is roughly proportional to the US share of total IEA consumption.

On March 20, the IEA Governing Board reached agreement in principle on a coordinated system of cooperation in the accelerated development of new energy supplies.² As now agreed, this system will include:

² See Document 48.

—The pooling of national R & D efforts on a project by project basis;

—Cooperation in providing specific incentives to investors in high cost energy sources on a project by project basis; and

—Agreement to stimulate and safeguard investment in conventional nuclear and fossil fuel sources through a commitment not to allow imported oil to be sold domestically at less than a common agreed price.

The first two of these elements, while of potentially major importance, are relatively non-controversial. Joint R & D efforts will not only provide a highly visible vehicle for concrete cooperation but will also offer significant rationalization of costs. The second tier of cooperation would permit countries to share in the costs and benefits of synthetic fuels production and could, in some cases, be a natural follow-on to R & D cooperation. This element in the overall system is of particular importance to those IEA countries with little or no indigenous energy potential (outside nuclear) and who see political and economic value in having the possibility of access to development of tarsands, shale, coal, synthetics, etc.

C. Minimum Safeguard Price: This is the key element in the overall system. Under this agreement, countries would agree for a fixed period of years not to allow imported oil to be sold domestically at less than a common, pre-agreed price. This price will be set at a level high enough to stimulate and safeguard investment in the bulk of conventional nuclear and fossil fuel sources.

Process: The minimum safeguard agreement, together with the other elements of the overall system is now being elaborated in an IEA working group. The IEA Governing Board is scheduled to review the working group's report and take decisions on all aspects of the program by July 1, 1975.

The major issues to be addressed in the USG and the IEA in elaborating the minimum safeguard agreement include:

1) *Level*—The March 20 discussion specified that the safeguard price aimed at stimulating and protecting investment in *the bulk of conventional sources*. The IEA working group is now elaborating a rough analysis of the various amounts of new energy (North Sea and North Slope oil, conventional coal, nuclear, etc.) estimated to be available at various price levels. (FEA is supplying up-dated cost estimates for the US.)

In the final analysis, however, the range of choice is not likely to be very wide. There is general agreement that the level should not be so low as to be trivial. On the other hand, there are strong political imperatives in all countries (including the U.S.) against setting a very high price.

2) *Mechanisms*: The March 20 agreement specifies that countries would be free to use measures of their own choice to mention [*maintain?*] the safeguard price, e.g. tariff, variable levy, quota, etc. The IEA Working Group is analyzing the trade and general economic implications of various measures with a view toward drawing up an agreed list from which countries could choose.

3) *Timing*: We will have to decide prior to July 1 whether we want to push for the prompt establishment of a maximum safeguard commitment, including the fixing of the level, or whether we would prefer to establish a standby commitment, leaving countries to establish the necessary mechanism only if the price actually breaks. There may be some argument for a standby type agreement, on the grounds that mechanisms, level, etc. can better be chosen when the medium-term market outlook clarifies.

On the other hand, the effectiveness of the safeguard price as a stimulus to investment would be weakened if the commitment to provide protection against imported oil is not explicit. Also, it would be considerably more difficult to obtain agreement in the future on a level sufficiently high to limit the risk of our giving a “free ride” to the Europeans and Japanese if the world price begins to decline.

4) *Legislative requirements*: The type of agreement we seek will probably require specific Congressional authorization. (The Executive may in fact have adequate statutory power to maintain a safeguard price, but Congress clearly expects the opportunity to review the program in detail.) Title IX of the Energy Independence Act³ would provide adequate legislative authority. The timing and strategy of a concerted push for this legislation will have to be carefully assessed over the next few months.

III. *Relations with Oil Producers*: Over the past year, we have concentrated on intensified bilateral contracts with key producer governments. Our principal objective has been to maximize our political and economic leverage by increasing the vested interests of these countries in strong bilateral ties with the U.S.

Until recently, we have been in a holding pattern on a multilateral dialogue, arguing successfully that consumer solidarity was an essential pre-condition to any multilateral producer/consumer dialogue. With the completion of the overall framework of consumer cooperation in March, we agreed to move to a preparatory meeting to lay the ground for a formal producer/consumer conference.

A. *Prepcon*: The preparatory meeting of April 7–15 reached an impasse over the basic issue of the scope of the formal conference. The US,

³ See footnote 3, Document 33.

EC, and Japan maintained that the conference should be centered on energy, covering as well a number of issues directly and indirectly related to energy. The seven OPEC/LDC delegations, acting as a single bloc, insisted that the conference must give equal treatment to other raw materials and problems of economic development as well as energy.

The two most significant conclusions to be drawn from the experience of the preparatory meeting are:

1) OPEC (particularly the more radical elements such as Algeria, Venezuela, and Libya) has little interest in discussing energy and will use the LDC issue to deflect such discussions. Thus, the strong OPEC/LDC alliance will make it very difficult to engage in an effective multilateral dialogue on energy, even agreement on our part to move forward simultaneously on other raw materials and development might not guarantee a substantive dialogue on energy.

2) Our efforts to achieve consumer solidarity have paid off. The consumers maintained an impressive unity at the prepcon. But there continues a strong desire among consumers for some sort of dialogue with producers, and unless we can devise some sort of multilateral mechanism for such contracts we risk seeing other consumers show new interest in the bilateral route.

B. *Where Next:* With the failure of the prepcon, the multilateral dialogue is at least temporarily checked. We will of course continue on the bilateral track and may find that our position with some of the key producers such as Iran and Saudi Arabia has been enhanced as a result of the failure of the prepcon. These producers have a real interest in discussing investment issues, for example, while the Algerians and Venezuelans are not going to acquire a significant stake in the industrialized countries' economies.

However, we must also address the question of producer/consumer relations within the context of our objectives with other consumers. While other IEA countries supported the US, EC, and Japanese decision to hold fast to the notion of an energy-centered conference which was the major reason for the failure of the prepcon, the failure of the prepcon does leave a major gap in the IEA program. Therefore, there may be considerable pressure in the IEA to move forward directly in the establishment of a dialogue with producers, although the producers will reject this. More likely, we can expect pressure to agree to reconvene the prepcon, even at the price of agreeing to a much broader conference agenda than we were previously willing to accept.

We plan to pursue two parallel courses to meet this situation:

1. *Isolation of Raw Materials Question*—We will continue to stress willingness to participate in an energy centered conference. We will quietly resist reconvening the prepcon in the near future. We will use

this time to move forward with our internal reassessment of raw materials policy, concerting our views with other industrialized countries in the OECD and with the more responsible members of the OPEC at the right time. We will then attempt to place the raw materials issue on a separate track, and then return to the question of a producer/consumer conference focused on energy-related matters. If coordinated bilateral discussions with key producers indicate an energy-centered conference can be held, we could proceed with a second try at it.

2. *Coordination and Targeting of Bilaterals through the IEA*—In order to satisfy IEA demands for a more active role vis-à-vis the producers, we will propose a process of closer IEA coordination of bilateral contracts with producers. We could attempt to agree on a common set of objectives and modalities for bilateral policies in selected areas of the producer/consumer relationship. Two possibly promising areas for such an approach are accelerated industrialization of producer country economies and aid to the MSA's.

This approach would have several advantages:

- it would give internal political content to the IEA position in the producer/consumer relationship;
- if properly structured, it need not restrict US flexibility in bilateral relations with key producers; and
- it would help to ensure that the failure of the prepcon does not cause a loss of IEA political momentum in other areas such as long-term cooperation.

61. Minutes of the Secretary of State's Staff Meeting¹

Washington, May 12, 1975, 8–8:40 a.m.

[Omitted here is discussion unrelated to energy.]

[Mr. Robinson:] We also have in Saudi Arabia from Yamani a message² that we ought to be moving on the prep-con idea, the linkage between commodities and oil. And he is pressing us for June 9, to do

¹ Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, Lot 78D443, Box 3, Secretary's Staff Meetings. Secret. Kissinger presided over the meeting, which was attended by all the principal officers of the Department or their designated alternates. A table of contents and list of attendees are not printed.

² This and other references to Yamani are based on a conversation that Akins had with him on May 9, which the Embassy reported in telegram 3303 from Jidda, May 11. (National Archives, RG 59, Central Foreign Policy Files, D750165–0164)

something before June 9, which is the date of the Dakar summit meeting of OPEC. And I have suggested a possible approach. There are some alternatives we may consider.

Secretary Kissinger: What is that?

Mr. Robinson: Well, that we have a ministerial level meeting in which we discuss the general issues.

Secretary Kissinger: Who is “we”?

Mr. Robinson: We—the ten participants in the prep-con.

Secretary Kissinger: No.

Mr. Robinson: Well, we have got to come up with—

Secretary Kissinger: We have got to do nothing. We will not be blackmailed. What are they going to do? We may be willing to indicate a willingness to have a meeting, to have another prep-con. But we will not gear our actions to the meetings of OPEC. Let the French do it. We will not.

Mr. Robinson: Well, I agree with that. But I think Yamani is expecting something from us.

Secretary Kissinger: Well, he can get something from us, but he cannot get a ministerial meeting before June 9.

Mr. Robinson: No, no. It is an agreement to move in a direction that it seems to me we should be thinking about.

Secretary Kissinger: That I am willing to do. But how would that differ from a prep-con?

Mr. Robinson: Well, there would be no attempt to debate or resolve any specific issues there. The only action item would be to set up working parties which would go off on parallel courses, one on energy and one on commodities.

Secretary Kissinger: Yes. But then what would happen to the prep-con?

Mr. Robinson: The prep-con would be merely preparatory to these two working party programs.

Secretary Kissinger: So it would be a prep-con.

Mr. Robinson: It would be a prep-con, yes.

Secretary Kissinger: Yes. But I think we ought to let the French call that anyway.

Mr. Robinson: I am not proposing we take any initiative. I am just saying I think we have got to have some response to Yamani to indicate we have not forgotten about our conversations here.³

³ See Document 55.

Secretary Kissinger: Yes. But we should be a little harder to push than the French.

Mr. Robinson: Right.

Mr. Sober: Yamani is using us, Mr. Secretary, to take a somewhat softer view on prices again. What he is saying is this is going to be impossible—

Secretary Kissinger: I know. But that is the tactic.

Mr. Sober: Yes, of course it is. But on the other hand, he feels—

Secretary Kissinger: I know what he feels. But we won't let ourselves be driven like the French are.

Mr. Sober: No, sir. I was going to say something else. He feels that in the conversation he had on his last stop here, he was promised some ideas from us, and we haven't given him any. I think probably Yamani is right in that.

Secretary Kissinger: That I agree with.

Mr. Sober: I might say on the oil question, too, the Shah is quoted as having said at the end of his stay in Venezuela⁴ that with inflation in the last eighteen months they have lost 30 percent of the value of their increase in price; and that looking at it through September also, both he and the Saudis now unfortunately seem to be zeroing in on the need for another price increase at the end of September.

Secretary Kissinger: We may be able to kid the Saudis, but we sure as hell can't kid the Shah with a prep-con. He will ask for indexation.

Mr. Sober: He is on record with the Venezuelans as talking about the prep-con, but I don't see any serious indication that he is concerned about it.

Secretary Kissinger: He isn't looking for an excuse. If he doesn't want to raise prices, he won't raise them. And if he does, a prep-con isn't going to stop him. The Saudis have no interest in raising prices one way or another. They have an interest in keeping out of trouble.

[Omitted here is discussion unrelated to energy.]

⁴ The Shah was in Venezuela May 5–9. A report on the highlights of his visit is in telegram 4908 from Caracas, May 10. (National Archives, RG 59, Central Foreign Policy Files, D750165–0023)

62. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, May 12, 1975, 1912Z.

110686. Subject: Secretary's Speech on Energy and Raw Materials.

1. In speech scheduled for delivery in Kansas City May 13,² Secretary will state US readiness to attend new meeting of energy producer-consumer prepcon, and to initiate bilateral consultations IEA countries, France and producers to this purpose. Speech will set forward US ideas on ways to begin serious discussion of raw materials/commodity problems which we hope will constitute basis for progress toward meeting concerns of many LDC's as developed at first Prepcon in Paris last month. Text follows septel.

2. Proposals involve three main elements, which will be presented in speech along following lines:

—First, since both producers and consumers want a more reliable basis on which to do business, we will propose that the multilateral trade negotiations now underway in Geneva develop new rules and procedures on such questions as freer access to supplies and markets, promotion of mining and processing industries in these countries, and settlement of disputes.

—Secondly, we are prepared to consider and discuss whether circumstances warrant new arrangements in individual commodities, on a case-by-case basis.

—Thirdly, recognizing the importance of growth in raw material production to both producers and consumers, we will propose that the World Bank explore new ways of financing raw material investment in producing countries. We are particularly interested in exploring new ways of mobilizing capital and bringing it together with outside management and skills.

3. We believe successful dialogue along these lines could be best developed by making maximum use of existing multilateral fora (e.g., MTN's, existing commodity groups within UNCTAD framework, and

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D750166–0231. Confidential; Immediate. Drafted and approved by Dennis H. Kux (NEA/INS). Sent to Algiers, Ankara, Bern, Bonn, Brussels, Caracas, Colombo, Copenhagen, Dublin, USEC Brussels, Jidda, Kinshasa, London, Luxembourg, Madrid, New Delhi, Oslo, Ottawa, Paris, Rome, Stockholm, Tehran, The Hague, Tokyo, Vienna, Wellington, Brasilia, and USOECD Paris. The telegram is incorrectly dated May 22 (221912Z May 1975).

² The text of the speech, delivered to the Kansas City International Relations Council in Kansas City, Missouri, is in Department of State *Bulletin*, June 2, 1975, pp. 713–719.

IBRD). We have open mind about whether these institutions should be seized directly with joint initiatives from interested countries involved in producer-consumer prepcon or whether it would be preferable for prepcon to agree to present these and related proposals to a broader producer-consumer conference which would then discuss a more fully developed scenario for further negotiations in other forums. While we believe former scenario likely result in getting serious discussion started earlier, we would wish to have views of our partners in IEA and P/C prepcon group before deciding on one or the other.

4. You should seek early opportunity to discuss these proposals and procedural options (per para 3 above) with appropriate officials in host government. We will raise directly with Shah during his visit here this week.³

5. For IEA countries: Please notify all governments of Secretary's statement. Secretary will want to discuss the best tactics for pursuing reopening of P/C dialogue along above lines during IEA Ministerial May 27. However, earlier indication of ideas from member countries would be welcome.

6. For Brussels: Notify Davignon ASAP.

7. For Paris: French Embassy already notified. You should follow up.

8. For Riyadh: Notify Yamani ASAP.

Ingersoll

³ The Shah visited the United States May 15–18. He met with Ford on May 16 and told him: "The influence of oil on Western inflation is 2 percent—this is your figure. Industrial inflation was 14 percent but the prices to us have gone up 35 percent. But we must have some kind of agreement, based on some tangible predictable relationship. We must index, or any other proposal which keeps our purchasing power intact. Perhaps indexing to 20–30 commodities, although that might be difficult." He added: "My argument in Algiers was that we have to depend on the commodity trade. But what happens to the Third World, with oil and industrial prices going up? What can we do? The Saudis will follow us—they will always be a moderating element. Between us we can do something interesting. That will give us time for reconvening the Prepcon." Ford did not directly respond to the Shah's remarks but instead asked how much oil Iran produced. (Ford Library, National Security Adviser, Memoranda of Conversations, Box 11) The memorandum of conversation is printed in *Foreign Relations*, 1969–1976, volume XXVII, Iran; Iraq, 1973–1976, Document 127.

63. Memorandum From the Acting Executive Director of the Council on International Economic Policy (Dunn) to the President's Deputy Assistant for National Security Affairs (Scowcroft)¹

Washington, May 15, 1975.

SUBJECT

United States Preparedness to Withstand an Oil Embargo

Our staffs have discussed several issues that deserve examination relating to our preparedness to handle another oil embargo. These issues include:

- a. a review of international petroleum allocation mechanisms that would be available in the event of either the absence or failure of IEA allocation mechanisms;
- b. an assessment of the likelihood of OAPEC using the “financial weapon” to augment any oil supply disruption, and measures we might employ to counter;
- c. a review of the current drawdown of worldwide petroleum stocks—causes, implications and policy options available to encourage supranormal stock levels if deemed necessary or desirable;
- d. a review of the current military fuel stock situation.

Normal peacetime military stocks are said to be more than four million barrels short now. This review should be joined with estimates of military offtake from available national petroleum supplies in the event of an embargo.

I recommend that NSC establish an adhoc group to examine generally United States preparedness to withstand another embargo including the items outlined above. We feel that such a group should include representatives from DOD, FEA, Treasury, State, CIA and CIEP.²

J.M. Dunn

¹ Source: Ford Library, National Security Adviser, Presidential Subject File, Box 4, Energy (9). Secret.

² No record of this group has been found, but a reference to a similar group formed in February is in Document 72.

64. Telegram From Secretary of State Kissinger to the Embassy in Saudi Arabia¹

Paris, May 28, 1975, 0300Z.

Secto 2018. For Ambassador from Secretary. Subj: Message from Secretary to Prince Fahd.²

1. Please deliver immediately following message from Secretary to Prince Fahd, during the morning of May 28; at same time you may show it to Yamani and seek his reaction and support.³

2. *Begin text:* Your Royal Highness: Since the preparatory meeting in Paris ended without success, I have, as I know you have, been giving much thought to how we could overcome the impasse. Today I made public in the IEA a proposal which I hope will relaunch the dialogue.⁴ It owes much to discussions which our associates have had together. I hope it will recommend itself to you.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P840126–2165. Confidential; Immediate; Nodis. Repeated Immediate to Washington. Kissinger was in Paris to attend the IEA and OECD Ministerial meetings.

² Kissinger sent similar messages to Algerian President Houari Boumediene (telegram Secto 2020 to Algiers, May 28; *ibid.*, P840126–2160), Venezuelan Foreign Minister Ramon Escovar (telegram Secto 2017 to Caracas, May 28; *ibid.*, P840126–2138), and Brazilian Foreign Minister Antonio Francisco Azerada da Silveira (telegram Secto 2023 to Brasilia, May 28; *ibid.*, P840126–2150). The Secretary also sent a personal message to Yamani, in which he asked him to use his “enormous influence among the producers” to ensure that successful U.S. efforts to include “the subject of raw materials within the framework of a renewed consumer-producer dialogue” be “received affirmatively and in the same spirit of cooperation with which it was made.” (Telegram Secto 2046 from Brussels, May 30; *ibid.*, P840126–2144)

³ On May 31, Akins reported that he discussed the “new U.S. views and proposals on the preparatory conference of energy producers and consumers” with Fahd and Yamani. The Crown Prince “was pleased” but deferred “detailed comment” to Yamani, who said he was “immensely gratified,” remarking that the U.S. position “was now very close to the Saudi position.” (Telegram 3882 from Jidda, May 31; *ibid.*, D750191–0508) Fahd formally responded to Kissinger with a letter on June 2, in which he wrote: “We support the necessity of a resumption of the preliminary meeting in Paris a second time and we consider that the objective of the meeting is an agreement on a schedule including the clauses that are agreed on for discussion.” (Telegram 4182 from Jidda, June 11; *ibid.*, D750203–0276)

⁴ The text of Kissinger’s statement at the May 27 IEA Ministerial meeting in Paris is in Department of State *Bulletin*, June 23, 1975, pp. 838–844. The IEA Ministers published a communiqué in which they “reiterated their determination that the Agency should contribute, as far as problems connected with energy were concerned, towards achievement” of a “regular and stable energy supply.” They further emphasized that solutions to “current economic problems” must be based on “the principles of inter-dependence of all countries, mutual support and shared responsibility, so that all countries, whatever their level of development, may be recognized as partners in the world economic system.” (*Ibid.*, pp. 844–846) A description of the May 27 meeting is in telegram 13526 from USOECD Paris, May 27. (National Archives, RG 59, Central Foreign Policy Files, D750185–0370)

3. The first step, as I see it, would be to reconvene the preparatory meeting in the same format as before. The time could be relatively soon, certainly a matter of months as I see no reason for delay. I suggest that the format remain the same to avoid a tedious, non-productive negotiation over who would attend and what the rules of procedure might be. Clearly we have more important business to do than that.

4. The second step would be for the preparatory meeting to agree on the creation of a number of commissions to deal with the critical issues in relationships between developing and developed countries. Thus commissions might be set up for energy, for the problems of the most seriously affected nations, and for raw materials. Conceivably there would be others. Each commission would review all aspects of the problem assigned to it: including finance, investment, trade, and production.

5. The way in which each commission proceeds about its work would depend in considerable measure on the nature of work already being done in the field. For the most seriously affected, there is already much activity, and the commission's role would be essentially to monitor, to supplement, and to orient that work, giving it the thrust and purpose it must have. The commission on raw materials would have a similar role. In the case of energy, since there is no existing international organization in which the basic questions are dealt with, the commission should also function as a means of addressing and resolving the underlying substantive issues.

6. In each case, I would envisage that the basic issues that have been raised be addressed. Under raw materials, for example, you would no doubt wish to raise the question of terms of trade. And we wish on our side to consider how adequate resources can be obtained for the development of raw materials and how in general raw material markets can be made to function more efficiently. Actual negotiations on commodities would remain the purview of already existing commodity groups such as for coffee, cocoa, tin.

7. Clearly we would want to limit membership in the commissions to assure their effectiveness. I think we both are anxious to avoid a new UNCTAD. In my speech today I suggested that we seek to limit the membership by applying objective criteria. For raw materials, for example, we could include those countries for which exports or imports for food and other non-oil raw materials constitute a certain minimum percentage of their total national product, and set that threshold high enough to keep the numbers within reason. We could do the same in energy. For the most seriously affected, we would have to seek another formula, one in which representative countries with the lowest capita income were chosen along with the traditional and new donors.

8. This proposed approach, Your Royal Highness, has two origins. First, our own thinking within the American administration on raw materials and other issues of the relationship between developed and developing countries has been evolving over the last several months. I expressed some of the first implications of our new thinking in a speech at Kansas City two weeks ago.⁵ I will have something more to say about them tomorrow at the OECD meeting.

9. The second source is the realization that it would be difficult if not impossible to find a basis on which oil producers and consumers could discuss the new problems of energy without addressing the entire range of relationships between developed and developing countries.

10. My proposal is thus brought forward in a spirit of conciliation and innovation. In doing so, I do not think we should attempt to dictate too closely the timeframe of the work of the commissions—that they could work simultaneously or consecutively and might, depending on the difficulty of the task at hand, require a shorter or longer span of time—nor should we attempt to structure too precisely their relationship to each other. My intent, rather, is to find an approach which recognizes both the essential unity of the developing countries in seeking an improved relationship with the developed countries, and the great diversity of interests, forums, and subjects to be addressed.

11. I hope this approach will, as it is intended, meet many of the concerns that the Saudi representative at the Paris preparatory meeting expressed. I hope, Your Royal Highness, that you will find it possible to support this concept, so that we may soon relaunch the dialogue between developed and developing countries, including on the essential issue of energy. I know that that is your wish; I assure you that it is also our own. Warm regards. Henry A. Kissinger. *End text.*⁶

⁵ See Document 62.

⁶ The telegram is unsigned. During a May 27 meeting, Kissinger, Giscard, and Sauvagnargues discussed a possible future energy conference. The Secretary said that “France should reconvene the preparatory conference under French chairmanship” and recommended that three commissions be established “to deal with energy, other raw materials, and the problems of developing countries,” all the while insisting that “energy must receive priority in emphasis over other raw materials.” He added that “he thought the U.S. and France could work together to make the conference a success” because there were “really no basic differences” between them. Sauvagnargues responded that “the goal of the conference at the next stage should not be so much to reach conclusions as to establish a structure for future discussions” and that such a meeting “should be global.” While Kissinger agreed, he re-emphasized that energy should have top priority. (Telegram 13581 from Paris, May 28; National Archives, RG 59, Central Foreign Policy Files, P850061–1750)

65. Memorandum of Conversation¹

Washington, June 10, 1975, 8 a.m.

SUBJECT

Foreign Economic Policy

PARTICIPANTS*Senators*

Henry Bellmon, R. Oklahoma

James B. Pearson, R. Kansas

Carl T. Curtis, R. Nebraska

Paul J. Fannin, R. Arizona

Bill Brock, R. Tennessee

Howard H. Baker, Jr., R. Tennessee

Bob Packwood, R. Oregon

Representatives

John J. Rhodes, R. Arizona (Minority Leader)

William C. Wampler, R. Virginia

William S. Broomfield, R. Michigan

Clarence J. Brown, R. Ohio

Barber B. Conable, Jr., R. New York

Albert H. Quie, R. Minnesota

The Administration

The Secretary of State

L. William Seidman, Assistant to the President for Economic Affairs

Charles W. Robinson, Under Secretary of State for Economic Affairs

Julius L. Katz, Deputy Assistant Secretary of State for Economic and Business

Affairs

Alexander F. Watson, EB (notetaker)

The Secretary: Gentlemen, I have to go in about an hour to a meeting with the President and I know you have very busy schedules today. So I'd like to begin our discussions during breakfast if you don't mind. I've invited you here to give us a chance to discuss what we are trying to do in foreign economic policy. Frankly, when I read the newspapers I can't tell what we are doing. There seems to be more in the papers about what various parts of Government are doing to each other than there is about the substance of the policies.

Today I want to explain our overall strategy and then get your views on it. Let me begin with strategy. The basic problems we face in foreign economic policy are:

¹ Source: National Archives, RG 59, Records of Henry Kissinger, Lot 91D414, Box 11, Classified External Memoranda of Conversations, June 1975. Confidential; Exdis. Drafted by Alexander F. Watson (EB). The meeting was held in the Jefferson Room at the Department of State.

First, the high cost of energy. The OPEC cartel pushed prices far beyond the level that economics would dictate. This price rise has been brought about by a political decision rather than an economic decision. This political decision was made possible by the political cohesion of the oil producers group. The real problem is Saudi Arabia and the other less developed oil producing states. Saudi Arabia can cut production to maintain prices without hurting itself because it is underdeveloped and has a very small population. The energy crisis has brought home dramatically to many countries their dependence on the oil producers. It has brought home the interdependence of the world. The energy crisis has brought on or at least contributed significantly to the inflation and recession that many countries are suffering.

Second, the group of 77, which has more than a hundred members now, under the leadership of Algeria is politicizing economic issues. It is forming a block which links the various economic issues to each other. This has the objective tendency to produce other cartels. As the LDCs stick together, economic decisions will increasingly be made for political reasons. The impact of this is profound. Objectively you would think that the poorer LDCs would be on our side. India for example sees its economic gains wiped out by rises in the price of petroleum. But the most seriously affected LDCs always come down on the side of those pushing up the prices.

When we started to deal with the energy crisis we wanted to get all of the consumers together and then to meet with the producers. But we now see that the most seriously affected, poorest consumers remain on the side of the producers. The result of all this is that Europe and Japan are terrified of confrontation with the producers. The pressure of the producers is enormous and affects other types of decisions made by Europe and Japan. This then is the situation that we are trying to deal with.

Our basic strategy is to bring about a different market situation so that the terms of bargaining are shifted in our favor. Secondly, we are trying to get cohesion among the consumers so they can't be picked off individually by the producers. We are trying to break up the LDC coalition so that we can deal with each issue separately.

Let me talk about oil first. I've read in the papers that within the Administration there are various groups: those who are soft on energy and those who are hard on energy; those who want to bring the price of petroleum down and others who don't give a damn about the price of petroleum. An interesting thing about the newspapers is that the battles are more fierce in the papers than they are in the Cabinet Room. Everyone wants the price of petroleum to come down, but it won't come down until we create new market conditions whose impact is stronger than the political ties among the producing countries. To do

this several steps are required. First, all industrial consuming countries must cut consumption. Second, we must create new energy sources, we must develop alternative energy sources. Third, we must try to absorb the resources of the oil producers.

Senator Curtis: Can you explain that; that last one about absorbing the resources of the oil producers?

The Secretary: If we can get them to invest in large scale development projects—I see Chuck Robinson has some already lined up—as long as we can get them to invest in large scale development projects, production cuts that produce revenue losses will hurt the producing countries seriously. Large scale development projects and other projects will put the Shah, for example, in a position where he must sell oil in order to sustain the commitments he has made. There will be a limit below which he cannot cut production or else sustain unacceptable losses. The problem is Saudi Arabia. It only has 5 million population and virtually no industrial base. It can cut production down to 2.5 million barrels per day and still meet all its commitments. Libya, Saudi Arabia, Algeria and Iraq are the weak points for us.

Mr. Katz: The Libyans are actually trying to increase production and exports now.

The Secretary: My point is that the point is approaching where they'll get into production problems and where they won't be able to cut any further. That is, they would not be able to cut as far back as they did during the embargo. During the embargo they were producing about 6 million barrels.

Mr. Robinson: 5.5 million.

The Secretary: They are already down to 5.5 million right now. Another thing I would like to mention is that the argument is made that we are too gentle with the Shah. Now I don't know what being tough with the Shah means. But most people seem to be talking about cutting off military sales or something like that. We've seen in Turkey what happens when we cut off military sales. We cut off military assistance to them 6 months ago and in that 6 months absolutely nothing has happened. In fact we got a letter from the Turkish Foreign Minister the other day saying that unless the House takes some action, they won't do anything. So cutting off military sales to Iran probably would not produce any results. Secondly, the leverage we've gained through military sales would be lost, as would future business. Third, it would hurt a non-embargoing country. If an embargo came, Iran might be less willing to remain out of it.

So cutting off arms: one, would not bring prices down; two, would be counterproductive in other areas and three, because he needs the money most, the Shah will be the most susceptible to a deal at a certain point which is approaching. Now if we could get our hooks into Al-

geria and Saudi Arabia that would help us a lot. However, we still need a domestic energy program. We must have a domestic conservation program. But, I want to make it absolutely clear that we want to crack the oil cartel and bring oil prices down.

Senator Curtis: You've done an excellent job. You've done a fine job in the Middle East. I have a question, however. Getting the OPEC countries to have these development projects that you mention, how much time would it take until they will do it? That's not the situation now, is it?

The Secretary: Well we can't be as explicit about this in public as we can here among ourselves. But it seems to be operating very well in Iran. We already have 26 billion in investment in Iran. In Saudi Arabia it's much more difficult. Chuck knows, I've been giving him hell about it every day. It hasn't been his area until very recently. The problem is that the United States has a missionary streak. Whenever the Saudis have development projects we send six missions over there to explain to them why they don't need them. To explain why they don't need to spend the money.

Senator Curtis: Could you send one of those over to Congress? (Laughter.)

The Secretary: It is picking up in Iran. Chuck is going there next week with about 6 more projects. And Algeria, for all its big talk, is getting to the point where it can't cut production without hurting itself. Libya—all of them are down to their production limit. This has not been translated into price cuts as yet. But if we crack one and can fix a lower price with him don't jump all over us. We're trying to crack the cartel and bring the price down.

Senator Bellmon: But, Mr. Secretary, isn't the long range solution increased domestic production?

The Secretary: You're right. I recommended quite a while ago, and there's been some misunderstanding about this and confusion in the press, but I recommended several months ago what is called the floor price. This would protect American domestic production. We must protect domestic production by tariffs or a floor price or some other mechanism. We've worked an agreement out in the IEA for a common approach to some sort of protective price. You're quite right. If the international price drops below the domestic price then our domestic producers will be badly hurt. If OPEC uses economic warfare, dropping the price that low, it would make us more dependent on them and wipe out our investment in alternative sources. Then they would raise the prices again and we would be more dependent on them than ever. I believe that examination will show that we must have a protective price for imported oil. This would not mean that we have to pay the protective price to the producers if the international price dropped be-

low the level, but just that we could not sell it domestically for less than that price.

Cong. Rhodes: Don't we have an international agreement which does that?

The Secretary: Yes. But we must set up our own protective price mechanism here or we could lose billions in investments in alternative sources of energy. If we don't act now we could end up producing cheap energy for Europe and Japan and be stuck with higher cost energy for ourselves. Now is the time to set up a protective price, before we undertake massive investments in alternative energy sources. Later on, prices will fall and we must be protected before that happens.

Cong. Rhodes: Isn't now the time to act on that?

Cong. Brown: It's premature to set the specific price now isn't it?

The Secretary: We can set a price range now. Let me emphasize that a protected price is not designed to hold up the OPEC price but rather to protect our investment in alternative sources of energy. To get the Europeans and Japanese to invest in alternative energy sources now.

Cong. Brown: But my point was that all the costs of alternate energy sources are not clear yet.

The Secretary: That's true. We can't get a commitment now for more than about \$7.50. Which is below some alternative energy sources but is better than nothing.

Mr. Katz: We don't want to protect all alternative energy sources. For instance, if we want to protect synthetics and shale we would have to have a price of around \$14–\$15 a barrel. What we want to do is protect the additional investment in conventional energy sources, such as coal, outer Continental Shelf, Alaska.

Cong. Conable: I have the impression that some of our allies are ahead of us in investment in alternative energy sources. For instance, it seems that France and Canada are ahead of us in nuclear energy.

The Secretary: Some of our allies have made greater commitments than we to alternative energy sources and conservation.

Senator Curtis: We have the political situation in the Middle East and we have the energy issue and I'm wondering how does the energy issue relate to the settlement in the Middle East? Which is stronger in your view?

The Secretary: Well. Let me give you two answers. There is the formal answer and the more practical answer. First the formal answer. Formally, we refuse to permit any linkage between energy and the Middle East political situation. But we must keep in mind that war in the Middle East is a possibility. So we have to be very careful of those who did not join the embargo. Of Nigeria, Iran, those who probably

will not join an embargo. In the second place, we are trying to limit the freedom of movement of Saudi Arabia. The more the tensions are lowered in the Middle East, the easier it is for Saudi Arabia to work with us and the better for us in energy. The more tense the situation, the more likely the oil producers will use the energy weapon against us. Saudi Arabia is more influential than Iran. Saudi Arabia has 5 million barrels surplus production and Iran has less than 1 million surplus now. Saudi Arabia can reduce production more easily than Iran. If we can get Saudi Arabia to commit itself to more development projects, it will have less flexibility in adjusting production.

Senator Pearson: One sees in the press and elsewhere figures of the Arabs' monetary reserves and investments that they can make, and have made, those in the US and elsewhere. You can find almost any figures you want. Do you know what the size of their reserves are and on what level their investments are?

The Secretary: The present level of the Arabs' monetary reserves and investments? (To Mr. Katz:) Do you have those figures?

Mr. Katz: There was a big surge in reserves last year. They increased by over 50 billion dollars. But we expect some reduction in the surplus in 1975.

Senator Pearson: And little investment in the US?

Mr. Katz: Some, but not much. There has been a big rise in imports by the OPEC countries. There was a 50% rise in imports last year.

Senator Fannin: Mr. Secretary, what is your reading of Dr. Akhdar's view that has been in the press lately that if the US doesn't want to deal with Saudi Arabia the Saudis will go elsewhere?

The Secretary: I don't know the present King very well. I knew Faisal well. I know Fahd. They have a sentimental Bedouin attachment to the US. All else being equal, they will shade toward us.

Senator Baker: True, but the King, the Crown Prince, and the others are solid to the core. They know who they are. They are nationalistic and they know what they want to do with their money.

The Secretary: That is true and it is a vital point.

Senator Baker: They told me that they were going to use their money—

The Secretary: They don't talk about money with me. They just want to talk about politics.

Senator Baker: Well they talked about money with me and told me they had \$30 billion a year for investments.

The Secretary: Well, that's good for us. We don't care where they spend their money as long as they put it in development. These are more modern types. They'll use their money more aggressively and nationalistically than Faisal. It may turn out to be a disaster for them be-

cause they are not strong enough to play such an exposed role, as Faisal knew so well. But this could be very helpful to us, if we don't kick them around three times a month. These press stories certainly don't help.

Senator Fannin: But Mr. Secretary what is your reading of Dr. Akhdar's view that if we kicked them around they will go to somewhere else with their money?

The Secretary: All things being equal they still want to favor us. They want to do their development and their military training with us.

Senator Baker: The new team, notwithstanding the embarrassment, still want to be our friends more than friends of anyone else.

The Secretary: I agree with Howard, but the new group won't be as understanding as Faisal.

Cong. Quie: The oil producers will have a problem continuing to pump oil in the future, but if they pump it out now without waiting for the future they can invest that money now, then forget about whether or not they have any oil in the future. For instance, if I can get my money out of my farm right now, I'll get it out as fast as I can and invest it in something else and won't worry about the farm in the future.

The Secretary: That's one reason we must have alternate sources of energy. It will take, I'm not quite sure how long—I think it's about ten years—for them to build up their industrial sector. Then they won't need to export as much petroleum.

Mr. Katz: Iran is already in a budgetary squeeze this year. They can alleviate this by a price increase to some extent, but they also want to keep up their oil exports to increase their revenue.

The Secretary: That is right.

Cong. Rhodes: Mr. Secretary, what do you see as the significance of the decision announced yesterday by the OPEC countries to figure the price of petroleum in special drawing rights rather than in dollars?²

The Secretary: There's no significant difference at this time. Maybe a few cents.

Cong. Rhodes: But I mean how about on the future price of petroleum?

The Secretary: I don't think it will make much difference. Only in the case of a sharp devaluation of the dollar.

² The 44th OPEC Ministerial conference was held in Libreville, Gabon, June 9–11. This announcement was made on June 10. (Telegram 881 from Libreville, June 10; *ibid.*, Central Foreign Policy Files, D750204–0070) According to the Embassy, the “biggest result” of the meeting was “to avoid any type of price increase before October 1, 1975, thus sticking to the letter of OPEC promise made in December 1974 to freeze prices for nine months.” (Telegram 891 from Libreville, June 12; *ibid.*, D750205–0796)

Cong. Brown: The impact of another increase in petroleum prices by the producing countries, which the producers have announced they will make later this year, on the political stability of other countries will probably be greater than on us.

The Secretary: That's right. I want to make absolutely clear that we are strongly opposed to oil price increases even when that effort is not visible. There is always the question of tactics. And I do not happen to believe that yelling at the Shah is good tactics. When you do that, you get into the issue of prestige. But we will oppose efforts to increase the price of oil very, very vigorously. Schmidt told me recently that he and others like him are very worried that, just as their economies are pulling out of the present situation, they will be hit by a price rise which will send them into another recession or depression. If the producers increase the price by the amount that has been mentioned in the press, that is, by \$4 a barrel, we would have to resist very energetically. It would have very, very serious effects.

Cong. Brown: This could hold the consumer nations together, however.

The Secretary: I want to make it clear that we do not want a price increase. I don't think they will increase it—I think it's psychological warfare that they are using—I do not think that they will increase it by as much as has been reported.

Cong. Quie: It seems to me that there are two ways to have the floor price that you're talking about. First, if we were big enough we could buy all the petroleum or second we could make an agreement with other countries.

The Secretary: We have made an agreement with the other countries but each country can prescribe its own methods for maintaining a protective price.

Senator Bellmon: Do you have any information which would indicate that the OPEC nations have been using some of their resources which they have accumulated recently to help the poorer nations?

The Secretary: Yes, they have. But this creates political linkages which can work against our interests in the long run.

Let me now talk a little bit about commodities and grain. First, I want to say that we have no interest in a super cartel that will fix all prices. That's farthest from what we want. But on the other hand, if we don't break the bloc of 77 countries, that's what will happen. If we don't adopt the proper approach, the proper tactics, we can force the unity of the LDCs and bring about further cartelization. We are moving to try to avoid this. The British and the Germans have moved on commodities and the Japanese have recently moved on the commodities issue.

We want to create a forum where commodities issues can be discussed. Where we can discuss the things which are going on in various

forums on commodities, such as in the IMF. Our major thrust would be for increased investment in the production of raw materials and greater assurances of supplies and not to try to fix market prices for a range of commodities. If we can get a few of the members of the Group of 77 to discuss with us in other forums commodities issues of interest to them then we can break up the strength of the Group of 77.

If we can shift from the issue of prices to earnings stabilization, we can do better than just pouring our aid out. If we don't do this, we are setting ourselves up for a tremendous shellacking in world forums. All the LDCs, European Socialists and even the Japanese, who are for us but are afraid of the Group of 77, and the OPEC countries will end up against us.

Our commodity policy is designed to prevent the OPEC nations from using the energy issue to link all the LDCs together on a platform of redistribution of wealth. We can't fight this very well in the abstract. But if we can fight on specific issues and get the key countries to act in terms of their real self interests, we will have weakened their solidarity. We do not want to find ourselves fighting the LDCs on the general, abstract issue of redistribution of wealth in the UN General Assembly Special Session that's coming up soon and then go into the energy conference with everyone accusing us of being willing to talk only about the one issue that's of interest to us. Schmidt warned me about the dangers of such a confrontation and said that we could end up isolated.

On the other hand, we do not wish to discuss every commodity. We want to talk about 2 or 3 that are of interest to a group of nations that we could split off from the others. We are interested in fostering further investment in the production of raw materials. We could use the aid that we now give for income stabilization. That is our commodity strategy.

[Omitted here is discussion on agricultural trade policy.]

66. **Telegram From the Department of State to the Embassy in France¹**

Washington, June 14, 1975, 2152Z.

139949. Subject: Message for Sauvagnargues.

1. Please transmit the following message to Foreign Minister Sauvagnargues at earliest convenience:

"Dear Jean:

A representative from your Embassy here was in touch with us last Monday² concerning your concept of moving directly to an enlarged Ministerial meeting of 27 countries as a means of relaunching the dialogue on energy, commodities, and other development issues. Since then I have had a report of the conversation between Messrs. Froment-Meurice³ and Robinson.

I have given your concept considerable thought. In order to enable us to proceed in close cooperation I thought it might be helpful if I put our own thoughts before you.

I recognize your desire to build on the discussions at Kleber in April,⁴ but wonder if there was really sufficient agreement to do so. There was only a tentative understanding on a 26 or 27 member group, and on its division between energy producing countries, developing countries, and industrial countries. The whole was at that time conditioned on agreement on an agenda, and on such contentious issues as the status of the International Energy Agency observers. To attempt now through bilateral contacts to establish a basis for agreement on who the 27 would be, on the representation of the Agency, and on what the 27 would do strikes me as an impossibly difficult task.

But even if it could succeed, I believe there would be a real question as to its utility. An enlarged conference of this type would be tempted to get into the substance of issues, and to try to set up some way of leveraging issues one against the other. A large conference would be tempted to perpetuate itself, subordinating the commissions to its governance. We could thus have all too easily a mini-UN and the ingredients for a new failure.

¹ Source: Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France—State Department Telegrams from SECSTATE–NODIS (3). Secret; Immediate; Nodis. Drafted by Enders and approved by Kissinger.

² June 9.

³ Henri Froment-Meurice, Chief of the Asian Division of the French Foreign Ministry.

⁴ The Kléber Conference Center in Paris, where the April 7–15 Precon took place.

It seems to me far more prudent to build on Kleber by reconvening the preparatory conference in the same format. After all, the 10 participants agreed that they were not ending their effort, but only suspending it. Although not free of controversy, this forum has the merit of existing; participants in it could very probably agree to reconvene it with a minimum of negotiation.

I recognize the point that has been made to us by many of the producing countries that legitimacy of commissions created by only 10 countries might be contested, notably by developing countries that did not participate in Kleber. To overcome that point, which I believe valid, the correct solution would appear to be that proposed by Yamani: To use the preparatory meeting to agree on the whole process, the membership of the commissions, their terms of reference, their status vis-à-vis each other, and then to convene a 1 or 2 day meeting of Foreign Ministers to launch them.

A further point that has been raised by some, that there should be an arrangement for the commissions to report back, seems to me to have much less force. Countries that are concerned that the work of the commissions should proceed more or less at the same pace, can satisfy themselves that this is so by arrangements for the commission chairmen to report to each other the progress of their work. But to report back to the enlarged Ministerial meeting would suppose that the Ministerial meeting would have to be held again, and that it will have to deal with substantive issues. I do not think we should commit ourselves now to such a substantive membership meeting at Ministerial level.

Please let me know your thoughts on this issue,⁵ as I think that there is a strong advantage to both of us to remain in close harmony as the dialogue develops. I hope in any event to see you soon.

[Omitted here is material unrelated to a producer-consumer conference.]

Kissinger

⁵ The French Embassy delivered Sauvagnargues's reply to Kissinger on June 23. The Foreign Minister wrote that France had "no preconceived idea" regarding procedure and was "prepared to support what will be likely to receive general approval in conditions suited not only to ensure the resumption, but above all to guarantee the pursuit and continuation, of the dialogue." However, he added, he was "thoroughly convinced of the need for an approach that is both global and *differentiated*." On the subject of establishing "three committees of actually unequal status whose results could no longer be compared," he did not think the formula would "receive the approval of the developing countries which will inevitably interpret it in terms of priority for energy." Furthermore, in terms of the conference's composition, he argued that Kissinger's "reasoning against the 27 formula is equally applicable to the 10 formula." (Telegram 151916 to Cairo, June 27; National Archives, RG 59, Central Foreign Policy Files, P850036-2564)

67. Memorandum of Conversation¹

Washington, June 16, 1975, 10:25–10:50 a.m.

PARTICIPANTS

Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for
National Security Affairs

Alan Greenspan, Chairman, Council of Economic Advisers

Charles W. Robinson, Under Secretary of State for Economic Affairs

Lt. Gen. Brent Scowcroft, Deputy Assistant to the President for National Security
Affairs

SUBJECT

Bilateral Oil Agreement with Iran

Kissinger: The President wanted me to discuss something we have been discussing with Iran. This is for you only and is highly sensitive.

When I saw the Shah in March [*May*],² he complained his liftings were falling and he had 500,000 barrels a day excess. I said that under specific conditions we might take it off their hands. Chuck [Robinson]³ has discussed it further with them and they have now gone up to 700,000 barrels a day. They would sell to us for Treasury notes with a forgiveness period. The notes could be redeemed for the purchase of American goods.

I am interested in this idea because, number one, it breaks the OPEC front because it shifts the surplus.

Greenspan: It would have to be at Saudi expense, and they wouldn't like it. How long would it be for?

Kissinger: It's up to us. Second, it would make it harder to raise the prices. Third, it's insurance against another embargo. Fourth, it puts pressure on the suppliers.

There are two possible schemes. The first one is that we pay the market price for oil. The other is to sell at current prices plus an adjustment tied to the wholesale price index.

Greenspan: That breaks the OPEC price structure.

Kissinger: If they give us a forgiveness feature, one year gives us \$1 dollar discount.

¹ Source: Ford Library, National Security Adviser, Memoranda of Conversations, Box 12. Secret; Nodis. The meeting was held in the Secretary's office in the White House.

² See footnote 3, Document 62.

³ Brackets in the original.

Greenspan: If we could keep Iran at full production it puts severe pressure on the Saudis. We would want to insure that Iran would not cut back elsewhere.

Robinson: They could but that obviously is not their scheme. They want to keep their revenue up.

The basic scheme is a barter. If they contract way out for oil, they need the assurance that the price will go up in line with other goods they would buy. By either scheme—the OPEC price, or the current price plus the wholesale price index (so long as it didn't go above OPEC). We would give them Treasury notes without interest for the first year and that are non-negotiable for the first year. So for the first year we would have \$2 billion in our hands.

This will take imagination and a change in how we operate.

Greenspan: So in effect you have \$2 billion in escrow. So if they broke the deal or entered an embargo, we have the \$2 billion.

Robinson: We get a discount. We will have to establish a specific arrangement, which can go far to break OPEC.

Greenspan: When this gets out . . . the only real issue is price. It would be crucial that the price not escalate beyond the OPEC price.

Robinson: I think I got that, but I haven't nailed that down yet.

Greenspan: It seems obvious that if you look at 1978 at these prices, the Saudis are the only ones who will not be a net borrower. The others are committing funds at such a rate. The 700,000 barrels by itself won't do it. But as a symbol . . . The Saudi reaction will be important.

Kissinger: Will the companies give us trouble because the Saudis will be upset?

Greenspan: The idea properly packaged seems very attractive. Let me think about it. An essential ingredient is not to let the price go above the OPEC price. I will think on the negative elements, but I am intrigued.

Robinson: There are two alternatives: a government purchase to be auctioned off, or we could buy it for the Navy reserve and so on.

Greenspan: We can buy it for the stockpile. We are talking about a \$1 billion stockpile, but we don't have the Salt Dome capacity. Maybe you can solve the company problem by having them take the oil.

The notes would have to be non-negotiable. Have you looked at the different interest rates?

Robinson: It is about \$1 a barrel at the current interest rates. I am thinking of a five-year maturity with no interest if they don't use it for equipment.

Kissinger: Another option is to lower the interest rate and have no forgiveness. How will it look to our IEA partners? It really helps them.

Robinson: But we must be careful how we do it.

Greenspan: It will have a devastating impact on OPEC. So you want the maximum apparent price concession.

Robinson: Iran insists that the non-negotiable aspect be covered by a side letter, as well as the price not going above OPEC.

Kissinger: I know we would like the greatest apparent price differential . . . The side letters will look . . . the Saudis will be very upset.

Greenspan: If you then have the same deal with the Saudis, I would not favor it. Because then OPEC becomes Saudi.

Kissinger: That is a separate issue. Let the Saudis worry about that.

Robinson: It would be politically difficult to say we do it with Iran but won't for the Saudis.

Greenspan: Let me think it through. The critical thing is what happens in 1980, with Iran and with or without the Saudis. We may need a total strategy before we move.

Kissinger: I think we should pick up what we can and develop a total strategy after Iran is signed up.⁴

[The meeting ended]

⁴ On June 23, Kissinger, Greenspan, and Robinson met with Zarb at the Department of State to discuss the idea of a bilateral oil deal with Iran. Zarb said that while he liked the idea as a "possible way to crack the oil cartel," he thought "the notion of a government agency handling this sort of matter is inconceivable and inconsistent with our idea of a free enterprising system." The three agreed that they did not want Congress too deeply involved in the matter, with Zarb saying that "getting into a legislative process" would mean that the administration "would lose control." Regardless, Zarb believed that they should proceed with the deal, and Kissinger and Robinson added that, if they did so, the price that the United States paid to Iran could not "ever exceed the OPEC price." (National Archives, RG 59, Records of Henry Kissinger, Lot 91D414, Box 15, Miscellaneous Documents, 1975, Folder 2)

68. Telegram From the Department of State to Secretary of State Kissinger¹

Washington, July 2, 1975, 2016Z.

Tosec 50095/156455. Subject: Producer/Consumer Dialogue.

1. My recent discussions on the producer-consumer dialogue with Yamani in Saudi Arabia and Yeganeh, Ansary, and the Shah in Iran have been reported by separate telegrams.² Based on these discussions, I believe that we could reach agreement in principle with Saudi Arabia and Iran on the following approach:

2. Basic plan: Group of 10 to meet first with the same level of representation as at the April Prepcon, and agree on all the important questions cited below before giving way to the group of 27 at the Ministerial level. The larger group would formally launch the three commissions on energy, other commodities, assistance to least developed countries.

3. Important questions—to be resolved in advance:

(A) Enlarged launching group: It appears that we will likely end up with 27 participants—8 industrialized nations, 8 OPEC and 11 LDC's—to be selected by the respective groups. The chairman of the group of 27 should be from a neutral country (not France), rotated amongst the 3 participating groups, or possibly from the UN.

(B) Commissions: Three separate commissions to be formed on energy, other commodities and least developed countries relations with financial and monetary questions to be considered in each. (Hopefully Yamani's demand for a separate commission on finance and monetary matters can be resolved by agreeing to set up a sub-committee under the energy commission.)

(C) Commission participants: Participants in each commission to be selected from among the group of 27 countries by use of objective criteria modified as may be required to meet anticipated political pressure. (These criteria would justify US membership in all three commissions but preclude multiple membership for most of the 27.)

(D) Guidelines for commission programs: General outline of the scope of each commission's activities to be set for them based largely on

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P850036–2256. Secret; Immediate; Nodis. Drafted and approved by Robinson. Kissinger was in the Virgin Islands to meet with Israeli officials.

² Robinson's June 29 meeting with Yamani in Jidda was reported in telegram 6252 from Tehran, June 30. His June 11 meeting with Ansary was reported in telegram 15112 from USOECD Paris, June 11, and his June 30 meeting with him and Iranian Central Bank Governor Yeganeh was reported in telegram 6260 from Tehran, June 30. (All *ibid.*, D750226–0501, P850061–1762, D750226–0506)

the draft agenda considered at the April Prepcon; more detailed agendas to be developed by each commission. Each commission would proceed at its own individual pace reflecting the nature of its tasks and relationships with other international fora operating in the same field.

(E) Commission linkage: Some form of regular contact will be maintained between commissions and with other fora dealing with these subjects. In spite of our continuing opposition, it appears likely that most governments will insist on some arrangement for progress reports back to the group of 27. In this event, we should push for a loose arrangement without fixed schedules and with agreement that there is to be no substantive debate in the group of 27 so as to prevent its becoming a mini-UN. (Both Saudi Arabia and Iran would support this restriction.)

4. Anticipated schedule:

(A) Announcement: The plan for resumption of the producer-consumer dialogue and the date of the Group of 10 meeting to be announced not later than August so as to precede and influence the UNGA Special Session commencing September 1 and the OPEC meeting commencing September 24.

(B) Group of 10 meeting: To take place in Paris in early October (Yamani is still pushing for August, but Iran firmly supports our view that more time is required for careful preparation).

(C) Group of 27 Ministerial: To take place (at a site to be decided) in December (at least 30–60 days after the Group of 10 meeting to allow for selection of the 17 additional participants, issuance of invitations and conclusion of detailed arrangements).

5. The foregoing represents my judgment as to the basis on which Saudi Arabia and Iran would support resumption of the producer-consumer dialogue. My meetings with Venezuela, Brazil (and possibly Algeria) during early and mid-July could indicate the desirability of some change in this plan to ensure the support of these key developing countries which we would want before proceeding with this program.

Ingersoll

69. Minutes of the Secretary of State's Staff Meeting¹

Washington, July 7, 1975, 8–8:57 a.m.

[Omitted here is discussion unrelated to energy.]

Mr. Enders: We have, I think, a pretty difficult situation in the IEA,² Mr. Secretary. We managed to make some headway on the alternative sources policy. But I think the real concern is whether there's going to be enough headway over the next six months to keep the organization moving. And I'll be submitting to you a couple of letters to the British and the Germans on this subject.³

Secretary Kissinger: Yes. I'll talk to the President about it on the basis of your cable.⁴ That doesn't propose any course of action, but I told him what is happening. What's the reason for the slowdown?

Mr. Enders: Well, one is we're up against real problems. For example, the Japanese have got to come up with five million dollars to build up stocks from 60 to 90 days.

The alternative sources thing is very expensive. There's a lot of opposition from the oil countries, as there is here.

The other thing is that we have particular problems in Italy and Japan. The Italians want to be bought off. They want foreign financing for their nuclear program. And I think that it will be in our commercial—and I believe in our political—interest to be responsive to that at

¹ Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, Lot 78D443, Box 3, Secretary's Staff Meetings. Secret. Kissinger presided over the meeting, which was attended by all the principal officers of the Department or their designated alternates. A table of contents and list of attendees are not printed.

² The IEA Governing Board met in Paris June 30–July 2. The highlights of the sessions are in telegram 17267 from USOECD Paris, July 3. (Ibid., Central Foreign Policy Files, D750231–0004) The decisions reached by the Governing Board on long-term cooperation, as printed in a Secretariat paper, are in telegram 17238 from USOECD Paris, July 2. (Ibid., D750229–0987) The Governing Board's working paper on "considerations for resuming the producer-consumer dialogue" is in telegram 158819 to Algiers and other posts, July 4. (Ibid., D750232–1177)

³ Not found.

⁴ On July 2, Enders reported to Kissinger on the IEA Governing Board meetings. At the end of the telegram, Enders concluded: "My strategy is to try to maneuver the IEA into a straight up or down vote on all the substantive issues by year-end, in the hope the Japanese and Italians won't have the guts to break ranks. If OPEC is bloody-minded and puts the price up a lot in September, this approach has a fair chance of succeeding. But to make it work we have to be seen to be ready to break out of all new IEA commitments and go it alone. I am prepared to take that position because IEA will be a paper organization unless it does make progress in these fields; it will be so perceived (that is already a danger, and failure to meet our July 1 deadline for alternative sources doesn't help), and thus of less utility to us than heretofore." (Telegram 17130 from USOECD Paris; National Archives, RG 59, Central Foreign Policy Files, P840125–2606)

the right time, because they'll need to show movement towards independence.

The Japanese, basically—they're in the position they've been in since the very start. They want it both ways. They want good relations with the producers. They don't want to have a domestic energy policy even less than some of the others. They'd like to kind of wait this one out. On the other hand, they're responsive to group pressure. So we've got to orchestrate a circumstance in which the Japanese don't have the guts to stand up to it.

Secretary Kissinger: Yes, but what do we ask in these letters?

Mr. Enders: Well, the letters simply suggest, (1), indicate to the British and the Germans, that unless we speed the thing up and make—

Secretary Kissinger: Will you give me a more detailed paper on exactly what the issues are so that I can raise it when I see Schmidt?⁵ But I have to know what I'm asking them to do rather than speed the thing up—

Mr. Enders: Yes.

Secretary Kissinger: —and what, concretely, do we want them to do?

Mr. Enders: Well, what we want them to do is to support us for going to an overall package deal.

Secretary Kissinger: But can you put it on paper, what an overall package deal is?

Mr. Enders: Yes.

[Omitted here is discussion unrelated to energy.]

⁵ The paper was not found. Ford, Kissinger, and Scowcroft met with Schmidt in Bonn on July 27. According to the memorandum of conversation, July 27, the Chancellor said: "We would react negatively in Europe to a confrontation with OPEC. If oil prices go up, it eventually benefits the U.S. and the Soviet Union who are rich in raw materials. But there is no chance for Europe, who could not stand a confrontation. They need stable prices and assured supply." Kissinger and Schmidt agreed that they should try to split the OPEC nations as well as the "poor non-oil countries" from OPEC. (Ford Library, National Security Adviser, Memoranda of Conversations, Box 14) At another meeting on July 28, Schmidt said that he and Giscard wanted to propose that "the OPEC discussion be kept in the Foreign Ministries and not be scattered among the different ministries." He also recommended that "the invitations for the dialogue" go out before the next OPEC meeting to "show that something was being done and give the Saudis an argument for trying to postpone a price rise, at least until the year end." (Ibid.)

70. Telegram From the Department of State to the Embassy in Belgium¹

Washington, July 15, 1975, 0018Z.

165677. Subject: Status of Preparations for Resumption of Producer-Consumer Dialogue.

1. Please pass following message to Davignon from Assistant Secretary Enders.

2. I want to give you our assessment of the current state of play on the resumption of the dialogue following our talks with the French during Secretary Kissinger's visit to Paris last Thursday.²

3. The French now agree that the dialogue should resume with a second meeting of the Kleber group. This meeting would be followed by a conference at Ministerial level of the 27 countries tentatively agreed upon in April. Both meetings would be short, thoroughly prepared, and with the purpose of establishing 3 commissions on energy, raw materials, and development.

4. On the question of timing, the French have come around to the view that it is not feasible to try to reconvene the preparatory meeting before the UN Special Session. They showed some initial preference for a meeting before the September OPEC session, but I believe they now agree that this is also impracticable and that we should aim for early October. They would share the IEA view that there should be some announcement of the reconvening of the preparatory meeting and subsequent timetable before the UN Special Session, i.e. before the end of August. On this basis, we would announce within the next several weeks that the preparatory meeting would reconvene in early October. The Ministerial meeting would follow within approximately 60 days and the commissions could begin their work before the end of the year.

5. On the basis of our bilateral talks with the Iranians, Saudis, Venezuelans, and Brazilians, we are confident that this general approach

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P850036–2610. Secret; Immediate; Nodis; Stadis. Drafted by Bosworth, cleared by Roger A. Sorenson (E) and Preeg, and approved by Enders. Repeated Immediate to USOECD Paris.

² Kissinger met with Sauvagnargues in Paris on July 9. They agreed that by the end of August, before the next OPEC meeting and before the UN Special Session, they should announce that they recommended the resumption of a producer/consumer dialogue. They also discussed establishing one commission to tackle commodity issues, which Kissinger said the United States preferred "except for energy." Kissinger also said that by the time of the UN meeting, the U.S. Government would overcome internal differences and settle on a unified commodity policy. (Ibid., Records of Henry Kissinger, Lot 91D414, Box 11, Classified External Memoranda of Conversations, July 1975) Kissinger also met with Giscard, and their discussion is described in telegram 17951 from Paris, July 10. (Ibid., Central Foreign Policy Files, P840084–1763)

on procedure and timing will be acceptable to them. However, there are still some key points which remain to be resolved both with the French and with the Seven. On the question of participation, the French are somewhat vague about our earlier understanding reached in April that the 19 LDCs represented at the conference of 27 would include 8 OPEC members. We believe this is an important condition and one which we must nail down before convening a second Prepcon. The French also want to leave the question of membership on the commissions themselves in the hands of the two groups (the 8 industrialized representatives and the 19 LDCs). We continue to prefer objective criteria for determining membership on the commissions, and have received tentative endorsement of this approach from Venezuela.

6. On the critical question of the autonomy of the commissions and whether they will report back to a second conference of the 27, the French are now talking in terms of a "stock taking" meeting of the 27 some 6 months after the first meeting and the launching of the commissions. They argue that this second meeting can be kept both short and procedural in nature. We continue to have reservations on this score. If the large conference can meet every six months, soon it will be meeting for six months at a time and will have practically preempted the dialogue, thereby condemning it to sterility. But we recognize that pressure is building for some kind of a schedule, and this is a key issue we will want to discuss at the next Governing Board meeting.

7. The role of the IEA in the resumed dialogue is also still at issue. In our view, agreement to reconvene the preparatory meeting in the same format means by definition that the IEA will be present as an observer. We can seek through previous negotiation to establish the cosmetics of this presence in such a way as to minimize the possibilities for confrontation with the Algerians. But we can not agree to exclude the IEA from the preparatory meeting. As for the Ministerial meeting of 27, we should consider in the IEA whether in fact IEA presence is required since the scope of that meeting would cover all economic relations between industrialized and developing countries. On the other hand, the IEA must be present as an observer with the right to speak in the energy commission.

8. The French have told us that they plan to circulate soon to the Group of Ten a paper³ laying out what in their judgment could be a basis for resuming the dialogue. This would be the vehicle through which agreement among the Ten would be crystallized and assurance obtained against another failure. If we receive the French paper before the July 28 Governing Board meeting, we would not plan to respond to

³ Not found.

it formally until after we have had an opportunity for full IEA consultation at that meeting. In the meantime, we will continue our bilateral contacts with the Seven, and Under Secretary Robinson now plans to visit Algeria during the week of July 21.

9. At the July 28 Governing Board meeting, I think we should try to reach agreement on the timetable as well as the basic questions of format and procedure. In particular, I think we will have to reach a position on the "reporting back" issue which I view as the key unresolved point.⁴

10. I will be sending you another message later this week on our proposals for moving ahead at the July 28 meeting on both long term cooperation and the emergency system. I believe it is particularly important on the former that we make steady progress toward our December 1 date, narrowing each of the key issues in each meeting as we did during the ECG negotiation of the IEP itself.⁵

Ingersoll

⁴ According to a message from Enders to Kissinger, at the July 28 IEA Governing Board meeting, "consultations with other members" of the Board on resuming the producer/consumer dialogue "went according to plan." "No substantive objections" were raised to the proposals that the United States had given to France, Enders wrote. He added that the "main focus of discussion" was the IEA's role in the dialogue, and that the Board agreed with the U.S. position that 1) the IEA "should be present" at the new prep-con on the "same basis as before," but "would not ask to speak"; and 2) the IEA would "be asked to participate as an observer in the energy commission" with the "right to speak." Japan and Italy worried that the United States had not mentioned IEA participation in consultation with oil producers and wanted to be sure that IEA participation would not become a "make-or-break issue" upon the dialogue's resumption. (Telegram 19570 from USOECD Paris, July 28; National Archives, RG 59, Central Foreign Policy Files, P840125–2598)

⁵ Davignon replied that "in general" he agreed with the U.S. position and that he was "particularly pleased with the Department's views on IEA participation at the second preparatory meeting and on the energy commission." (Telegram 6417 from Brussels, July 15; *ibid.*, P850081–2024)

71. **Telegram From the Department of State to the Embassy in France¹**

Washington, July 24, 1975, 1425Z.

174416. Subject: Message for Sauvagnargues.

1. Please transmit the following message to Foreign Minister Sauvagnargues:

“Dear Jean:

I understand that, as a result of the several discussions between Director of Economic Affairs Froment-Meurice and Under Secretary Robinson during the past few days,² we appear to have resolved the remaining questions regarding resumption of the producer/consumer dialogue. I have also learned from Under Secretary Robinson that, although the Algerians continue to hold some reservations regarding the plan, they are now prepared to support our initiative on this basis.³

To avoid any possible misunderstanding we reconfirm our willingness to proceed with this dialogue—and have also obtained agreement from most of the key participants in the original Group of Ten—on the basis of the four-stage approach outlined below:

1. The Group of Ten which met in Paris in April to reconvene again in Paris on October 6 for a meeting to establish the basis for selection of an additional seventeen participants, thereby expanding the group to twenty-seven. Eight would be from the industrialized nations and nineteen from developing nations, of which eight will be members of OPEC. The industrialized and developing nations will each select their additional members on a basis assuring a properly representative expanded group.

The Group of Ten will also agree on the formation of three commissions to deal with the problems of (A) energy, (B) other commodities, and (C) development—each with not more than fifteen participants selected from the group of twenty-seven.

In addition, the Group of Ten will select the site for the meeting of the enlarged Group of Twenty-Seven, presumably Geneva or Paris, and the chairman for that meeting which could be from a

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P850038–1826. Secret; Flash; Nodis. Drafted by Robinson; cleared by Sonnenfeldt, Enders, Hartman, and Preeg; and approved by Kissinger.

² The July 24 conversation between Robinson and Froment-Meurice is summarized in a July 24 memorandum from the Under Secretary to Kissinger. (Ibid., P830152–1204)

³ Telegram 1640 from Algiers, July 21, contains an account of Robinson’s meeting with Boumediene. (Ibid., Central Foreign Policy Files P860035–0233)

neutral country, or a revolving arrangement acceptable to the Group of Ten.

2. The Group of Twenty-Seven will meet thirty to sixty days later at the site selected and after the additional seventeen participants have been selected and formally invited. This will be a short two-day meeting at Ministerial level. Its primary objective will be to confirm the decisions reached at the Group of Ten meeting for establishment of (A) three separate commissions, (B) brief guidelines for commission work, and (C) reporting-back procedures.

3. The three commissions will be formed on the basis previously agreed by the Group of Ten. Industrialized and developing nations will each select their representatives on these commissions approximately preserving the eight-to-nineteen relationship within the group of twenty-seven. General criteria reflecting degree of direct involvement in the subject matters of each commission will be applied in this selection process with the understanding that the results must be generally acceptable to the group of twenty-seven. Each commission will maintain a free exchange of information with the other commissions and with other international fora as considered appropriate by each commission.

Any of the three commissions may establish a sub-commission for consideration of monetary and financial matters related to its subject area.

4. The Group of Twenty-Seven will reconvene again at Ministerial level after twelve months from the launching of the commissions to receive progress reports from all three commissions. This will be a two-day meeting with the understanding that there will be no substantive debate. At this meeting consideration will be given to possible future action on the part of any or all of the commissions.

In addition, we are in agreement on the status of observers, with both OPEC and IEA invited to sit behind a single plate labeled "observers" at the Group of Ten meeting with the understanding that no observer will speak. There will be no observers at the meetings of the Group of Twenty-Seven, but both OPEC and IEA will be invited to participate in energy commission meetings with the right to speak.

You and I have worked together intimately with a mutual desire to see a resumption of the dialogue for which you served as host at the initial Prepcon in Paris last April. In this spirit and with the same desire to maintain the close cooperation between us, we would support your issuance of a letter to the members of the Group of Ten which contains the terms of the plan outlined above on which we are now agreed, and which makes clear that its acceptance by all participants is a condition for issuance of invitations to a reconvened meeting. We share your conviction that there must be a commitment to this plan in advance to

avoid confusion which could threaten the success of this meeting. Our detailed bilateral discussions with key participants could be helpful in guiding this approach to avoid unnecessary problems. I hope that you and I will continue to maintain close and continuing contact as this important process evolves. Warmest regards. Henry A. Kissinger."

Kissinger

72. Memorandum From Robert Hormats and Robert Oakley of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Scowcroft)¹

Washington, July 25, 1975.

SUBJECT

Oil Price Increase

As you know, there is increasingly heated controversy within this country over the price of oil and gas, and its consequences for the economy. This pertains to the programs proposed by the President and by Congress for domestic energy (decontrol, price levels, etc.) and to the price of foreign oil. There is a strong body of criticism that in the foreign field the Administration has made no effort to keep OPEC oil prices down, just as it is pushing prices up domestically.

In order to prepare for a possible OPEC price rise this fall (the informal interagency consensus is that it will be about \$1.50 per barrel), the President needs to have a thorough analysis of the problem and the options open to him in dealing with it. Next week CEA will table a paper in the EPB on the economic effects of an OPEC oil price increase this fall.² In fact this is only a third of the work which needs to be done in preparing for this contingency. A second aspect is to identify those domestic monetary and fiscal policy options available to offset the economic impact of the increase. This task will almost certainly be given to CEA and their collaborators on the economic effects paper.

¹ Source: Ford Library, National Security Adviser, Presidential Files of NSC Logged Documents, Box 24, 7505097—Oil Price Increase. Secret. Sent for action. At the top of the page, Scowcroft wrote "OK" and initialed.

² Not found.

The third aspect of the problem—more basic and probably more important—is to examine what we can do to discourage or minimize the price increase. The President has stated that it would be “unacceptable,” but has not adduced any convincing arguments that it will not occur. Treasury continues to make threatening noises on its own, but is not thinking through what can actually be done. There have also been threatening statements from Defense, although the President has publicly ruled out the use of military force under present circumstances. State publicly follows the Administration line of concern, but internally seems rather indifferent.

In fact, there has been no systematic analysis of what possible actions might be taken to induce OPEC not to raise oil prices, the likely effects of such actions, and the desirability of undertaking them. In the absence of such a systematic study, there can be no firm guidance from the President and Secretary Kissinger to the rest of the Executive Branch on what to do and say about possible OPEC oil price increases. Moreover, we are open to accusations by critics like Senators Church and Stone³ that there has been no systematic study of the problem and that the Administration refuses to use its alleged “leverage” with the oil producers (e.g., cutting off or restricting arms deliveries, stopping the sale of food or manufactured products or raising their prices).

We intend to prepare a systematic study of available options for dealing with a possible OPEC oil price increase.⁴ This will form the third part of the package which the President needs, complementing the two being done by the CEA. Given the sensitivity of this question, we will use the same quiet approach we have used successfully in preparing Contingency Studies for a possible oil embargo.⁵ (There has been no publicity about or leak from this ad hoc NSC-chaired group⁶ in its six months of existence.) We will submit the draft study to you for review before circulating it to other agencies or the EPB. We will tell the EPB that the NSC will undertake such a study and will make it available to the EPB Executive Committee when it is completed.

³ Senators Frank Church (D-ID) and Richard Stone (D-FL).

⁴ See Document 93.

⁵ See Document 40.

⁶ No record of this group has been found.

73. Minutes of the Secretary of State's Staff Meeting¹

Washington, July 25, 1975, 8–9:06 a.m.

[Omitted here is discussion unrelated to energy.]

Mr. Robinson: You know, we ran into a snag on the producer-consumer conference with Yamani. I'll go ahead with it.

Secretary Kissinger: Yes, but we are not sucking around him. For anyone who doesn't want a conference there's not going to be a conference, and you're not taking a trip out there; and the French are not going to mediate this.

We've stated our position. We've spent a month negotiating it. Anyone wanting to jump off now—they'll have to hold a conference without the United States.

Mr. Robinson: I'll proceed on that basis.

Secretary Kissinger: In fact, I better call Sauvagnargues today.

Mr. Robinson: "You're going to be in touch with us." It might be helpful.

Secretary Kissinger: Their position or our position? If they don't want to send out a letter of invitation, fine; we don't need the conference.

Mr. Robinson: Well, that's the position I took. We don't want a conference on this basis. There's been something that went on between the Saudis and France in this negotiation this last week that is behind this.

Secretary Kissinger: The French want to have something to mediate. (Laughter.)

Mr. Robinson: They've asked me to mediate this one.

Secretary Kissinger: What?

Mr. Robinson: They asked me to mediate this one. They asked me to get it cleared up.

Secretary Kissinger: I just think it's undignified to ask someone from the United States to send someone out on such a technical point. I'd be glad to write to Yamani if that adds to it.

¹ Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, Lot 78D443, Box 3, Secretary's Staff Meetings. Secret. Kissinger presided over the meeting, which was attended by all the principal officers of the Department or their designated alternates. A table of contents and list of attendees are not printed.

Mr. Robinson: It might help. Why don't I reword the cable² and put it on that basis?

Secretary Kissinger: Why I clear cables in the evening if they don't go out anyway is not clear to me.

Mr. Adams: No. I gave it immediately to S/S.

Mr. Robinson: I want to clear the wording with NEA before it goes out.

[Omitted here is discussion unrelated to energy.]

² Robinson sent a message to Yamani that day, writing: "I have just learned from Froment-Meurice of the French Government that you have indicated unwillingness to resume the producer-consumer dialogue unless there is agreement to form a full commission dealing with monetary and financial affairs." Robinson concluded: "We have conceded to the wishes of the developing nations on other key matters and I now ask for your cooperation on this one remaining issue." (Telegram 175796 to Jidda, July 25; *ibid.*, Central Foreign Policy Files, P850059–1688) On July 31, Akins reported that he had presented Robinson's letter to Yamani, who continued to "insist on creation of a fourth committee on monetary and financial matters as precondition to reconvening of prepcon." (Telegram 5371 from Jidda; *ibid.*, P850126–2379)

74. Memorandum of Conversation¹

Helsinki, August 1, 1975, 1:30–2:35 p.m.

PARTICIPANTS

The President

Valéry Giscard d'Estaing, President of the French Republic

Jean Sauvagnargues, Minister of Foreign Affairs

Claude Pierre-Brossolette, Secretary General of the Presidency of the Republic

Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for
National Security Affairs

Lt. General Brent Scowcroft, Deputy Assistant to the President for National
Security Affairs

¹ Source: Ford Library, National Security Adviser, Memoranda of Conversations, Box 14. Secret; Nodis. The luncheon meeting was held at the U.S. Embassy Residence. Presidents Giscard and Ford were in Helsinki for the conclusion of the Conference on Security and Cooperation in Europe.

SUBJECTS

Economic Policy/Cyprus; French Nuclear Programs; Energy

[Omitted here is discussion unrelated to energy.]

Giscard: A third point, about energy. Everyone is agreeing there should be a meeting of ten to agree on following process. Then a convocation of a full conference—of 27—at the Foreign Minister level. We are drilling off our west coast for oil. Britain thinks they have a big find but I don't believe it. We have had thus far three commissions—on oil, raw materials, and development. The financial end was to be handled as sub-groups of these. The Conference would reconvene to get the reports of the commissions. But Fahd and Saud came here ten days ago. They were very motivated. They wanted a consumer-producer meeting announced before the OPEC meeting to help hold the prices at least until early 1976. Maybe that is a little unrealistic but they seem to want to help. But they insisted on a fourth commission to deal with financial matters. We remonstrated, but they insisted—in cooperation with the Algerians. They said they would pledge if there is a fourth commission to fight against price rise. We said we would be in touch to get the American reaction.

Kissinger: They have insisted to us on a fourth commission. Our people violently oppose it. First, for jurisdictional reasons; second because they feel it as a device by you to get monetary issues into a new forum, and third these issues are under discussion in IMF, etc. where we have weighted voting. In the fourth commission we would be killed. This is a valid point. Perhaps it could be restricted to issues related to the other three committees.

The President agrees that invitations should go out at the end of August. I think we need a meeting next week.

The President: I would like to know more about it.

Kissinger: These financial issues will be discussed. It is a question of whether we discuss them all together or within each committee.

Sauvagnargues: Perhaps we could restrict it to issues that are not being discussed in IMF, etc.

Kissinger: That would help.

Giscard: We have no intention of using it to shift the issues to a new forum.

Schmidt thinks we could be in an offensive stance in this fourth committee as we have some leverage here.

The President: If you had it spread among the three committees, you would get more diversity. It might be better to centralize it.

Kissinger: I think we can manage in a week or so.² Can we get back to you?

Giscard: Yes.

Sauvagnargues: I see little likelihood of getting invitations out by the end of August.

Kissinger: If you could send me, Jean, by next Tuesday, a paper, we will get to you by Friday.³

Giscard: For the Japanese, I will deny that there was any decision yesterday. The Japanese want any information before they meet with you.⁴ Can I mention that we asked private experts to study the problem?

Kissinger: That would be fine. We may mention the three or four committees.

Giscard: I don't think they care.

The President: I am looking forward to seeing you next May.

Giscard: That will be fun.

[The meeting ended.]⁵

² Robinson sent a message to Yamani on August 7, stating that the United States would suggest that a fourth commission be established "to study financial problems related to the work of the three other commissions except those which infringe on the competence of the IMF and IBRD," thus satisfying Yamani's "desire for a single mechanism to consider financial issues." (Telegram 186960 to Jidda; National Archives, RG 59, Central Foreign Policy Files, P850038–1748) Yamani received the note on August 11, just before leaving for Damascus for 2 days. He said that he "had no comment at the time" and "wanted to consider the matter" before responding, which he would do upon his return. (Telegram 5617 from Jidda; *ibid.*, P850106–2383)

³ Tuesday, August 5, and Friday, August 8.

⁴ During an August 6 meeting at the White House, Japanese Prime Minister Miki raised the issue of Japan's energy vulnerability and linked it to the unresolved Arab-Israeli dispute, noting that if a "fifth war in the Middle East" occurred, "Japan's industry would likely be faced with a situation in which it would no longer be viable." After discussing U.S. efforts to achieve a settlement in the Middle East, President Ford said that "the United States, Japan, and the other consuming nations should work closely together to try to develop a firm position among the consumers," and that it was "essential" that they "achieve a high degree of unanimity to work out the problems of supply and price." He added: "We must prepare to meet any contingency that may arise from ill-advised actions by the producers," and stressed that Japan's cooperation was "highly essential, including the minimum floor price." (Ford Library, National Security Adviser, Memoranda of Conversations, Box 14)

⁵ Brackets in the original.

75. **Memorandum of Conversation**¹

Washington, August 7, 1975, 4 p.m.

SUBJECT

EXXON's views on IEA, OPEC, and Nationalizations

PARTICIPANTS

Clifton Garvin, Chairman, Exxon

J.K. Jamieson, Chairman, Exxon (retired)

The Secretary

The Deputy Secretary

Thomas O. Enders, Assistant Secretary for Economic and Business Affairs

Monroe Leigh, L

Donald Hart, EB/ORF/FSE (Notetaker)

The Secretary: I understand the oil companies are knocking the IEA. Why is this?

Jamieson: I don't know what you mean unless it is on the aspect of getting too much control. We have been supporting the IEA, but it sometimes seems to be moving too far towards control rather than making policy.

Garvin: The concept of the IEA is top-notch. Excellent. It's moving right along. If you don't mind my being honest . . .

The Secretary: I know what you think anyway.

Garvin: . . . there are philosophical differences. We feel that the IEA emphasizes some areas that are not as important as others.

The Secretary: I understand that it is not you who are knocking the IEA. Not you two. I don't have any reports on you.

Garvin: I have been speaking to Yamani for months . . .

The Secretary: Would you like coffee or tea?

Garvin: There is an actual problem and it is the data collection of the IEA. It's trying to get to the point that some countries want—data company-by-company. Actually these countries are 2 years behind. What they want is crude price information to see if they are getting screwed compared to some other countries. Crude prices are now so simple that the UK and Germany, for example, are getting crude for just about the same price.

The Secretary: The point is that if the IEA collapses, your negotiating position collapses in the whole Arab world. The IEA must be

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P820123–2003. Secret; Nodis. Drafted by Hart.

strong and, more importantly, must look strong. Take the minimum safeguard price. I have heard great philosophical objections to this but I have yet to hear a practical objection to it. It represents no threat to existing prices. It is to prevent a drop in prices in the event of a fall in oil prices. As a matter of fact, it's primarily to prevent the U.S. from becoming a high-cost energy country while the rest of the world would enjoy low-cost energy.

Jamieson: The trouble I have with that is that I don't see a low price coming.

The Secretary: Well then, either the situation would never happen or the minimum safeguard price would become necessary. Suppose we go into development of alternative energy sources? This could drop oil prices.

Jamieson: In the time frame we are looking at, it would not have much effect.

The Secretary: What harm does it do? It's a symbolic gesture to producers?

Garvin: What they are laughing at is to see so much effort being spent on this and not on other things. Yamani has said to me, "what does \$7, \$8, \$9 mean?"

The Secretary: The minimum safeguard price is primarily symbolic and it is insurance if one wants to use it.

Garvin: If a company were putting in 10 coal mines, this would be more plausible to the producers.

The Secretary: I agree the program is not having plausible results. Last year now, we had them psyched.

Enders: If we win on oil decontrol, that will be a step. If not, we will be in one helluva mess.

Garvin: I agree that the IEA is a central political element.

Jamieson: It is a necessity if we consider a future embargo possible. God knows, I don't want one.

Enders: If the cartel has to cut back, how can we make it more uncomfortable for them?

Garvin: A decision is not fundamental. Except for 2 or 3 countries, the allowables that are set do not have an effect on production levels. They are set so high. Each company makes its own decision on production. We try to do it equitably as between, say, Iran and the Gulf. The Shah gets numbers, you know, and would get on our backs.

The Secretary: Who gives him the numbers? You do, don't you?

Garvin: No. No. He gets the numbers the same as we. They must be reported to the governments.

The Secretary: Who determines the production at a price?

Garvin: They do. They say that each barrel that is sold must be sold at 93% of posting.

The Secretary: You adjust deliveries on the basis of price.

Garvin: Yes, but we just don't know the answer as to the elasticity of demand. We have tried to find out how much of the reduction in demand is due to recession; how much is due to the whole jaw-boning. We don't know the answers.

Ingersoll: If you had decontrol at the end of the month, then you would know.

Garvin: Yes, we might have more of the answer, but the reduction has been in total energy use, you know, not in gasoline. In Japan, gasoline is up to 1973 levels.

Enders: Once the price is fixed, then the amount of production is worked out by the companies. Then it's how to avoid getting the Shah on your back. Therefore, the cartel is able to make the liftings come out acceptably to it. Is there a way to interfere?

Jamieson: To take an extreme case, you could cut Iran and raise Saudi Arabia.

Garvin: Wait. In Iran, you have Dutch and British companies, too, for whom this might not work out.

The Secretary: Well then, what about going all the way up in Iran?

Garvin: You would get just one million barrels per day more. You would probably take it out of Saudi Arabia but Yamani doesn't need it.

Ingersoll: What must be done is to increase his ability to spend.

The Secretary: Not with the U.S. bureaucracy we have. We have too many school teachers. They want to sell him things that are useful. I don't care if they are useless as long as they cost him lots of money.

Jamieson: Perhaps you would like to hear about our situation in Saudi Arabia. Cliff has been negotiating.

Garvin: Progress is just about zero. Saudi Arabia desires 100% ownership of the concessions that were to run until 1999.

The Secretary: What if you insist on your legal rights?

Garvin: Well, they would say we have none.

Jamieson: I believe that to take that position would force them to nationalize us completely.

The Secretary: What's the difference between nationalization and 100% ownership?

Jamieson: Well, we would still be in there with a vehicle to operate the company.

Garvin: The Saudis have said that they prefer to take over on a voluntary basis. They say they'll pay net book value. They say that they

don't want the companies to leave. They say they want the companies' technical expertise. Not the capital. They have plenty of that.

Leigh: They got it from you.

Garvin: They say they want to sell you crude. It sounds simple so we have been trying to make a new arrangement, a viable arrangement to help expand the operation and particularly to help with industrialization. But it is not at all simple to bring this about. Yamani is very emotional. He has changed his thinking during two years. He was very angry last summer so he got the King to put on an 85% income tax and 20% royalty. That was punitive taxation. The net effect is that the companies have been experiencing a negative cash flow. Yamani did this deliberately and he admitted it in November, telling me that the reason was that you were not being serious in negotiating. He was nationalizing us through fiscalization. I asked him if he could undo it. He answered, "If I want to." So here we are in August after 8 meetings with him. We are trying to get another date around Labor Day. I don't know. You see, he has become accustomed to the nice income he is getting. In Venezuela, we are in the same bind.

The Secretary: How do they nationalize you by fiscalization?

Garvin: By the tax and royalty rates. They leave a 22¢ margin on the 40% production which is equity oil. This is not enough for the cost of capital. We are still expanding there. The companies are putting in \$1 billion per year. We are committed to an agreement to increase capacity to 12–12.5 million barrels per day by the end of 1976.

The Secretary: Why?

Garvin: Because of the damned dilemma we are in because of people like Yamani. We are not willing to put down the gauntlet.

The Secretary: Why not?

Garvin: We are probably being led down the garden path by Yamani. The new arrangements. He throws out the proposals we make.

Enders: About what?

Garvin: Our intent is to make a long-term arrangement. I don't like net book value compensation but if it's part of a long-term arrangement package . . .

Leigh: So you get a long-term package that is 5 years and after 1 year it's no good.

Enders: The November action was a major factor in the viability of the cartel.

The Secretary: How low can Yamani go?

Ingersoll: He can go to 3–4 million barrels per day.

Garvin: The Saud Government had only \$1 billion a year. Last year, Saudi Arabia got \$24 billion. Foreign reserves are \$20 billion as of

July. The Saudis announced a \$142 billion Aid Program. I asked Yamani about this and he said this will keep the developing countries off his back. He knows very well he can't spend that kind of money.

The Secretary: Do you deal with the King?

Garvin: All authority has been delegated to Yamani.

Jamieson: We feel that Yamani is in an even stronger position now.

The Secretary: Don't they have needs?

Garvin: We have no bargaining position.

The Secretary: Yamani doesn't care if you feel good.

Ingersoll: In Venezuela it could be tougher.

Garvin: Venezuela produces about 2.5 million barrels per day.

Ingersoll: You could just get out.

Jamieson: What you are suggesting would mean the company applying sanctions to Venezuela without the U.S. Government saying to do so.

Ingersoll: That is what I am saying.

The Secretary: Saudi Arabia wouldn't play along with it.

Jamieson: No, Saudi Arabia wouldn't let us get away with it.

Garvin: These countries are trying to keep their prices set at levels competitive with each other. This is true of Venezuela with its complex system of pricing. Except for Saudi Arabia, no other country has been cut back much more than any other. Saudi Arabia will be willing to take the bigger cut.

The Secretary: It has no needs.

Jamieson: And it is concerned for its relationship with the others.

The Secretary: That is why I could never see how the Shah could break the oil price, as some have argued. We would have 5 million barrels per day cheaper but it wouldn't break the others.

Jamieson: Just take an across the board \$1 cut and see how much more production is needed to maintain revenues.

Garvin: I don't see any way to break OPEC.

The Secretary: Analytically, people can't get it that the key is Saudi Arabia, not the Shah. There are only 2 things he could do. He could sell his excess production. So then, Saudi Arabia has to go down by 1 million barrels per day. Or he could unilaterally lower his price. But even if he did, so what?

Enders: No. It would have to be the other way around, with Saudi Arabia doing it. How could you create the conditions to put heat on them?

The Secretary: If anyone needs heat put on them, it's the Saudis. But they don't need the money. They could cut the price.

Garvin: You won't break up the OPEC in this way.

The Secretary: I agree. The Saudis have to get along with the radical Arabs. They are just too weak domestically not to.

Garvin: Even if you succeed in defusing the Arab/Israeli issue this may surprise you, but it wouldn't solve the OPEC problem.

The Secretary: Defusing the Arab/Israeli issue will only reduce the extreme case, of an embargo.

Enders: Over time, though, it could make a considerable difference if Saudi Arabia is at 5, 7, or 9.

Jamieson: You must realize that the others are reserve-limited, for example, Libya. If demand had continued to increase as in the early '70's, they would all have become reserve-limited, Saudi Arabia too.

The Secretary: We have never unleashed Tom on the Saudis. That would be quite an experience.

Garvin: I am not sure I would want to be there.

The Secretary: Oh, so you know Tom, do you?

Garvin: There is an issue that bothers me. I have come to despair of there being alternative energy sources in any reasonable time-frame.

Enders: Not in the mid-'80's?

Garvin: It will still be on a small scale. We see the US still depending on imports for 50% of its needs in the 1980's. FEA doesn't say this, but I would put money on it.

Enders: The FEA's study is counting heavily on NPR-4 and the OCS.

Jamieson: The trouble with the FEA study is that it overestimates the rate of finding and marketing new production. It overestimates secondary and tertiary recovery. It overestimates the possibilities of developing coal. It is overoptimistic all the way through. FEA says the U.S. will be importing 3 million barrels per day in 1980. We say the US will be importing 10 million b/d.

Enders: The FEA estimates U.S. imports at 8 million b/d in 1980 and 5.5–6 million in 1985. You people have it at 12 million in 1985.

Garvin: We don't just look at the United States. We are thinking of the rest of the world too.

Ingersoll: What about Mexico?

Garvin: I just don't believe all that is said about Mexico.

Ingersoll: And China?

Jamieson: There is not enough. 3.5 million barrels per day.

Enders: Yes. In the 1980's China could produce 5 million barrels per day at most.

Ingersoll: How do you see the possibilities for conservation?

Garvin: I think you have seen all that you are going to see right now.

Jamieson: We see the U.S. importing 9–11 million b/d in 1980. Project Independence says 5 million b/d.

Enders: The President's program says 30% would be covered by imports by 1985.

Garvin: As I look at the practical problems and at other countries, at the problems of Europe and Japan, I see a long dependence on OPEC. I want to be tough with them, but I feel that I must live with them. Therefore, I am motivated to try to find a relationship with them that I can live with.

The Secretary: If I hadn't just negotiated with Israel, I'd say let them take over. You ought to see Rabin.

Garvin: Venezuela will be the first 100% takeover. By August 24, by their own timetable, the Venezuela Congress will finish the bill. Then the Government of Venezuela has 120 days to negotiate, at the end of which the concessions expire. Once again our company seems to be the leading horse. I fear a crunch is coming. They are offering net book value. This is nothing. I see that former president Betancourt announced that the companies have agreed to net book value. That is not true.

The Secretary: We also have a decision to make as a government on whether to bring in other factors, political.

Garvin: It is late. President Perez is out on a limb.

The Secretary: So what to do with OPEC? People say to be tougher.

Jamieson: There is a great desire from Saudi Arabia for industrialization. This is all we've got to work with. To be perfectly realistic, we don't have much bargaining strength.

Enders: In the Venezuelan case, should the Government take up the companies claims if there is net book value and the long-term arrangement is phoney? This would change the situation politically and economically.

Jamieson: With the trend that could be set by Venezuela, it would become more difficult to explore off-shore. With the trend and with a changed tax treatment of foreign operations, there would be no incentive.

Enders: There is a real question. When you have a narrow balance, it is better to show your teeth.

Garvin: We are in a dilemma. They are not going to make us an offer with which we will be comfortable. The companies will have to say that we prefer walking away to taking the offer. In that case, I would not be worried about the crude but there would be a loss of US presence.

The Secretary: I am not worried about a loss of presence in Venezuela. Yes, I would be about a loss of presence in Saudi Arabia. A loss of presence in one country wouldn't bother me. If you have ideas, I want to hear them.

Garvin: I have despaired of putting reason into Yamani.

The Secretary: From my experience, I have learned that if you show weakness in such a situation, you are dead. But what would show strength? To buy oil from Russia?

Jamieson: They don't have enough. They send 1 million b/d to the West.

The Secretary: If we took Russian oil, this would only strap Europe.

Jamieson: Yes.

The Secretary: It couldn't happen to a nicer group of people. I found this discussion very instructive. I mean it. If you have ideas, some options to suggest, I would like to hear from you.

76. Memorandum From Robert Hormats of the National Security Council Staff to Secretary of State Kissinger¹

Washington, August 13, 1975.

SUBJECT

Steps to Prevent or Moderate an Oil Price Increase

There are indications that OPEC will increase oil prices as of October 1 by \$1.50–\$2 a barrel, but a final decision has not been made. There are a limited number of possibilities for exercising a restraining influence, which are reviewed in this paper.

OPEC's decision will probably depend on five factors:

—The economic strength of the importing countries. OPEC does not want to cause, or to be perceived as causing, the incipient economic recovery of the industrialized nations to abort. They recognize that their economic fate is linked to the recovery. They also recognize that a price increase in the face of stagnation in the industrialized world would necessitate additional cutbacks in OPEC oil production, in turn

¹ Source: Ford Library, National Security Adviser, Presidential Subject File, Box 4, Energy (10). Secret. Sent for action. Brackets are in the original.

pressuring the cartel into the politically difficult process of production allocation which it has heretofore been able to avoid.

—The perceived possibility of a political and psychological reaction in the developed countries which would provoke retaliation through an arms embargo, aid cutoffs or even more severe action.

—Fears of individual members that failure to support action could cause deterioration of bilateral relationships with other producers, provoking attacks from radicals, undermining OPEC solidarity, and depriving producers with payments deficits of the opportunity to increase revenues.

—The possibility of reaction from non-oil producing developing countries, who are beginning to display recognition of the magnitude of the problems which the last price increase has caused them. (OPEC aid has offset less than one-third of recent increases in the LDC import bill.)

—The impact which a price increase could have on the progress which has been made toward a Middle East settlement, resumption of the consumer-producer dialogue, and the new initiatives this involves.

If these are the major criteria in OPEC decision making, it behooves the United States—through Presidential or Cabinet-level statements, through the media, and/or by low-key but firm approaches through diplomatic channels—to make the following points:

—A price increase will have a significant economic impact on the industrial nations whether still in recession, as most are, or moving toward recovery. [CEA estimates that the United States would lose .7–.9 percent of its GNP growth as a direct result of a \$1.50–\$2 per barrel price increase; after reflows through trade and investment, the figure might drop to .5 percent. Unemployment—already very high—would increase by .2–.3 percent. Tax cuts and monetary stimulus might eventually offset the GNP and unemployment losses, but at a significant cost in terms of inflation. For Western Europe, which is still not in the recovery stage, the GNP decline would probably be on the order of 2 percent; for Japan, more than 3 percent. Furthermore, in these countries there is less room than in the US for reflationary fiscal and monetary actions to moderate this impact, and they will consequently be less able than the US to offset the lower rate of growth.] A message of this sort, articulated by competent economists in the US, Europe, and Japan, might convince OPEC that the market was too weak to sustain large price increases without significant oil production cutbacks.

—The direct impact on developing countries which do not produce oil, exacerbated by the lower level of consumption (and imports) associated with a lower rate of growth in the developed world, would be to further reduce growth, increase unemployment, and worsen payments deficits. On top of this would fall the higher prices of industrial-

ized country exports associated with increased oil prices and a resurgence of inflation. The total balance of payments impact on the LDC's would be roughly \$1.5 billion; for the MSA's alone it could be \$500 million. The loss in GNP growth could be as much as 5 percent. This message could be conveyed, in a low-key fashion, to Third World and OPEC countries.

—The negative domestic reaction could make it difficult for the United States (and other industrialized countries) to undertake the measures we are planning to improve our economic relationships with the developing world, and with the oil producers in particular. In view of the fact that (according to Treasury) the purchasing power of a barrel of oil as of December 1974 was roughly 4½ times what it was in 1955, in spite of recent inflation caused in part by the last price increase, Americans will see no justification for a new increase. We might be forced by Congressional/public pressure to reduce the level or slow down the pace of our military and economic assistance as well as of activities such as the Joint Commissions, which are designed to encourage closer private sector relationships with the developing and oil producing countries.

—Since the breakup of the consumer/producer preparatory conference, the United States has made a major effort to re-establish a basis for dialogue and cooperation with the developing world, including particularly the oil exporters. We have undertaken a fundamental review of our overall policy toward the developing countries, which has produced the new approach articulated in your speeches in Kansas City and Paris.² We will make additional proposals at the upcoming Seventh Special Session of the UN. We have made great progress in establishing the conditions and understandings necessary to achieve mutually beneficial cooperation. But this progress could be reversed by an OPEC decision to increase the price of oil. Many in the US would raise questions as to the wisdom of our more forthcoming attitude, arguing for a far less positive or even hostile posture. This would seriously affect bilateral relationships with key oil producers as well as the multi-lateral dialogue.

It is essential to convey the above message promptly to key OPEC and Third World countries, and to encourage other nations, particularly other consumers, to do the same since the process of analysis leading up to the September 24 OPEC decision has already begun. Moderation becomes increasingly difficult once the momentum for an increase begins to build. The producers are aware in general of our views on a price increase but making a firm approach after agreement is reached

² See footnote 2, Document 62, and Document 64 and footnote 4 thereto.

to resume the prepcon (along the lines of the attached message to King Khalid which Bob Oakley and I drafted),³ would heighten their awareness. More general communications with other OPEC members and influential Third World countries might also have an impact.

To put it bluntly, it would be simply incredible for the President to have to say after a price increase had taken place that he had not communicated with key OPEC leaders to make them aware of US opposition and the possible backlash effect in no uncertain terms, yet that is the case at present. Moreover, as regards what you and the President said at the 8:15 a.m. Saturday meeting on the economic problems in Europe, a substantial price increase will have an adverse psychological, as well as economic, effect on the consuming countries, demonstrating their helplessness in the face of the oil producers, even under IEA solidarity; it could also, of course, strengthen their efforts to reduce dependence. It would certainly sour US public and Congressional attitudes toward the producing countries, and this could make it more difficult for us to defend and obtain approval of the economic initiatives to the Third World which you have developed. It would also threaten legislation (e.g., foreign assistance) now pending before the Congress, and could generate Congressional pressure for retaliatory action against the producers (e.g., arms embargo, aid cutoff).

Recommendation:

That you call a meeting of your key advisers to determine a strategy for addressing the potential oil price increase or instruct that a scenario be developed along the above lines to be submitted to you for approval by Friday, August 15.

Request meeting be set up

Ask Robinson, Enders, Hormats, Sisco, and Oakley to prepare a scenario⁴

³ Not attached. See footnote 6, Document 79, and Document 80 and footnote 2 thereto.

⁴ Kissinger approved this recommendation. No copy of the scenario has been found.

77. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Ford¹

Washington, August 15, 1975.

SUBJECT

Iran Bilateral Oil Deal

We have now reached agreement with Iran on the essential elements of the bilateral oil deal² (except for the interest moratorium period as discussed below), but subject to USG acceptance for which we will have to determine whether there is some existing authority.

The Shah has now indicated that if we are to proceed this must be finalized by August 23 (8 days from now), to which is one month ahead of the OPEC meeting of September 24 to consider the October 1 oil price increase. The current status of our negotiations with further action required is discussed below:

1. The only major issue still unresolved is the question of the moratorium period; however, I believe that this can be compromised with some flexibility on our part regarding the higher level of oil deliveries which Iran desires during an initial period of the contract. We have agreed to an additional 250,000 b/d (or a total of 750,000 b/d) during an initial period from September 1, 1975 to February 29, 1976. This would produce a cumulative average of 500,000 b/d (the contract level) from an assumed starting date of June 1 which the Shah had requested. Ansary advised me confidentially that the Shah would like to extend this initial period of higher deliveries to December 31, 1976. Accordingly, I suggest that we propose an interest moratorium of 120 days if the initial period of increased deliveries terminates on February 29, 1976, or alternatively 150 days with the extension of this period to December 31, 1976.

2. With Congress out of session it is clear that our only hope is to find some existing authority for this deal as we cannot obtain new authority or an appropriation by August 23. From a limited and confidential review we had concluded that our only hope was through Treasury's right to issue notes combined with use of its Foreign Exchange

¹ Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 15, Iran (4). Secret; Nodis; Cherokee. Ford initialed at the top of the page.

² For an earlier discussion of this issue, see Document 67. A copy of the draft oil agreed to by Robinson and Ansary on June 30 was transmitted in telegram 6280 from Tehran, July 1. (National Archives, RG 59, Central Foreign Policy Files, P840178–2008) As U.S.–Iranian talks continued, Robinson sent further refinements of the agreement to the Secretary in telegrams Tosec 80325/183102, August 3, and 20866 from Paris, August 13. (Both *ibid.*)

Stabilization Fund to cover any financial risk exposure and the Defense Production Act to cover purchase and sale of oil. Accordingly, on August 12 we developed with Iran's Minister Ansary a set of procedures which might be implemented on this basis as reflected in the memorandum—Elements of Agreement—at Tab A.³

This document does not alter the basic terms which were concluded with the Shah and Ansary in Tehran on June 30; however, it does reflect a new implementing procedure which would be as follows:

a. The U.S. Treasury issues a note on the first of each month for the value of the contracted oil deliveries for that month on receipt of bearer contracts from the Government of Iran for immediate oil delivery.

b. The Treasury sells the bearer contracts to U.S. private companies at auction prices or at cost to a U.S. stockpile or other USG programs.

c. Profits from (1) the difference between the contract price and the auction price and (2) the interest moratorium, are credited to the Foreign Exchange Stabilization Fund.

d. The Exchange Stabilization Fund covers any theoretical financial exposure, thereby avoiding congressional appropriation.

3. This is a highly technical matter which we have not yet discussed with Treasury lawyers; thus, we have no assurance that it will prove to be a viable plan. There is a risk that further study will prove our hopes to be unfounded; however, I believe that we should move forward promptly with the following steps:

a. Confirm with Ansary that we will make every effort to conclude this arrangement by the August 23 deadline but point out the possibility that we may not be able to obtain required authority by that date. At the same time we would propose the compromise on the interest moratorium period as discussed above.

b. I will talk to Bill Simon and set the stage for an immediate investigation of the Treasury's legal authority to make a commitment of this type. It is critical that Treasury and State lawyers cooperate and try to make the deal *work*, which is essential for success.

c. Assuming we are sufficiently encouraged regarding the possibility of concluding this arrangement by the August 23 deadline, we will send to Tehran by next Tuesday (August 19) State and Treasury legal representatives for final drafting of the agreement.

d. Even if we determine that the USG has existing authority, we should consult with certain key Members of Congress prior to committing to this Agreement.

³ Dated August 12; attached but not printed.

e. If it appears likely that we will conclude this Agreement, we must consult with key members of IEA to minimize the possibility of an adverse reaction which might weaken the solidarity of this organization.

Only by moving forward aggressively and in accordance with the plan outlined above can we hold open the possibility of concluding this arrangement.

4. Attached at Tab B⁴ are the points which I would make in discussing the matter with Bill Simon.⁵ Undoubtedly he will raise the following issues:

a. *This deal appears to "bless" the current OPEC price level.*

On the contrary:

—it represents a major crack in the solid OPEC front which could lead to a break in OPEC prices reflecting market forces (in which case we would cancel this Agreement).

—it partially protects us from the OPEC price increase on October 1.

b. *It includes an element of "indexation" which might be viewed as acceptance of this principle.* Our argument is that we are obtaining oil in exchange for "Purchase Certificates" for U.S. products. To induce Iran to make this kind of commitment we must provide them with assurance of at least partial protection against declining value of the oil in terms of U.S. product prices. The important point is that this only holds so long as the formula price is *less* than the OPEC market price.

c. *It could be viewed as a violation of the basic IEA understanding on bilateral oil deals.* If properly explained I believe that IEA members would see this as a move which could accelerate the return to a pricing system based on market forces.

In summary, this program would represent:

- a first major break in OPEC solidarity,
- a lower price on a portion of our oil imports,
- an effective response to the likely OPEC price increase on October 1,
- embargo insurance,
- a commitment assuring supply of oil to Israel as a replacement for Abu Rudeis,

⁴ Not found.

⁵ At an August 16 meeting in Vail, Colorado, Kissinger told Ford: "On the Iranian oil, Simon is violently opposed to it. He still expects a price break. No one else in the world expects the price to drop. Jamieson [of Exxon] thinks the sellers' market is returning." (Brackets in the original) Ford stated: "We are going to do it. Simon can like it or not." Kissinger replied: "We do need his cooperation." (Memorandum of conversation; Ford Library, National Security Adviser, Memoranda of Conversations, Box 14)

—assured petrodollar recycling, supporting Treasury’s interest in foreign exchange stabilization and the public’s interest in the sale of U.S. goods and services.

On balance, it clearly serves U.S. interests and we should attempt to conclude the necessary arrangements recognizing that we may be frustrated in the end by lack of existing authority and the impossibility of obtaining new authority by the August 23 deadline.

Recommendation:

That you approve proceeding along the above lines to finalize a bilateral oil arrangement with Iran.⁶

⁶ Ford approved the recommendation and wrote: “Would want Chuck Robinson to work with Frank Zarb & Alan Greenspan as he has in past.” Zarb and Greenspan had sent Ford a memorandum on August 7 in which they asserted: “We both believe that in the light of an almost certain OPEC increase in October that this transaction can be constructive as embargo protection, as well as bringing pressures on the cartel.” (Ibid., Kissinger–Scowcroft West Wing Office Files, Box 15, Iran (4))

78. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, August 20, 1975, 0109Z.

196703. OECD Paris pass Lantzke; Brussels pass Davignon.² Subj: French Consensus Proposal for Reconvening Prepcon.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D750287–0508. Confidential. Drafted and approved by Anne O. Cary (E). Sent to Brasilia, Kinshasa, New Delhi, Tokyo, Jidda, Oslo, Tehran, Caracas, Bonn, London, Copenhagen, Stockholm, Dublin, The Hague, Luxembourg, Rome, Madrid, Ankara, Bern, Vienna, Ottawa, and Wellington, and repeated to USOECD Paris and USEC Brussels.

² Davignon responded by urging that the United States “not formally answer the French aide-mémoire until after the meeting of the IEA Governing Board” on August 25. He said that he thought IEA members could “be persuaded to support the U.S. position if they are given an opportunity to discuss it and if they are not presented with a fait accompli.” (Telegram 7407 from Brussels, August 20; *ibid.*, P850081–2027) Enders phoned Davignon and told him that the U.S. response to the aide-mémoire “did not constitute formal USG acceptance of the French consensus proposal” but, rather, indicated U.S. agreement that the “scenario proposed was an acceptable basis for resuming the dialogue.” Enders added that the United States did not intend to accept the consensus proposal formally until four points were “clarified to [U.S.] satisfaction,” as well as “those which may be raised by the other nine invitees.” (Telegram 198251 to Brussels, August 20; *ibid.*, P850047–2489)

1. Following aide-mémoire delivered by French Chargé August 18; same text handed each of 10 Prepcon participants.³ We understand invitations to Prepcon will be issued only when 10 have indicated to French this paper acceptable basis for meeting.⁴ US response follows septel.⁵

2. "It is understood that the questions to be considered in the dialogue between industrialized countries and developing countries are energy, raw materials, and development problems, including all related financial questions.

3. These questions will be considered on an equal footing. Participants in the dialogue will, in particular, make every effort to advance toward constructive solutions in each of these areas.

4. A new preparatory meeting will be held in Paris at the earliest possible date, and no later than October 15, with the same participants, at the same level, and under the same rules of procedure (in particular, with respect to observers) as the preparatory meeting of last April.

5. The title of this meeting will be: 'Preparatory Meeting for the Conference Between Industrialized Countries and Developing Countries.'

6. The preparatory meeting will have the task of:

—Confirming the consensus reached at the April preparatory meeting on the convening of a limited but representative conference, the number of its participants, and the manner in which they shall be selected;

—Submitting to the conference between industrialized countries and developing countries proposals relating to the creation of commissions and their composition (members and observers).

³ The United States, the European Community, Japan, Saudi Arabia, Iran, Algeria, Venezuela, Brazil, India, and Zaire.

⁴ Sauvagnargues announced on September 15 at the EC Council of Ministers meeting in Brussels that the Government of France had issued invitations to Prepcon II, which would begin on October 13. (Telegram 23764 from Paris, September 16; National Archives, RG 59, Central Foreign Policy Files, D750320-0426)

⁵ The Department replied in telegram 197496 to Paris, August 20: "The Government of the United States is pleased to accept the points made in the August 18 aide-mémoire of the Government of France as the basis upon which it would accept an invitation to renew the dialogue between consumers and producers." It then clarified the points upon which it wanted the U.S. position "to be unambiguous," including points 2-1, 4-1, 4-9, and 5-2. (Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France—State Department Telegrams from SECSTATE-NODIS (3)) On September 9, Kissinger wrote Sauvagnargues: "I am pleased to learn that discussions between our respective representatives have resolved remaining differences with regard to the consensus proposal circulated in your aide-mémoire of August 18." (Telegram 213668 to Paris; National Archives, RG 59, Central Foreign Policy Files, P850033-1986)

7. Preliminary work for the preparatory meeting should be done in such a way that consensus may be reached within no more than two to three days.

8. The preparatory meeting will be followed, within a period not to exceed two months, by the conference between industrialized countries and developing countries, composed of 27 members, 8 and 19 for each of the two groups respectively. Each group will choose its representatives to the conference within no more than a month after the preparatory meeting.

9. The Conference Between Industrialized Countries and Developing Countries will open at the Ministerial level. Like the preparatory meeting, it should last no more than two to three days.

10. The primary task of the conference will be to reach decisions on the proposals which shall be submitted by the preparatory meeting for approval.

11. This should lead to the creation of four commissions corresponding to the themes of the dialogue, determination of how they should be composed, and agreement on how to follow up the work of the commissions.

12. It would be advisable for these commissions to have no more than fifteen members. In setting up the membership of each commission, each of the two groups making up the conference will choose among its own members those who, by virtue of their particular interests as well as the general significance to be attached to their participation, seem best suited to be included, so that the proceedings may take place in an efficient and responsible manner. Each of the commissions will be presided over by two co-chairmen, designated respectively by each of the two groups.

13. The commissions will be made up of high-level experts.

14. The commission on energy will have the task, within the framework of a general survey of world prospects for production and consumption of energy, including hydrocarbons, of facilitating, by appropriate ways and means, arrangements which seem desirable between oil producers and consumers.

15. The commission on raw materials will have the task of facilitating, by appropriate ways and means, in the light of the existing situation, arrangements which seem desirable in the area of raw materials, including food commodities which are of particular interest to developing countries.

16. The commission on development will have the task of facilitating, by appropriate ways and means in the light of the existing situation, arrangements which seem desirable in the area of cooperation for development.

17. The commission for financial matters, while respecting areas of competence of the international institutions (IMF, World Bank), will study all financial problems related to the work of the three preceding commissions. It will be made up of a limited number of members from each of these three commissions.

18. The commissions on raw materials and development will, in particular, consider the work being done in other appropriate international forums and will establish the necessary liaison with them.

19. Joint meetings of commission co-chairmen may be provided for as required.

20. Observers from organizations directly concerned with the problems under consideration may sit with the commissions and have the right to speak.

21. The conference will meet again at the Ministerial level within about twelve months.

22. A meeting or meetings of the conference at the government official level could perhaps be held at least six months after the first meeting of the conference at the Ministerial level.

23. It would be desirable to reach a consensus on these various points within a fairly short time so that the convening of a new preparatory meeting may be announced as quickly as possible.”⁶

Kissinger

⁶ After its informal August 25 meeting to address the French aide-mémoire, the IEA Governing Board issued a “Secretariat note” that explained that the “delegations agreed as to the importance of resuming the dialogue promptly, and were generally of the view that the procedures outlined in the aide-mémoire for resuming the dialogue formed a basis on which participating countries of the Agency could accept invitations to participate in a new preparatory meeting,” subject to a list of items it wanted clarified. (Telegram 22249 from USOECD Paris, August 29; *ibid.*, D750300-0060)

79. Telegram From the Embassy in Saudi Arabia to the Department of State¹

Jidda, August 28, 1975, 1330Z.

6009. Subject: Oil Policy.

Summary: According to Oil Minister Yamani, the Saudis had decided to hold the line for zero price increases in the September OPEC meeting. They had even gone so far as to point out to Iranian Oil Minister Amouzegar that the Saudis might even risk destruction of OPEC to prevent a price increase. In view of what the Saudis consider our "new hard line" toward them to be however, price policy is now undergoing review, and Yamani is not rpt not sure what position the Saudis will take. Although the Ambassador stressed to Yamani that arguments he had previously made about price increases had not changed, and said he knew of no "signals" of changed U.S. policy toward the Saudis, the outcome of the Saudis' current policy review is in doubt. Any letter from President Ford or other U.S. leaders to King Khalid, Prince Fahd or Yamani should call attention to the Saudis' public statements on oil policy and express hope that Saudis will be able to hold that line at the OPEC meeting. A tough letter on oil prices would almost certainly be counterproductive; it might tend to confirm their fears that U.S. policy toward Saudi Arabia had shifted. End summary.

1. Saudi Oil Minister Yamani told me Aug 27 that my approaches to him from April through July on oil prices had been discussed at length in the Saudi Cabinet and had finally been accepted. The Cabinet had agreed that at the OPEC meeting the end of September Saudi Arabia must hold the line against any price increase.

2. Prince Fahd discussed the matter with the Shah when he was there recently and with Amouzegar when the latter recently came to Saudi Arabia.² The Iranian position was that prices should rpt should be increased by the full 35 percent increase in cost of imports, namely \$3.50. Iran, however, would be willing to "compromise" on a price increase of "only" \$2.00 or \$2.50. Yamani said Fahd, unfortunately,

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D750299-0620. Confidential; Immediate; Exdis. Repeated to Abu Dhabi, Algiers, Bern, Bonn, Brussels for the Embassy, USEC, and USNATO, Cairo, Caracas, Copenhagen, Doha, The Hague, Jakarta, Kuwait, Lagos, Libreville, London, Rome, Paris for the Embassy and USOECD, Tehran, Tokyo, Tripoli, Vienna, Brasilia, Kinshasa, New Delhi, and Quito.

² Fahd was in Iran July 1-3, and Amouzegar visited Saudi Arabia during the first week of August.

had been rather weak in dealing with the Shah; Fahd had urged him to reconsider his position and to adopt a lower price, but he made no threats and he gave no indication of independent Saudi action if Iran refused to move. When Amouzegar was here, however, the Saudi position was much stronger. Amouzegar was told, Yamani said, that if Iran insisted on a high price increase Saudi Arabia would sell at the lower price and increase its production markedly even if this risks a split in OPEC. Yamani will be going to Tehran this afternoon (Aug 28) or tomorrow to discuss the matter with the Iranians.

3. Yamani said it was absolutely crucial that the United States understand this Saudi action was a result of the approaches I had made, and especially that the decision had been taken long before the “new hard American line” toward Saudi Arabia. We should not deceive ourselves into thinking they had yielded to pressure. There was ample evidence of this if we are willing to see it. He had made a statement to the Cairo press three weeks ago, which we surely had noted, on the necessity of keeping oil prices frozen and Prince Fahd, when in Paris, had said that oil prices had risen far enough. (*Note:* There had been several SRF reports on the same line.) Yamani was also quoted in *Ukaz* on Aug 12 as saying the Kingdom saw no justified economic reason for raising petroleum prices, and the interview published in *Al Musawwar* Aug 21 repeated this statement almost word for word.

4. Yamani said the situation had now changed. Assistant Secretary Enders in London at the opening of the Prepcon launched U.S. policy to “break OPEC.”³ The Saudis chose to ignore this but our new policy, Yamani said, had clearly been formalized in my dismissal⁴ and the adoption of a “new hard line” toward Saudi Arabia. Yamani said he was not rpt not now sure what position Saudi Arabia would take on oil prices.

5. I told the Minister that this matter was infinitely more important than the person of the Ambassador, that I had no idea what “signals” if any we were trying to send to the Saudis. Yamani said he had long suspected that some in the U.S. administration really wanted oil prices to go up. A number of the Saudis’ friends in the OECD and the oil industry have told him that Assistant Secretary Enders has said that the U.S. favored higher oil prices now as a means of uniting the consumers in economic or even military war against producers. Yamani knew that I had taken quite another position, that I had constantly fought, cajoled,

³ Not further identified. Prepcon I was held in Paris not London.

⁴ See footnote 4, Document 52.

persuaded the Saudis to keep the lid on oil prices and I had been successful in persuading them to do so. He also had no doubt that this was the policy favored by the Secretary and Treasury and very likely by the President of the United States, but others, he said, seem to be playing another game.

6. I told him that I did not know if anyone were playing a game at all. My instructions had been clear, but even if there were any taking such a devious position the Saudis should not rpt not play into their hands and agree to increased oil prices. Yamani said he understood this point but we should also understand that many of the Saudi Cabinet now felt that with the “new hard line” toward Saudi Arabia, the Saudi policy on oil prices must undergo a complete review.

7. *Comment:* Under the circumstances, I strongly urge that any letter sent by President Ford to King Khalid or any letter from any U.S. leader to the King, the Crown Prince or the Petroleum Minister prior to the OPEC meeting call attention to the statements made by Prince Fahd in Paris⁵ and by Yamani in Cairo; that the letter express the hope that Saudi Arabia will be able to hold its publicly proclaimed line on prices in the OPEC meeting. An expression of appreciation for the earlier actions of Saudi Arabia in restraining oil prices would also be well received here. In no circumstances should Saudi Arabia be lumped together with those countries which have publicly demanded higher oil prices.

8. The Saudis are already disturbed at what they have interpreted as a change of American policy and they are beginning to worry again about the invasion threat. If we send them a tough letter on oil prices—particularly given the fact that they had accepted the arguments I had earlier made and confirmed this by public statements—they will conclude that we are attempting to provoke them.

9. There can be no guarantee that the Saudis will not rpt not yield to OPEC pressures, particularly in face of what they interpret as an American challenge, but there seems no doubt that there is (or has been) a desire to hold the line on prices, with no increase or at most an increase of 50 cents per barrel. A word of appreciation and encouragement here would be much more effective than

⁵ On July 22, Fahd told Giscard that if the industrialized countries stabilized currency rates, the oil producers did not plan to raise prices later in the year. (*The New York Times*, July 23, 1975, p. 6)

any threat or hard line we could and should take with other OPEC leaders.⁶

Akins

⁶ Referring to this telegram and others, Sober sent a personal message to Atherton in which he wrote: "I believe we must assume that the SAG is genuinely concerned that we may be beginning a process of turning away from them." Sober added that the Department "should not ignore the possibility that the SAG actually intends to fight for keeping the present line on prices." "Most importantly," he wrote, "I believe we need to get to the Saudis as quickly as possible and in a way that can best stem their current inclination to read strong negative political signals into our forthcoming change of Ambassadors." Sober recommended a visit to Saudi Arabia by Kissinger, so that the Royal family could "hear the word directly" concerning U.S. intentions. Finally, Sober suggested modifying a previously proposed letter from President Ford to King Khalid on oil prices based on Akins's advice, "if we are to believe Yamani." (Telegram Tosec 100281/205854 to USDel Secretary, August 28; National Archives, RG 59, Central Foreign Policy Files, P850036–2606)

80. Telegram From the Department of State to the Embassy in Iran¹

Washington, September 9, 1975, 2107Z.

214124. Subject: OPEC Oil Price Decision.

1. You are requested to deliver the following letter from President Ford to the Shah as soon as possible.²

"Your Imperial Majesty: I wish to present for your consideration my thoughts on an issue of great importance to relations between developed and developing countries, and to the economic well-being of our two countries and all the nations of the world.

Since the consumer/producer preparatory meeting in Paris last April, the United States has made a major effort to re-establish a basis for dialogue and cooperation between the nations of the developing world, including those which export oil, and the industrialized nations. We have undertaken a fundamental review of our overall policy

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D750312–0062. Confidential; Immediate; Exdis. Drafted by Marion V. Creekmore (EB/ORF/FSE); cleared by Enders, Sober, and Sorenson; and approved by Kissinger.

² Ford sent similar letters to Khalid in telegram 214123 to Jidda, September 10, and to Pérez in telegram 214126 to Caracas, September 9. (Both *ibid.*, D750313–0835 and D750312–0063)

toward the developing countries. This review has resulted in a new approach to the producer/consumer dialogue that responds more fully to these nations' concerns, particularly those raised by your government's representatives and other delegations during the Paris meeting. Since Secretary Kissinger articulated the general outlines of this approach in speeches in Kansas City and Paris in May, we have made much progress in establishing the constructive understandings necessary to promote further mutually beneficial cooperation not only between our two nations but among the broader world community. Furthermore, as you know, we have made a number of important specific proposals for cooperation at the current Special Session of the United Nations General Assembly.³

The economic dialogue will be a centerpiece in the new evolving relationship between the industrial and developing nations. We are pleased that our efforts, and those of your government and others, have succeeded in establishing a consensus for resuming these discussions. Over the past months, we have clearly demonstrated our commitment to a constructive dialogue and our belief that its success requires each participant to recognize and take full account of the vital interests of the others.

As you can appreciate, the support of the American public for the new US position must be based on an awareness of the concerns of the oil producers and other developing countries and the need to seek cooperative solutions to our common economic problems. I am concerned, however, that this necessary support will be jeopardized should the member countries of OPEC increase the price of oil this fall.

I am also concerned that such action could raise serious questions among the American public regarding the close cooperation we seek and are actively developing with your country in several fields of our bilateral relationship. I value this relationship greatly and sincerely wish to continue to broaden and deepen it.

Another oil price increase by OPEC would also have a significant negative impact on the economies of all the oil importing nations—

³ A key paragraph of Kissinger's address before the Seventh Special Session of the UN General Assembly on September 1 (as read by Moynihan) reads: "These economic issues have already become the subject of mounting confrontation—embargoes, cartels, seizures, countermeasures—and bitter rhetoric. Over the remainder of this century, should this trend continue, the division of the planet between North and South, between rich and poor, could become as grim as the darkest days of the cold war. We would enter an age of festering resentment, increased resort to economic warfare, a hardening of new blocs, the undermining of cooperation, the erosion of international institutions—and failed development . . . Can we reconcile our competing goals? Can we build a better world, by conscious purpose, out of the equality and cooperation of states?" The speech is printed in Department of State *Bulletin*, September 22, 1975, pp. 425–441. Excerpts were published in *The New York Times*, September 2, 1975, p. 20.

both developed and developing—at the very time that signs of progress in the fight against recession and inflation are appearing. Such a price increase would impose shocks on the U.S. economy, on the more vulnerable economies of Europe and Japan, and finally on the highly fragile economies of the developing world. It would at the very least reduce the progress toward economic recovery and could, in fact, plunge a number of countries into extremely serious difficulties.

It is because I am aware, Your Majesty, of your sensitivity to the interdependence of the world economy and your commitment to a successful economic dialogue that I am asking you to weigh heavily the adverse effects—both psychological and real—which a price increase could have. It is my hope that you will use your considerable influence among the producing countries to urge restraint on oil prices and to argue that our long-term mutual interest in a more rational global economic structure should prevail over short-term economic advantage. Sincerely, Gerald R. Ford. His Imperial Majesty Mohammad Reza Pahlavi, Shahanshah of Iran, Tehran.”

2. Report when delivery effected.⁴

Kissinger

⁴ In his response, the Shah listed reasons why he believed an oil price increase would be justified and noted that “the tax imposed by the consuming industrialized nations on oil products which on average nearly equals the government take of the oil producing nations can very well be adjusted to take care of any increase in oil prices.” (Telegram 8946 from Tehran, September 11; National Archives, RG 59, Central Foreign Policy Files, D750314–0640) Khalid replied on September 23 that Saudi Arabia was “making an effort to curb the pressures for a further increase in the price of oil,” but that it did not want “to maintain a position singlehandedly if all of the other OPEC states insist upon an increase in prices.” (Telegram 6525 from Jidda, September 23; *ibid.*, D750330–0344) Pérez, in a September 23 letter to Ford, argued that an oil price rise would be justified because “inflation generated in the industrialized countries” was “constantly eating away at the purchasing power of our revenues.” (Ford Library, National Security Adviser, Presidential Correspondence with Foreign Leaders, Box 5, Venezuela—President Carlos A. Pérez)

81. Memorandum of Conversation¹

Taif, Saudi Arabia, September 11, 1975.

PARTICIPANTS

Zaki Yamani, Minister of Petroleum and Natural Resources
Henry A. Kissinger, Secretary of State
James E. Akins, U.S. Ambassador to Saudi Arabia
Joseph Sisco, Under Secretary of State for Political Affairs
Robert Hormats, Senior Staff Member, National Security Council (Notetaker)

SUBJECT

Oil Price Increase and the Producer-Consumer Dialogue

Secretary Kissinger: I am extremely pleased to see you again.

Minister Yamani: It is my pleasure, and I am glad you could visit Saudi Arabia.

Secretary Kissinger: I have read of some conversations in which you indicated that you believed that the US was embarking on a policy of getting tough with Saudi Arabia. I just wanted to tell you personally that this is not our policy. If you believe everything that Joe Kraft² writes, you will be in very bad shape.

Minister Yamani: Well, we have heard of this and are concerned.

Secretary Kissinger: Let me assure you that you have nothing to be concerned about. There is absolutely no truth to this. It is certainly not our policy.

I would like to discuss two other issues briefly: an oil price increase and the consumer/producer dialogue.

On the issue of an oil price increase, I won't go into the economic issues. You know these far better than I do. I am no expert. But I will comment on the political side. A price increase will be used by our opponents in the US—by those opponents of our policy toward the Arab World. They'll say we are not tough enough with the Arabs knowing full well that if we get tougher the Arabs will retaliate. This would worsen the climate between the US and the Arab World and will be very harmful to our efforts to improve relations with the Arabs and to our efforts in the Middle East. The cost will outweigh any conceivable economic benefit.

Minister Yamani: Sometimes we are confused. When His Highness Prince Fahd was in Tehran, the Shah told us that your view was that it was necessary to have a price increase.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P820123–1520. Secret; Nodis. The meeting took place in the King's compound.

² Syndicated newspaper columnist Joseph Kraft.

Secretary Kissinger: It is not conceivable that that could be portrayed as my view.

Minister Yamani: Well, the US view. They said that it was your view that an increase was needed to help you increase your independence. But our view is that we do not want an increase. In fact, we have sent a message to the Shah from the King against a price increase. The Shah wants a large increase of perhaps 20%, more than \$2 per barrel. He thinks that OPEC might compromise at about 15%, and he would go along with this. The Shah is the one who wants an increase. We in Saudi Arabia do not and have said so. But you must convince the Shah.

Secretary Kissinger: If the price of oil goes up it will lead to massive political problems for our efforts in the Middle East. It would also have enormous economic consequences which you know.

Minister Yamani: We know your views. We are not in the forefront of those who want a price increase. That is not our traditional position. But your views should be told to other OPEC countries who feel differently.

Secretary Kissinger: When I return, the President will send a message to the Shah so he can be under no misconception about our attitude on this.

Minister Yamani: We will, of course, be talking to other OPEC countries as well. But you must understand that we really do not know what to make of what we read about the US tough line. This obviously has influence on our position.

Secretary Kissinger: I can assure you there is no tough line. It is pure newspaper idle speculation. There is no truth to it. I give you my personal assurance.

With respect to the consumer/producer conference, it is coming out along the lines you and I discussed. You must accept total victory.

Minister Yamani: What?

Secretary Kissinger: Yes, total victory. This is very much, almost exactly, what you wanted.

Minister Yamani: We have worked hard on this.

Secretary Kissinger: You played a very constructive role. When I think back, we are very close to what you and I discussed.³

Minister Yamani: There seem to be some issues not yet agreed.

Secretary Kissinger: Do you think that Saudi Arabia and the US can discuss how we can proceed in these meetings. We need to coordinate closely in our mutual interest.

Minister Yamani: Yes, but we have many differences, too.

³ See Document 55.

Secretary Kissinger: Yes, but we have many areas of agreement. These outweigh any differences. And I am not aware of major differences.

Minister Yamani: Well, I think we can work closely.

Secretary Kissinger: Chuck Robinson will be in touch with you. He is working closely on this. Of course, you are always welcome to be in touch with me.

Minister Yamani: I might be in Washington in the first half of September, but only for four or five days.

Secretary Kissinger: Let me know when you will be there. Maybe we can have lunch or tea or something. I would very much welcome visiting with you again.

Minister Yamani: It is very nice to see you here in Taif, and I look forward to seeing you again in Washington.

Secretary Kissinger: It is important that we work closely together, and I will welcome your visit.

82. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, September 12, 1975, 2122Z.

217382. For the Ambassador. Beirut pass Baghdad Immediate. Subject: OPEC Oil Price Decision.

1. OPEC Ministers will meet in Vienna September 24 to consider an oil price increase. We believe that a price increase is unjustified. Although the increased cost of manufactured and other goods is usually cited within OPEC as justification for increased oil prices, the oil price increases beginning in 1973 have so exceeded increases in prices of manufactures that their price relationships are disproportionately changed by a substantial margin. According to our analysis, from a 1960 base period, per barrel revenue on OPEC marker crude (Saudi Arabian light) rose over 1200 percent to mid-1975 compared with an in-

¹Source: National Archives, RG 59, Central Foreign Policy Files, D750316–1098. Confidential; Immediate. Sent to Abu Dhabi, Algiers, Beirut, Doha, Jakarta, Kuwait, Lagos, Libreville, Quito, and Tripoli. Repeated to Caracas, Jidda, Tehran, USOECD Paris, Bonn, Rome, Paris, London, USEC Brussels, Vienna, Tokyo, Dublin, New Delhi, Kinshasa, USUN, Stockholm, Copenhagen, Luxembourg, The Hague, Brussels, Ottawa, Madrid, Ankara, and Wellington. Repeated to Bern on September 24 under Robinson's signature.

crease of slightly more than 100 percent in the price of manufactured exports as computed by the UN. From January 1, 1973 to mid-1975, revenue on marker crude increased 566 percent as against slightly more than a 52 percent increase in the price of manufactured exports. The first half of 1974 was admittedly a period of massive price increases throughout the world economy. However, since that time the pace of price increases in manufactured goods has slowed significantly and prices of many agricultural and other commodities have dropped. As a result, the purchasing power of oil exports appears to have been about constant from mid-1974 to mid-1975. However, such statistical comparisons have not succeeded in swaying the producers in the past two years. It now appears likely that OPEC's actual decision on prices will largely depend on the producers' perception of their own requirements and of what the market will bear, i.e., the degree to which a price increase might diminish demand for OPEC oil and the combined effect on OPEC revenues.

2. We are concerned with the adverse economic and psychological effects of an OPEC oil price increase. The incipient world economic recovery would be hindered, inflation would be exacerbated and the cooperative atmosphere needed for the resumed producer/consumer dialogue would be jeopardized. We wish to make our concerns clear to the OPEC countries. Secretary Kissinger again publicly opposed an increase in his September 1 address to the UN Special Session delivered by Ambassador Moynihan.² Special approaches on the price issue are being made to Saudi Arabia, Iran and Venezuela.³ Ambassadors to other OPEC countries are requested to make appropriate high level approach and convey the following points with such additional details as are deemed effective in the host country situation:

A. Since the producer/consumer preparatory meeting in Paris last April, the United States has made a major effort to re-establish a basis for dialogue and greater cooperation between the developing countries and the industrialized countries. We reviewed our overall policy toward the developing countries. We took into account the concerns expressed by the developing country representatives at the Prepcon. Secretary Kissinger articulated our new approach in speeches in Kansas City and Paris in May and outlined in detail both our general approach and specific proposals on September 1 in his address to the Seventh Special Session of the United Nations General Assembly. This US commitment to a cooperative and innovative approach to the problems of global development is based on our conviction that all parties to this dialogue must take into account the important interests and concerns of

² See footnote 3, Document 80.

³ See Document 80.

others. In this regard, we believe that the governments of OPEC have a responsibility to take account of the effect which any further increase in the price of oil will have in the world economy and prospects for success in the current effort to build a new approach to the problems of economic development and cooperation.

B. In the case of the US, we are concerned about our ability to maintain public support for a forthcoming and cooperative approach to the problems of international economic development and the producer/consumer dialogue should the member countries of OPEC increase the price of oil again. Americans can see no justification for a further increase when the purchasing power of oil has already risen so disproportionately as a result of past increases. Our commitment to a forthcoming and cooperative approach to global economic problems would of course remain; but in a practical sense our ability to explore specific new approaches might be jeopardized.

C. Recession in the industrialized countries is adversely affecting the global economy in 1975, including the level of earnings of the oil producing nations as a group. A further OPEC price increase would reduce the resources and worsen the payments balance of all oil importing countries—both developed and developing—just as progress in the fight against recession and inflation has become apparent. A price increase would at the very least reduce the progress toward recovery in the United States and it could plunge some countries into extremely serious difficulties.

D. We trust that the member countries of OPEC will give proper recognition to our concerns and to the possible consequences of an oil price increase—not least of which is hindrance of progress toward a more rational and prospering global economic structure.⁴

Kissinger

⁴ Despite these démarches, the OPEC Ministers agreed at the meeting in Vienna to a 10 percent price increase for the next 9 months. The price of marker crude would remain at \$11.51 until July 1, 1976. (Telegram 8283 from Vienna, September 27; National Archives, RG 59, Central Foreign Policy Files, D750336–0380) The next day, the Embassy in Jidda reported that Saudi Arabia “played a decisive and constructive role” at the meeting, demonstrating a “willingness to stonewall almost to the end,” thereby preventing “a price rise substantially greater than 10 percent.” It recommended a Presidential letter to King Khalid “commending the courage and responsibility of his government.” (Telegram 6626 from Jidda, September 28; *ibid.*, D750336–0551) On October 2, Ford sent Khalid a letter in which he wrote: “While I regret that any price increase was thought necessary, I recognize that had it not been for the resolve and responsible leadership of Your Majesty’s Government, the increase in the price of oil would have been even greater.” (Telegram 234641 to Jidda, October 2; *ibid.*, D750341–0276)

83. Telegram From the Department of State to the Mission to the Organization for Economic Cooperation and Development¹

Washington, September 17, 1975, 1940Z.

221442. Subject: Letter to IEA Chairman Davignon. Please deliver the following message from the Secretary to IEA Chairman Davignon:

Begin text of letter: Dear Viscomte Davignon: Over the next few months, we face a series of critical tests for our cooperation in energy. On the one hand, we must meet our December 1 deadline for adoption by the IEA of a serious and comprehensive program for our continuing cooperation. At the same time, we must maintain the closest coordination within the IEA as we move forward with a dialogue with the producer countries, assuring the Agency remains the principal forum for all aspects of our energy relationships.

The adoption of a long term program is critical to the continued vitality of the IEA. Unless we demonstrate our solidarity and our determination to take the difficult decisions necessary to reduce dependence on imported oil, we risk that the IEA will not be taken seriously either by our own publics or by the producers. I realize that the difficulties experienced here in this country in establishing an energy program have made progress difficult in the IEA. However, with the recent action on decontrol of our oil prices,² I am confident that we are beginning to move domestically, and we must now push vigorously for rapid action within the IEA.

As we prepare for the dialogue, we must give particular attention to the role of the IEA and ensure that industrialized country positions are fully coordinated.

In our view, the IEA must play a major role in the overall diplomatic activity related to the dialogue. It should also continue to serve as the principal forum for the coordination of our substantive positions on all energy and energy-related issues, with the two OECD ad hoc groups providing a similar function for the commissions on raw materials and development. With regard to the fourth commission, we believe that the IEA, through its ad hoc group on financial and investment issues, should serve as the primary point of coordination on all financial ques-

¹ Source: Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France—State Department Telegrams from SECSTATE-NODIS (4). Confidential; Immediate; Nodis. Drafted by Bosworth, cleared by Katz and in EUR/RPE, and approved by Kissinger.

² Ford allowed the Emergency Petroleum Allocation Act, which authorized controls over the price of oil, to expire at midnight on August 31.

tions directly related to energy. The OECD's temporary working party under Mr. Van Ypersele³ should coordinate all other financial issues.

We must also begin to consider how best to organize the overall industrialized country coordination. We will probably need a group comprised of the chairmen of the OECD ad hoc groups, yourself as the representative of the IEA, and appropriate representation from the industrialized countries in the group of 27. This group might be linked to the XCSS.

Tom Enders will continue to have direct responsibility for the U.S. role in the IEA and all aspects of IEA activity. He will keep me closely and directly informed on all developments. We want to continue to work closely with you. I understand that you tentatively plan to visit Washington in October. If my schedule permits, I would very much like to see you during your visit. Sincerely, Henry A. Kissinger. *End text of letter.*

Kissinger

³ Jacques van Ypersele de Strihou of the Belgian Finance Ministry.

84. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, September 27, 1975, 1644Z.

231000. Subject: Preparation for Prepcon II.

1. Prepcon II will convene in Paris October 13. The ten participants will decide on a number of procedural questions in preparation for the subsequent Ministerial conference.

2. To assist our preparations for this meeting action addressees are requested to approach host government at appropriate levels to seek its views on the following issues:

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D750336–0417. Confidential; Immediate. Drafted by Raicht; cleared by Enders and Preeg and in ARA, NEA/RA, AF, and E; and approved by Robinson. Sent to Algiers, Brasilia, Caracas, Jidda, Kinshasa, New Delhi, and Tehran. Re-peated to Bonn, Dublin, Rome, Luxembourg, The Hague, Copenhagen, Brussels, London, Vienna, Oslo, Ottawa, Tokyo, Wellington, USOECD Paris, USEC Brussels, Ankara, Madrid, Bern, Stockholm, and USUN.

A. Site for Ministerial-level conference. Group of seven meeting in mid-August indicated preference for Geneva or Paris.² USG would also prefer neutral host country. Our preference is Vienna. We learned today that Austrians have decided to offer Vienna as site for conference. Austria is also prepared to chair Ministerial, but will not press for chairmanship, as GOA considers having Vienna as site for conference more important.

B. Chairman: Group of seven consensus at August Geneva caucus favored “neutral personality” which could even come from one of participants in the conference. US believes we should adopt same balanced approach the Ten have agreed to for the commissions and favors rotating co-chairman selected by each side from amongst participants.

C. Secretariat: We wish to minimize institutional structure at this early point in the dialogue. Therefore, we favor limiting secretariat to small, temporary group providing technical services only such as interpreting, translation of documents, distribution and other housekeeping functions.

D. Site (S) for commission meetings: This issue has not been discussed by either side and US has not yet formulated a position. Obviously, discussion of this question must await conclusion on chairmanship and site issues, however, we would appreciate indication of views on this question.³

E. Observers at commission: French aide-mémoire⁴ provides that “observers from organizations directly concerned with the problems considered may sit on the commissions with the right to speak.” In oral statement by French, it was indicated that both IEA and OPEC would be invited to participate in energy commission. At August meeting of group of seven in Geneva, consensus emerged favoring right of any nation participating in conference to observe commission’s work. Commissions will be limited to 15 members. Obviously, right of all countries to sit in on work of commissions could vitiate purpose of limiting size of commissions and we would oppose this. USG has no fixed views on observer organizations in other commissions, except for IEA in energy commission. We welcome views of host governments. What organizations do they envisage for each commission.

² The group of seven LDC/OPEC nations that had participated in Prepcon I (Algeria, Brazil, Indian, Iran, Saudi Arabia, Venezuela, and Zaire) met informally in Geneva August 10–12. (Telegram 6343 from Geneva, August 14; *ibid.*, D750281–0169)

³ Telegram 231097, September 28, informed the same addressees as this telegram that the United States, “in view of apparent growing support from EC countries,” would support Paris as the site of the Prepcon. (*Ibid.*, D750336–0571)

⁴ See Document 78.

F. Agenda: There has been no discussion of an agenda for the Ministerial conference. Participants will recall difficult negotiations on this issue at April meeting which we are anxious to avoid. We believe agenda for conference should be short and non-controversial.

G. Terms of reference for commissions: Consensus contains broad, general statement regarding scope of commissions' tasks. Does host government envisage broadening these general descriptions or including more detailed guidance at conference or is it agreeable to letting each commission determine work program for itself. To avoid controversy on this potentially difficult question at Prepccon, US would prefer latter approach.

3. IEA Governing Board will meet October 10 to develop consensus on above issues.⁵ We would, therefore appreciate replies by October 3 at latest.

4. Request for reports on substantive issues will be forthcoming in septel.

Kissinger

⁵ Regarding the second Prepccon, the IEA Governing Board at its October 10 meeting "agreed on a common position on all anticipated procedural issues." The U.S. representative on the Board proposed that the IEA "demonstrate greater interest in the energy problem of non-oil LDCs by adopting program to deal with these problems." The Board also debated the "future work of the Agency" and reached the consensus that the IEA "should continue to concentrate on development of Long-Term Program, which will establish a comprehensive political framework which would provide guidance and direction for specific cooperative program." (Telegram 26516 from USOECD Paris, October 11; National Archives, RG 59, Central Foreign Policy Files, D750354-1085)

85. Telegram From the Embassy in France to the Department of State¹

Paris, October 16, 1975, 0557Z.

26805. Kuwait pass Baghdad. Subject: Prepcon II—Third Day. Ref: Paris 26678.²

1. Summary: Prepcon II concluded successfully at 4:10 a.m. October 16.³ Last day spent in tedious negotiation of general guidelines for the commissions which the Prepcon would recommend to the Ministerial conference. On Wednesday morning,⁴ U.S. obtained EC and Japanese approval for packet of material containing revised non-paper (reftel) interpreting relevant paras of French consensus relating to work of four commissions (paras 4.3–4.6) and annexes containing lists of discussion topics proposed by seven, and U.S. subsequent negotiations with seven led to other changes but retained connection to relevant paras in consensus.⁵ It was subsequently agreed that the two lists of topics for discussion by commissions would be detached and filed as official Prepcon documents. In final plenary Japanese delegate stated that while Japan might wish later to submit its own list of topics for discussion, the US list generally covered the subjects his country wished to discuss. Final communiqué incorporated negotiated guidelines and Prepcon agreements on procedural issues.

2. Final conference communiqué follows: *Begin text:*

Final Declaration of the Preparatory Meeting for the Conference on International Economic Co-operation, Paris, 16 October 1975

1. The participants in the preparatory meeting for the international conference proposed by the President of the French Republic, which was held in Paris from 7 to 15 April 1975, met again at the International Conference Centre from 13 to 16 October 1975 under the technical

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P760140–2253. Confidential; Immediate. Repeated to Bern, Stockholm, The Hague, Madrid, Copenhagen, Oslo, London, Dublin, Wellington, USUN, Tokyo, Ottawa, Caracas, Brasilia, Vienna, Luxembourg, Brussels for the Embassy and USEC, Bonn, Rome, Ankara, Tehran, Jidda, New Delhi, Kinshasa, Libreville, Lagos, Tripoli, Kuwait, Abu Dhabi, Doha, Quito, Jakarta, Baghdad, USOECD Paris, and Algiers.

² Telegram 26678 from Paris, October 15, transmitted the text of the U.S. “non-paper,” which revised the proposed “new language describing four commissions” introduced by the seven OPEC/LDC countries. (Ibid., D750356–0877) The new language introduced by “the seven,” as they were called, was transmitted in telegram 26677 from Paris, October 15. (Ibid., D750357–0032)

³ Telegrams 26530, October 13, and 26676, October 15, from Paris, reported on the first and second days of Prepcon II. (Both ibid., D750355–0374 and D750356–0870)

⁴ October 15.

⁵ The consensus proposal in the French aide-mémoire; see Document 78.

chairmanship of Mr. de Guiringaud, Ambassador of France, with a view to pursuing preparation for the dialogue on energy, raw materials, problems of development, including all related financial questions.

2. The ten delegations confirmed the agreement of their authorities on the convening of an international conference on these questions. They decided that the conference will be called the "Conference on International Economic Co-operation", that it will be held in Paris, that it will be composed of 27 members designated as indicated below, and that it will be convened at Ministerial level on 16 December 1975 for a session of two or possibly three days. The Secretary-General of the United Nations will be invited to the Ministerial conference.

3. The European Economic Community, the United States and Japan, on the one hand, and the seven developing countries participating in the preparatory meeting (Algeria, Brazil, India, Iran, Saudi Arabia, Venezuela, Zaire), on the other hand, will assume responsibility for the designation, from among their respective groups and according to the procedures which the industrialized countries and the developing countries, respectively, deem appropriate, of five industrialized countries and twelve developing countries, to be added to the present participants so as to bring to twenty-seven the number of participants in the conference. The French Government will be notified, within a period which should not exceed one month, of the list thus established of the delegations to be invited to the Ministerial conference.

4. The ten delegations also decided that the conference should have two co-chairmen chosen respectively by each of the two participating groups from among its members, and that they should preside alternately over the meetings in a manner to be agreed between them. The participants in the preparatory meeting recommend that the two co-chairmen should be designated as soon as possible after the lists of participants in the conference have been completed, and they suggest that the two co-chairmen should begin, immediately after being designated, to take together all necessary steps, in liaison with the host country, to ensure that the Ministerial conference proceeds satisfactorily.

5. The preparatory meeting proposes to the Ministerial conference that it set up a commission for energy, a commission for raw materials, a commission for development and a commission for financial affairs. Each of these commissions should consist of fifteen members, ten of them representing developing participants in the conference from among its members.

6. In determining the composition of its representation in each commission, each of the two groups at the conference should choose from among its members those who, because of their special interest

and the overall significance of their participation, seem best suited to take part in order that the work may be carried out in an effective and responsible manner.

7. The chairmanship of each of the commissions should be assumed by two co-chairmen designated by each of the two groups respectively. Joint meetings of the co-chairmen of the commissions may be planned if the need arises.

8. The preparatory meeting recommends that the intergovernmental functional organizations which are directly concerned with the problems considered, and which the Ministerial conference deems to be able to make a useful contribution to their discussion, be represented on a permanent basis in the corresponding commissions by observers with the right to speak but without the right to vote, and hence not participating in the formation of a consensus. In addition to the United Nations Secretariat, the list of these organizations should include, in particular, OPEC, IEA, UNCTAD, OECD, FAO, GATT, UNIDO, UNDP, IMF, and IBRD. Furthermore, each commission may invite appropriate intergovernmental functional organizations to participate as observers *ad hoc* in the examination of specific questions.

9. Members of the conference wishing to follow the work of a commission to which they do not belong should be entitled to appoint a representative in the capacity of auditor without the right to speak.

10. The activities of the four commissions whose establishment is recommended by the preparatory meeting will proceed on the basis of the relevant paragraphs of the *aide-mémoire* annexed to the French invitation.⁶

(A) It is understood that the commission on energy will facilitate all arrangements which may seem advisable in the field of energy.

(B) It is understood that the commission on raw materials will take into account the progress made in other international forums and will be entrusted with facilitating the establishment or reinforcement, as the case may be, or arrangements which may seem advisable in the field of raw materials—including foodstuffs—which are of particular interest to developing countries.

(C) It is understood that the commission on development will take into account the progress in other international forums and the results achieved, and will be entrusted with facilitating the establishment or reinforcement, as the case may be, of arrangements for accelerating the development of developing countries, on the basis of close co-operation.

⁶ See footnote 4, Document 78.

(D) It is understood that the commission on financial affairs may discuss financial issues, including their monetary aspects, of importance to member countries, while respecting the jurisdiction of international institutions (IMF, IBRD).

(E) It is understood that the four commissions should function in parallel and that the results of their work are linked and should be submitted to the Ministerial conference.

11. It is agreed that any delegation may raise any subject relevant to the themes of the dialogue for discussion in the commissions.

12. It has been agreed in accordance with the relevant paragraphs of the above-mentioned aide-mémoire that the Ministerial conference will be called upon to set the general guidelines for the work of the commissions.

13. The preparatory meeting recommends to the Ministerial conference that the relevant paragraphs of the above-mentioned aide-mémoire, as interpreted and clarified above, as well as the above-mentioned guidelines for the commissions. [*sic*]

14. Some delegations have already tabled with this preparatory meeting documents proposing subjects to be discussed in the commissions. The preparatory meeting recommends that the Ministerial conference agree that these and any other proposals which may be tabled subsequently in accordance with the general guidelines be discussed in the commissions.

15. As regards the practical measures, the preparatory meeting recommends that the conference adopt English, Arabic, Spanish and French as official languages and working languages.

16. The preparatory meeting recommends that the conference adopt the rules of procedure which it itself had adopted, and which are based, in particular, on the principle of "consensus", according to which decisions and recommendations are adopted when the chair has established that no member delegation has made any objection.

17. The preparatory meeting considers that the conference should have an international secretariat with an exclusively administrative and technical function, the Ministerial meeting being responsible on the basis of proposals by the two co-chairmen, for determining its organization, establishing its operational procedure and allocating the financial costs in respect of it. It is understood, however, that pending a decision on the provisions to be adopted for the continuation of the work, the French Government will assume responsibility and provide the secretariat for the Ministerial meeting scheduled for December 1975, under the conditions in which these services were provided for the preparatory meeting.

18. The preparatory meeting finally recommends that the Ministerial conference decide to meet again at Ministerial level in about twelve

months' time. One or several meetings of the conference at the level of government officials could possibly be held at least six months after the first meeting of the conference.

19. In conclusion, the participants paid tribute to President Giscard d'Estaing for the initiative taken by him, thanks to which a dialogue was successfully initiated, and to the French Government for all the efforts it has made towards that end. *End text.*

3. Conference concluded with constructive and conciliatory atmosphere similar to that existing at start of meeting. General sentiment was that, despite difficulties Tuesday night,⁷ first step in dialogue scenario had successfully set stage for December Ministerial and inauguration of substantive work in the four commissions.

4. In brief press conference at close of Prepcon, de Guiringaud applauded cooperative spirit which led to agreement on final declaration and lists of topics for discussion in commissions. He released to press final declaration of Prepcon, French aide-mémoire and lists submitted by group of seven and U.S. Recommend Department make these documents available to press, emphasizing that para 10 of final declaration incorporates relevant paras (4.3 to 4.6) of aide-mémoire.

5. Under Secretary Robinson followed with short press conference praising the cooperative attitude of the participants and stressing the importance of the dialogue to increased international understanding.

6. Septel contains lists of topics for commissions submitted by U.S. and seven.⁸

Rush

⁷ October 14. That evening Algeria submitted a paper, which the U.S. delegation called "unhelpful," for tabling the next day. The paper contained suggested guidelines for the commissions as proposed by the group of seven OPEC/LDC countries. The text of the paper was transmitted in telegram 26677 from Paris, October 15. (National Archives, RG 59, Central Foreign Policy Files, D750357–0032)

⁸ Telegram 26806 from Paris, October 16. (*Ibid.*)

The Rising Price of Oil, October 1975–January 1977

86. Telegram From the Embassy in the Soviet Union to the Department of State¹

Moscow, October 20, 1975, 1216Z.

15002. Subject: Paris–Moscow Developments. Dept Pass USDel Secretary. From Under Secretary Robinson. Ref: A. Moscow 15000; B. State 248482; C. Secto 16028.²

1. As reported reftel A we finally signed documents on grain agreement and oil letter of intent in accordance instructions reftel B. We have fought lengthy and aggressive battle here in Moscow to achieve your price objectives and sincerely regret we were unsuccessful in this effort.³ However I believe that as result of your initiative commencing in July we have achieved in agreements signed today important ben-

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P840083–1118. Secret; Immediate; Nodis; Cherokee.

² In telegram 15000 from Moscow, October 20, Robinson reported the signature of a grain agreement and a letter of intent for an oil agreement with the Soviet Union, known as the “barrels-for-bushels” deal. In telegram 248482 to Moscow, October 18, the Department authorized signature of the agreements. And in telegram Secto 16028 from Tokyo, October 18, Kissinger instructed Robinson and Enders to begin preparing papers for the November Economic Summit in Rambouillet, France, and the December Ministerial producer-consumer conference in Paris. All are *ibid.*, P850012–2398, P840178–2480, and D750362–0831. Kissinger was in Tokyo en route to Beijing.

³ The U.S. negotiators in Moscow, led by Under Secretary Robinson, hoped to “extract from the Soviets a major oil price discount,” which would be “of use publicly in the U.S” as a “demonstration of the concessions obtained” through the use of “agro-power.” Rush reported that Robinson told him: “The Soviets are not anxious to sell us oil in the first place, since they already have export commitments. They are even less anxious to sell oil at a highly concessional price, because they can readily obtain world market prices from other countries.” (Telegram 26519 from Paris, October 12; *ibid.*, D750355–0268) At one point, the U.S. position included a “demand” for a “straight 15 percent discount” on Soviet oil. (Telegram 26555 from Paris, October 14; *ibid.*, P840083–0974) According to French sources, Robinson’s Soviet counterpart in the negotiations had been “visibly disturbed” by this request. (Telegram 15052 from Moscow, October 20; *ibid.*, D750364–0388) Consequently, Robinson proposed returning to an earlier approach, using a different and less open price discount, which had previously produced tentative acceptance from the Soviet side. (Telegram 26555 from Paris, October 14; *ibid.*)

efits for the American public, farmers and maritime interests.⁴ Furthermore, although we may have bent détente somewhat through our aggressive efforts to achieve Soviet acknowledgment of oil price discount, we can recover from this. Further negotiations leading to a second-stage oil agreement calling for transfer of advanced U.S. technology and equipment to expand oil production from existing Soviet facilities could prove beneficial to both sides in this effort. Our challenge will be to continue to signal U.S. agri-power and at same time develop new economic dimensions with the Soviets, thus further strengthening détente.

2. I am pleased with the final results at Prepcon II in Paris⁵ which was threatened at one stage with confrontation and breakdown à la Paris in April. However as result of U.S. leadership this was avoided and we established what I believe is sound basis for constructive dialogue. Your initiative in this effort was fully credited and the French have acknowledged to me their appreciation for this initiative and the U.S. leadership which resulted in successful conclusion Prepcon II. I am in full accord with you (reftel C) that we must carefully plan for Prepcon III or Ministerial meeting of the Conference on International Economic Cooperation (CIEC) now scheduled commence December 16. My office will assume responsibility for coordinating this effort and I will cable them today regarding my view of an overall plan for the December 16 meeting.⁶

3. I also believe it is important that my office assume coordinating responsibility in developing our position for the Economic Summit. I depart Moscow today October 20 for Paris to participate in a three-day session of the OECD Executive Committee meeting in special session and therefore will not be back in Washington until Friday afternoon October 24. However I am cabling my office today outlining suggestions for the Economic Summit and requesting that they work closely with S/P and EB in preparing message to be sent you Thursday Tokyo

⁴ The letter of intent provided that: 1) the Soviet Union would offer to sell 10 million metric tons of crude oil and petroleum products annually to the United States; 2) the U.S. Government could purchase the oil for its own use or U.S. firms could purchase it; 3) 70 percent of what the Soviet Union sold would be crude, and the rest would be products; 4) some portion of the crude or products would be shipped to the United States, "partly in tankers used to transport grain from the United States to the Soviet Union"; 5) some portion of the crude or products could be delivered to "Europe or other agreed marketing areas"; and 6) the prices of crude and products would be "mutually agreed at a level which will assure the interests of both the Government of the United States and the Government of the Union of Soviet Socialist Republics." (Telegram 15048 from Moscow, October 20; *ibid.*, D750363–0939)

⁵ See Document 85.

⁶ Telegram 15047 from Moscow, October 20. (National Archives, RG 59, Central Foreign Policy Files, D750368–0761)

time⁷ regarding both the Economic Summit and the December CIEC in accordance with instructions reftel C.

4. I welcome the suggestion reftel C that once I have returned to Washington I plan to remain for time required to complete objectives paras 2 and 3 above. This is essential if I am to fulfill my commitment to provide you with effective coordination of U.S. international economic policies.

Stoessel

⁷ October 23. See Document 87.

87. Telegram From the Department of State to Secretary of State Kissinger in Tokyo¹

Washington, October 23, 1975, 0122Z.

Tosec 160270/251836. Subject: Strategy Paper for Summit. Reference: Secto 16028.² Paris for Robinson, Eyes Only, exclusively.

1. Following is strategy paper for Summit which has been developed with Hartman, S/P and Hormats. I am sending this simultaneously to Chuck Robinson in Paris who may comment directly. Hormats is working on a scenario paper and draft communiqué for your return.

[Omitted here are paragraphs unrelated to energy.]

VI. Energy.

105. Our underlying objectives are (A) to reduce the OPEC manipulation of price and supply, and thus (B) to restore the independence of action of industrial countries under US leadership.

State of Play:

106. Deadlock with the Congress has undercut our leadership on most energy issues.

107. In the absence of an effective U.S. lead few countries have taken more than perfunctory action on conservation (Britain, Germany

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D750367–0849. Secret; Immediate; Stadis. Drafted by Enders, Boeker, and Preeg and approved by Enders. Repeated Immediate to Paris.

² See footnote 2, Document 86.

and France have the best program), or on alternative supplies (nuclear is lagging in all countries, and government policies on petroleum and gas pricing and taxes inhibit development in Canada and Britain as well as the U.S.).

108. Despite this weakness, fewer industrial countries now think that the solution can be found in negotiations with the producers than did six months ago. This is because of repeated evidence at Prepcons I and II of producer reluctance to negotiate on oil prices, combined with repeated failure in IEA exercises to identify multilateral oil deals that would be both in our interest and negotiable. The best we could get, most people reason, is the current price indexed. That would provide protection against an eventual increase in the real price, but the future is so uncertain that most countries are not interested in committing themselves. Only France seems at this moment to retain interest in an oil commodity agreement.

109. The latest OPEC price increase³ was taken lying down by the Europeans, but it has stiffened the Japanese, who now talk of taking a firmer line with the producers.

110. With this conjuncture, chances now are fair that the IEA will adopt its Long Term Program on December 1, with a minimum safeguard price at about \$7 a barrel.⁴ Canada (worried about having to soften its nationalistic stand on foreign access to Canadian energy), Japan (worried about Diet reaction to MSP) and France (which sympathizes with the MSP concept but wants to preempt any IEA action and is trying to get the EC to block action) each presents a problem. But all of these resistances seem to be reducible as of this point (October 22).

111. The United States also has a major possible action open to it between now and the Summit. Conferees are now working to finish the Congressional alternative to the Ford energy program. The emerging bill will have most of the provisions we want, except oil decontrol. By law, oil price controls come off November 15. Congress is pledged to complete action beforehand. The President can thus go to the Summit with an agreed bill, the best he can get but with a low conservation content. Or he can veto or plan to veto the House–Senate bill. The President’s willingness to face the unpopularity of a veto on oil price decontrols is his most important energy card vis-à-vis the Europeans and Japanese.

112. In their new tough mood, the Japanese are talking about using the Summit to “complete consumer solidarity” (i.e., bring the French into IEA). We have, however, no indication from Paris that this would

³ See footnote 4, Document 82.

⁴ See Document 90.

be feasible; if anything the Gaullists are even more opposed to membership now than last year, when they won a Cabinet debate on the question.

Conclusion:

113. The most important thing is that the President will have made up his mind on oil decontrol by the time he leaves for the Summit. Further uncertainty on this issue—the key to the administration's energy policy—would be destructive. This is particularly true since the President is scheduled to lead off on energy. The Europeans and Japanese will be nervous about an energy policy by veto. But even with decontrol by veto, the US would recover some of its lost prestige in energy. The President has enough strength to sustain a veto, provided he gives some or all of the \$2 import fee.

114. With such a base, the Summit can give a sense of direction on two issues: Negotiations with the producers and reduced dependence. On the first it would be worthwhile talking through the issue: The damaging economic and political effects of high oil prices; the relative unattractiveness of indexation (it gives you protection against real price increases, but ratifies cartel gains and exposes political leaders to charges they are conspiring with producers to put prices up, and makes cartel management easier); the unlikelihood of obtaining a cut in prices, and therefore the difficulty of attempting to negotiate prices with the producers. On that basis, we are forced back on what we can do within our own borders. The Summit should recommit IEA members and France to lessened dependency.

115. There is likely to be little advantage, and much potential mischief, in following the Japanese idea of trying to get France in the IEA. Giscard has no internal political base for such a move, even if he wanted to make it. Attempts to negotiate with France now would only delay the Long Term Program, and demoralize the agency. The Japanese should be turned off in advance.

Ingersoll

88. Minutes of the Rambouillet Economic Summit Meeting¹

Rambouillet, November 16, 1975, 4 p.m.

Energy, Raw Materials, and Development

President Giscard: I turn the floor over to President Ford, who will begin the discussion of energy.

President Ford: Strong domestic energy programs are absolutely critical. As the largest consumer of energy, the United States is determined to be in the forefront in conserving energy and developing new supplies. We have defined our short and long term energy objectives and reorganized our government machinery to achieve them. Our goal is to dramatically increase all domestic energy sources, decrease demand, and cut oil imports sharply. Our target is to hold our imports of oil in 1985 to a level 10 MMBD below what they otherwise would have been. Conservation will account for half of this massive import reduction; new domestic supplies for the remainder.

The achievement of these objectives will require a tough, comprehensive national program of energy conservation and accelerated energy production. I submitted such a program to the Congress in January.² The national energy debate has been lengthy, and progress has been slower than we had hoped.

The Congress is now in the final stage of completing a comprehensive legislative package on energy. This legislation does not cover fully the proposals I made in January. In some areas, it would provide a good basis for a serious national energy program, including conservation. In other areas, however, such as the domestic pricing provisions, it falls short of what I had proposed. We have made significant legislative progress, but we still have a long way to go.

The new energy bill has some attractive features. It would provide many elements for a medium term mandatory energy conservation in the United States. For example, it would impose new automobile efficiency standards; it would create new incentives for more efficient use of energy in private industry; it would establish efficiency labelling requirements for electrical appliances; and it would create a new pro-

¹ Source: Ford Library, National Security Adviser, Memoranda of Conversations, Box 16. Secret; Nodis. This is the record of the third session of the Economic Summit held November 15–17 in the Chateau de Rambouillet, about 30 miles outside of Paris. The memoranda of conversation of the first, second, and fourth sessions, which took place on November 15, November 16 at 10:45 a.m., and November 17 at 10 a.m., respectively, are *ibid.* All the memoranda of conversation are printed in *Foreign Relations, 1969–1976*, volume XXXI, Foreign Economic Policy, 1973–1976, Documents 122–125. A list of participants at the Summit is in the memorandum of conversation of the first session.

² See footnote 3, Document 33.

gram under which individual states will be encouraged to develop their own energy conservation programs.

At the same time, this energy bill could substantially strengthen our ability to withstand any future embargo. It would provide me with the authority I need to impose mandatory restraints on energy consumption in a crisis and take the other emergency measures necessary to implement the IEP oil sharing agreement. In addition, the legislation would authorize the creation of a large, new emergency oil stockpile. We would be able to initiate promptly a strategic storage program of 150 million barrels, with an eventual target of one billion barrels.

However, the provisions of the new bill dealing with domestic oil prices are less satisfactory. The question of price decontrol has been perhaps the most controversial issue in our domestic debate over the past year. I strongly advocated the removal of artificial price controls on our domestic oil out of conviction that these prices should reflect actual market value. Others have wished to defer any decision on the future of price controls, arguing that the economic impact of decontrol would be unacceptably harsh. The bill contains a proposed compromise on this key issue. The composite domestic oil price would be rolled from \$8.75 per barrel at present to \$7.66 in 1976 and then allowed to increase gradually with eventual full decontrol after 40 months. The pace of decontrol is much slower than I would have liked. Because of less than completely satisfactory pricing provisions, but other very desirable elements, I will carefully review this bill after it is completed before making a final decision.

I should stress our conservation effort over the past year, even without the new program, has produced substantial results. As a result of higher prices and increased public awareness of the need for conservation, the US is using one million B/D less of imported oil than would otherwise be the case. This saving, which has already been adjusted to remove the effects of the economic slowdown and bad weather, translates directly into reduced demand for oil imports. These savings will continue to grow.

We also initiated a voluntary automobile fuel economy program to ensure that automobile manufacturers increase by 40% the efficiency of their vehicles by 1980. This program will lead to an import savings of two MMBD by 1985. In the 1976 model year alone, a 17% increase has been achieved. In addition, we have undertaken major programs to expand the use of coal in place of oil and gas in existing power plants and to encourage construction of new power plants for electrical generation that do not depend on imported oil. To stimulate development of new supplies, we are:

—Moving rapidly forward to complete a pipeline to begin moving Alaskan oil to markets in the lower 48 states by 1978.

- Accelerating the leasing of frontier OCS areas.
- Seeking authorization for a \$100 billion Energy Independence Agency to provide financial support for new energy projects.
- Working with Congress to complete action on an \$11 billion synthetic fuels program to complement our unprecedented research and development effort and make commercial production of synthetic fuels a reality.
- Actively encouraging construction of a fourth uranium enrichment facility by private interests to enable us to achieve our ambitious targets for nuclear power and ensure that we meet our commitments to provide enrichment services to foreign purchasers; and
- Expecting early congressional authorization to open up our substantial Naval petroleum reserves for exploration and development.

These actions will bring on millions of barrels of additional domestic oil supplies during the coming years. I am also pressing Congress to end price controls on domestically-produced new natural gas, and the Senate has already voted to do so.

I am convinced that these and other new measures that make up our comprehensive program will enable us to achieve our energy objectives. I am fully committed to their realization, and I am convinced that the American people will support me in this effort.

While recognizing the preeminence of national programs in meeting the energy challenge, we have all participated in varying degrees in cooperation and collaboration among ourselves and with other major oil consuming countries. Our bilateral consultations have been extensive and productive. We have joined together in the OECD's Financial Support Fund to protect against destabilizing movement of OPEC assets. Some of us have agreed to an oil sharing arrangement in the event of a new embargo and supply disruption. We attach particular importance to this achievement.

After months of negotiation, those countries that have chosen closer collaboration are nearing agreement on concrete measures to implement their commitment to long term cooperation. The package of measures includes:

- Review and comparison of members' conservation programs to encourage greater effort and identify particularly effective elements for emulation by others;
- General and specific incentives to stimulate development of new supplies, including a minimum safeguard price and a framework of cooperation on individual energy projects with provisions covering non-discriminatory access to investment and product; and
- Reinforcement and extension of national R&D activities by a pooling of effort under joint strategy and including jointly financed projects.

The minimum safeguard price mechanism and the access provisions for project-by-project cooperation stand as concrete manifesta-

tions of members' solidarity and are highly important to a coherent program of cooperation.

I think the access commitment is particularly important. The United States sees significant potential for using this type of cooperation to develop new supplies of advanced energy as well as some new conventional energy. All new energy will be costly in capital terms and make great demands on our capital markets. We welcome investment by countries with limited energy resources, recognizing that they would find participation particularly attractive if it increased the amount of energy available to them. To promote this type of cooperation, we are prepared to make the following offer: In return for other countries participating in large new projects in the US which develop energy that would otherwise not have been produced, we will wherever feasible guarantee that a portion of the incremental energy production can be exported. Projects will be considered on their merits in their environmental, economic and regional context. In some areas, where environmentalist and other concerns are great, we will have less scope than in others. We think a commitment of this kind is a major innovation in international cooperation. We are prepared to discuss it in detail with other consuming countries.

The package of measures for long term cooperation in conservation, the development of new supplies, and R&D will complete the framework of our energy cooperation. It will ensure that our individual and collective efforts will be adequate to achieve our objectives. It is imperative that the early December deadline for the adoption of the program be met. Once the program is in place, it will be possible to devise arrangements for other industrialized countries to participate in our cooperative programs, including R&D and the development of new energy projects.

We believe our individual and joint efforts to reduce our vulnerability are consistent with our common desire for a broad and constructive economic dialogue. A clear demonstration of our determination to master our energy destiny will enhance our bargaining leverage and facilitate our guiding the discussions in productive and non-confrontational channels. To do so most effectively, the representatives of the industrialized countries should coordinate in advance their positions on the substantive issues.

We think the dialogue will contribute significantly to a more cooperative atmosphere between developed and developing countries and to a more rational search for mutually beneficial solutions to our common problems. As our own efforts have demonstrated, we are committed to a successful dialogue. We commend the Government of France for its initiative.

In our opinion, the dialogue should be used primarily (1) to encourage the oil producers to develop greater awareness of their own stake in a growing and stable international economy, thereby reinforcing the moderate OPEC countries on pricing decision, and (2) to set in motion effective and cooperative programs by producers and the industrialized nations to ease the LDC's economic and financial burdens caused by high oil prices. We are particularly concerned that financing of LDC's payments deficits will become acute by next year and believe that this problem, and all its ramifications, should be fully considered in the dialogue.

We do not think the dialogue will enable us to negotiate an agreement on oil prices at a cost we are willing to pay. The producers are not likely to cede their unilateral control over prices or to agree to reduce prices. The consuming nations would reap little or no advantage from indexation or any similar arrangement that would freeze prices at their current real level. This would legitimize current high prices, neutralize LDC and market pressures, ratify the gains of the cartel and make cartel management easier, and expose political leaders to the charge that they are conspiring with producers to drive prices up.

Thus, we must continue to deal with high and uncertain oil prices with our own energy programs. High oil prices cannot be ignored; they have shaken our confidence, diminished our ability to deal with our problems, and compromised our economic development. There is no easy way to end our vulnerability and regain our freedom of action. We each must take the hard decisions necessary to implement and sustain strong and effective domestic energy programs, whose combined effect over time will be to shift the balance on the world oil market. To reinforce our individual efforts and to provide political impetus for greater future sacrifices, I hope that at the Summit we will pledge our nations to a maximum effort to reduce our dependency on OPEC oil imports in order to enhance our own economic well-being and to contribute to the long term energy needs of the world.

Chancellor Schmidt: I should like to ask the President to repeat the precise terms of the offer he referred to in connection with the participation by other countries in the major energy programs in the United States.

President Ford: Let me repeat what I said. In return for other countries participating in large new projects in the US which develop energy that would otherwise not have been produced, we will wherever feasible guarantee that a portion of the incremental energy production can be exported. Projects will be considered on their merits, in environmental, economic and regional contexts.

Prime Minister Wilson: In his presentation of energy questions the President discussed the CIEC. A striking and encouraging feature

about the point at which we now stand in our relations with the developing countries was the marked difference in atmosphere between the Sixth Special Session of the UN General Assembly and the Seventh. This improvement was, in particular, due to a realization between developing countries that confrontation, as expressed in the Sixth Special Session, was not getting them very far. They realized that the adverse effects on the world economy of the oil price increases and other factors meant that the unilateral demands being made on some of us were not going to be met. And perhaps they saw a better prospect of real advance to themselves from negotiation rather than from an adversary, confrontational relationship. Their attitude this year has been consistently more realistic than in the past.

You may be aware of my commodity initiative at the Kingston meeting of the 34th Commonwealth Heads of Government last May.³ The Commonwealth represents an important grouping in the UN, and accounts for more than a quarter of the UN membership and more than a quarter of the world's population. The debate at Kingston demonstrated the continuing value and importance of the Commonwealth as a forum for advanced and developing countries—from Europe and indeed all five continents—among whom new issues could be looked at from the point of view of both types of countries.

Although the confrontation between the developed and developing nations was never of our making, we in the industrialized world have played a full part in replacing it by the present armistice. At the Seventh Special Session, the UK's proposals at Kingston, the united approach by the EC and the wide ranging US proposals led to the final resolution of the session.⁴ This would have been unthinkable a year earlier. We must demonstrate in the future the same unity that we then achieved or the Group of 77 will divide us.

We must work hard to maintain and build on the new atmosphere of consensus both at the coming UNCTAD meetings at Nairobi next May and before that at the CIEC. We must, however, take care that discussions in the CIEC and its commissions not cut out the IMF, IBRD, GATT, and UNCTAD, to name only four.

We must not, however, deceive ourselves into thinking that the consensus so far will be easily preserved. We must of course aim to make progress in directions, and by means, which would promote

³ The Commonwealth heads of government met in Kingston, Jamaica, April 29–May 6. The Embassy's report on Wilson's initiative is in telegram 1695 from Kingston, May 1. (National Archives, RG 59, Central Foreign Policy Files, D750155–0281)

⁴ For the resolution adopted unanimously by the UN General Assembly on September 16, at the close of the Seventh Special Session, see *Yearbook of the United Nations*, 1975, pp. 348–354.

rather than damage a healthy world economy and our own individual economic development. The developing countries face fearsome problems. And our relationship with them, the poorest in particular, must be an evolving and not a static one. The plight of these countries is serious. Their terms of trade are deteriorating because of the continuing world inflation, the high cost of oil, and falling export prices. At the same time they are facing a prolonged recession in their normal export markets.

During 1975 the non-oil producing developing countries had to reduce the volume of their imports by 15%. Things are not likely to change until there is a substantial recovery in world trade. They are not only having to pay for the oil which they did not produce themselves, they are also having to pay for oil-based fertilizers, and are thus doubly impoverished. These countries, therefore, have an urgent and substantial need for balance of payments assistance if they are to reverse this fall and restore some prospect of domestic growth in 1976–1977. To help them is not mere charity; a recovery in their buying power will serve as a fillip to world economic recovery from which we will all benefit.

The poorest countries are facing the bleakest prospects. For these countries at the margin of subsistence there has been no growth in per capita GNP for the last two years. For them, there is the prospect of an average rise of no more than 1% a year, if any, for the rest of the decade because they will benefit less than the richer developing countries from a recovery of world trade. In addition to balance of payments support, they will need concessional aid in order to avoid unmanageable debt servicing problems in the future or a drying up of purchases. We in the industrialized world all faced problems in the past 20 or 30 years where we had to give loans to help countries in debt servicing needs.

The industrialized nations face, in differing degrees, the problems of inflation, unemployment, balance of payments deficits, and the achievement of recovery without inflation. We will be able to offer the developing countries little as a result, and certainly far less than the minimum they feel is their right. And even in holding the line we set ourselves a most difficult task. But in the UK, despite cutbacks in government expenditure, we have not only held but even increased the percentage of our resources spent on aid. We must do what we can to help these countries. Our strongest ally will be a recovery of world trade, which would help us and the LDC's. This makes it still more essential as yesterday's discussions showed, to promote early economic recovery.

At the Seventh Special Session a number of special proposals were made to increase directly the purchasing power of the LDC's. At Kingston I stressed the need to stabilize commodity prices and argued that

“boom and bust” should be avoided. It was to no one’s advantage, and affected our exports.

In the course of international discussions, emphasis has been placed by Chancellor Schmidt and others on the need to improve the stability of export earnings, rather than on improving actual prices. Assisting commodity prices would primarily benefit Australia, South Africa and Canada. Helmut has thus emphasized export earnings rather than price stabilization for exports. Many of these proposals would fall primarily within the realm of the IMF—the Trust Fund, improvement in one way or another of the compensatory financing facility, and a variety of other proposals involving new issues of SDR’s. There were also proposals which would entail special concessionary terms for the poorer LDC’s. There are of course many complex practical issues which have to be resolved in relation to these proposals such as the appropriate method of funding, the extent and feasibility of links with IMF gold sales, etc. The idea of issues of SDR’s itself has raised some basic policy questions which will be pursued in other meetings.

In this meeting we should demonstrate the necessary political will about objectives and the urgency of finding practical means of achieving the objectives. We need to concentrate on securing decisions, through the appropriate international organizations, which would produce practical results as quickly as possible. Apart from the Trust Fund, we should concentrate our attention on arrangements to stabilize export earnings as Helmut has suggested. There is already a general consensus that this is the most promising area for action, and one which lends itself to rapid progress in meeting LDC needs. Dr. Kissinger’s proposals for a Development Security Fund,⁵ proposals now in the IMF, and others of the same general theme show that a great deal of common ground has already been marked out.

I have two additional points. First, there is already an existing arrangement in the IMF on which we can build and improve rapidly. Second, the most pressing problem is to mobilize the required financing. There is some scope within existing IMF resources and also the attractive possibility of using some profits on sales of IMF gold. We should build within the IMF or from it, though there are a variety of options. I believe, and I hope my colleagues will agree, that practical action to implement enlarged arrangement to stabilize developing country export earnings are urgent and our governments should cooperate to secure it.

So far as other organizations are concerned, there are other avenues of approach whose effects will take longer to work through but are of vital importance. We should each do what we can in respect of

⁵ Kissinger put this proposal forward at the UN General Assembly Seventh Special Session; see footnote 3, Document 80.

the fifth replenishment of IDA, an increase in the capital subscriptions of the World Bank and IFC, and contributions to the International Fund for Agricultural Development and to the World Bank's Third Window. There are also US ideas on the table for utilizing private capital, such as an International Investment Trust, which I find attractive, and guarantees for developing countries to borrow in our domestic markets.

Not all of these ideas are uniformly welcome to all of us. The UK, for example, cannot at present open its capital market to the LDC's to borrow, and we entered a specific reserve on this at the Seventh Special Session. On the other hand, we strongly support the IDA replenishment and we hope others will support it according to their means.

We also hope for progress in the commodity field. We want to end up with better arrangements for world trade in commodities. We in the industrial world want to be seen as doing this, taking a lead in achieving these improved arrangements. What form they would eventually take is not yet clear. We all no doubt prefer a selective approach, commodity by commodity. Each product has its own pattern and characteristics and method of financing. The most appropriate arrangements can only be found through negotiations between the producers and consumers of each commodity. We might not be able to achieve this entirely, and it might be a slow process. I first advocated this myself in 1946.

There might be some merit in a coordinated approach to considering different commodities. At the Kingston meeting in May, I suggested the possibility of a general agreement on commodities, which one could spell with capitals or not, which would embody an accepted set of general principles. This is preferable to the UNCTAD proposals for an integrated approach and one fund for buffer stocks, which is based on the assumption that all commodities should be treated similarly and should be subject to the same kind of control. Nevertheless, I would not oppose further study of the integrated approach and a common fund. Our overriding aim must be to avoid schemes which are inequitable and impractical.

If we can make headway in the discussions of individual commodities, one by one, so much the better. There are signs that some of the developing countries are beginning to see more merit in this approach. The prospects are not too discouraging. But we have to face the fact that the OPEC syndrome is catching on. There are already phosphates-pecs, bauxite-pecs, banana-pecs and others. A new tin agreement has just been concluded and there has also been a useful negotiation on cocoa. Coffee is under active negotiations, as is a new wheat, or possibly general grains, agreement. Copper is being studied in various forums; it is one commodity which is now no higher in price than it had been before the commodity boom. On tea, we have just launched an initia-

tive within the Commonwealth to consult Commonwealth producers on the prospects for an early agreement, to be pursued under FAO auspices. So we have some reason to be optimistic. We are less optimistic, however, with regard to a new agreement on sugar, when the present one expires at the end of next year, since sugar producers want an agreement starting at the price peak.

We must do what we can in the multilateral trade negotiations in the GATT to help the LDC's, while recognizing that we must be able to create more resources before we can redistribute them. We have to continue in addition to look for ways of getting more help to the poorest within whatever assistance we can provide.

In conclusion, we have won ourselves a breathing space. The initiative on these issues has, at least partially, been transferred to the sort of people sitting around this table. But we cannot rest on what we have achieved so far. The conditions of the developing countries have worsened while the expectations have increased. If any of us were importers of oil and other commodities, and faced droughts and the need to import food at existing prices, we would also feel extremely bitter. Led by OPEC and other "pecs" they will be pressing forward at UNCTAD IV and beforehand in CIEC; the needs of some of them are vitally urgent. There is also a political alliance between the more militant oil producers and other developing countries. And, for the same economic reasons, this is a time when we are least able to help them. In the hope of preserving world consensus, we must make clear our desire to help and to help the poorest most and first. I think that export earnings stabilization offers the most promising avenue, while for everyone the best prospect lies in early world economic recovery.

One last thing. Let me again point out the inordinate proliferation of world bodies dealing with these issues. Whatever the subject, there are at least 15, and sometimes 50, world organizations. I have commissioned a list of them. It is six pages, and excludes all EC organs and commodities. Including them it would be 6½ or 7 pages. I will avoid boring you but will distribute the list which I have prepared. This is an incredible load on officials. They say the same things in different organs. There is also the problem for ministers.

I remember in 1946–47, spending four months preparing the mandate for the FAO. I remember meeting an old curmadgeon in Washington—Sir James Gray. He said that Washington was a town of international beach-combers strolling around trying to form committees or organizations around the pieces of wood which they found. This list really is a challenge to the international community. We really have to study this.

Chancellor Schmidt: We should start in the EC.

Prime Minister Wilson: We are not being good leaders to the world as long as this proliferation continues.

Chancellor Schmidt: I want to get back to the field of energy. In the field of international energy there are two very important decisions to be taken. First is the test case for the capability of industrial democracies to really cooperate regarding critical energy questions. If we cannot live up to this test, we will not be able to achieve cooperation in some other areas. The energy policy field is of particular importance in 1975–76 in achieving economic recovery or failing to do so. If in 1976 there are unilateral political actions by OPEC, all of our recoveries can be expected to be along the lines Harold Wilson has described. I feel that another display of unilateral action in the oil area will emphasize the unpredictability of the situation, quite apart from balance of payments deficits. The result will be reduced world trade. This is a test case of our ability to cooperate together. It is one major decision we must take to overcome recession.

Second, with respect to some of President Ford's points: First, I commend his initiative to further production of energy resources. If it can be achieved, it will reduce the dependence of the West on OPEC. I take his remarks to mean that cooperation in the IEA should be strengthened. I should like to add two concerns of the Federal Republic merely in order to indicate how very great the distortions in the energy market are and their impact on the energy situation. In spite of the fact that oil is so expensive, at present in the FRG there are so many oil products on the market that domestic refinery production in some cases has been discontinued. Because the MNC's abroad have considerable production capacity, they produce far more than they can sell on traditional markets. This surplus production is thrown on the German market. They cannot get rid of their production on other markets. We have had to postpone setting up a national oil company for this reason. I am not saying this so that you will be sorry for us or to get sympathy, but just to state a fact.

This disruption cannot continue. Germany has no raw materials except intelligence, technology, and of course coal. The energy capacity of the world has increased over the last few months. The dumping of foreign products, especially the dumping of cheap heavy fuel oil, has meant that our only domestic energy source, coal, has been led to bankruptcy. Fifteen years ago, 140 million tons of coal were marketed. This year only 100 million tons of coal will be marketed. At the end of the year we will have a stock of 20 million tons of coal. The result is massive dismissals of workers in the coal industry, and a closing of mines. This is contrary to the development of national energy sources, which is a desirable objective. It is the ridiculous result of lack of coordination in the energy field. I am trying to bring home the consequences of

short-sighted policy in the energy field. We started the effort to cooperate in 1973, this led to the results of 1974 in Washington, but we have not yet been able to overcome a certain lack of cooperation even up to this afternoon.

As in the past, governments of the Western industrialized countries have not been able to envisage an overall energy concept. Individual countries have changed concepts and pursued national goals and prestige operations. They also have no common concept. The United States, United Kingdom and Germany as well, are all guilty of this.

I am profoundly concerned by this state of affairs. I have devoted some personal effort in preparation of the dialogue between consumers and producers, but I still do not see possible results. I do not favor an indexing system; the more prices and wages are indexed, the greater the rate of inflation, and this leads to greater difficulties. On the other hand, we shall have to accept it, like it or not. It is better than the producers just fixing prices every six months.

The idea of a floor price, or minimum selling price, is only theoretically sound. Theoretically it is desirable to protect energy resources through an MSP, in order to protect against foreign dumping. In practice it is not very important for the next few years because the world is convinced that prices will be high. And even if the idea is good, it is not very necessary at present. This is not a bargaining device versus OPEC, since when you mention it to them they just smile. If oil becomes so cheap that we need the MSP, then we can agree amongst ourselves to implement an MSP in order to see that revenue to energy producers is high enough.

The real problem is that the OPEC countries are still playing football with us. I really have not heard a sound strategy for preventing this. To be honest, I don't have one either. The other OPEC countries need a couple of years until they understand that recession, or trends toward lower growth in the world, would harm their expectations and mean that the aspirations of OPEC cannot be achieved. But this will not happen for a few years. Even the United Kingdom will have to reduce its North Sea oil expectations.

The main question is how the big oil producing countries can be gotten away from the idea that they can from time to time adjust oil prices as they see fit without damage to themselves. A second question is how to get the developing countries away from their alliances with OPEC. The developing countries have suffered worse than us. We have flexibility far greater than that of the LDC's. Many of them frequently have to depend on one single crop. We must find a way to break up the unholy alliance between the LDC's and OPEC. But we cannot say so in so many words. We should do this in the CIEC by discussing the bal-

ance of payments problems of the LDC's and showing how they are being damaged by this situation. We can make the point that the newly rich countries have to take part in new developmental aid in accordance with their new riches. We will also have to convince the LDC's of our genuine interest in their well-being, by helping them in the area of raw materials.

We must find some way to make OPEC more responsible. We should not, and cannot, use force. We need a conciliatory attitude. We must attempt to convince the world that there will be no earthquake and that violent disruptions and demonstrations in the system will not occur in the near future.

In the future OPEC will be stronger than it is today. But the West has no new proposals to deal with them. If we had some there is no vehicle for proposing them jointly. This is a necessary field for the West to develop an economic strategy. This is why I am not sure we have had the worst of the world recession. OPEC could raise prices by another 10% next July, when the current freeze ends. The FRG can manage with a 30–40% oil price increase, but the world economy cannot. And whatever harm takes place will also include all of us—the US to a lesser extent and Europe to a greater extent.

Prime Minister Miki: Oil is a very serious matter to Japan. 99.7% of the oil used domestically in Japan is imported. Petroleum constitutes 80% of all the energy used in Japan. We do not have the kind of coal that others of you have. In the final analysis, the security of petroleum, conservation of energy use, and the development of alternatives are key questions. In the future, the supply and demand of energy will be tighter. The energy situation is still volatile and will continue to be a most crucial problem for us for a long time to come.

A multilateral understanding and concerted approach will be essential. Cooperation among the consumers and a dialogue with the producers will be two wheels of the vehicle for progress. Prior to the decision that OPEC made last month on price increases, I wrote personally to the heads of OPEC countries to explain Japan's views. The replies of these countries showed great reasonableness. Cooperation between consumers and producers is essential. In this sense, I greatly welcome the CIEC. Energy, development, and commodities will be dealt with in sweeping fashion. We all hope for clarification on the issues of a secure supply of production.

Secretary Kissinger has done lots of good work on the Middle East. I like to think that the problem is being improved step-by-step. I look forward to more good work by Secretary Kissinger.

I have been deeply impressed by President Ford's statement. His statement was highly suggestive and enlightening. With respect to the minimum safeguard price, we have some problems. We hope to further

discuss this in the IEA. We have a 9% conservation target on Japan, but our energy situation is quite different from yours.

Unlike your countries, only 30% of Japanese oil is used for consumers, while 70% is used for industrial energy. There is, therefore a limit to what can be conserved with our best effort. We are, however, determined to do everything possible to conserve energy. We have 73 days of petroleum in reserve. Protection of our industries and wise use of our resources for improving human life should be the responsibility of everybody. All of us should do everything we can to conserve on the use of energy.

Ultimately, the energy sources of man will be nuclear fusion. This has reached the level of research and development. I propose not that we can realize the benefits of this today, because it takes a great deal of time. I suggest, however, that we make a long range effort to join forces, or divide the work for wiser research and development, on nuclear fusion so that this major effort can benefit from cooperation among us. I hope that we can reach an international agreement; but short of an agreement, we should give attention to the divisions of labor so that we can develop new energy from this source.

Prime Minister Moro: I have listened with great interest to President Ford. He mentioned certain measures or options on oil prices. Certain recent developments seem to justify a new effort to safeguard stability of the provision of energy resources of the West. Energy demand will increase, but supply will not, in the short term. OPEC countries will play a very important role. Some members will reduce their own production to ensure OPEC's position of strength vis-à-vis the West. The LDC's who are not oil producers are still faced with a severe balance of payments crisis. The accumulated surplus of OPEC countries increases the uncertainty on financial markets. This situation contributes to the advantage of the already strong developed countries and to the disadvantage of the weaker. This instability is also of concern to our countries, who account for 75% of the oil consumption and financial reserves of the West.

We should aim at greater stability in the energy market by developing more certain projections of consumption curbs. Japan's proposal for cooperation in research and development on fusion is very important and most appropriate. It will help us to plan a better world economy and to reduce the scope for disruption between supply and demand.

Then there is the problem of the transformation of the role, and a reduction of the intervention of, the multilateral corporations. Governments must take up the functions of those MNC's in control of the energy market.

Increased interdependence of the industrialized countries requires us to ensure equal access to energy directly or indirectly controlled by the Western world. We should try to eliminate excessive disparities in the positions of the industrialized Western economies.

We should also try to ensure equal opportunities in the use of recycling mechanisms, either bilaterally or multilaterally, to ensure proper use of currency surpluses, and to permit them to be used to develop new energy resources. Part of this increased financial availability can be used to expand the economy of the LDC's in order to reduce or close the gap between developed countries and developing countries.

President Giscard: With respect to energy, I would like to begin with the problem of conservation. All of us have established very effective programs. Consumption in 1975 was less than our target figure. The question is whether this reduction results from government actions or from the slack in economic activity. Will consumption begin to rise when activity begins to pick up?

We should encourage industries to use technology which requires less energy. It is possible to introduce techniques to conserve [*consume?*] less oil. This will not dramatically change the situation. It will only improve it. But the problem will still remain. We need to develop new sources internally. I recognize that there is a certain strategy underway on production and investment in the US. I don't understand why we have not had more coordination on energy programs. Especially, there should be better nuclear cooperation.

The geographical distribution of oil reserves is not in our favor. Most exportable reserves are in the Middle East. It is useful to change the effect of such disposition in our favor, therefore exploration is extremely useful. That is why we hope that the Western Sea will be fruitful. New production is our only really effective response to the present situation.

The present status of the market in oil strengthens the cartel. As soon as a country becomes a producer it behaves like an OPEC country. These people tell us that we will move away from old trade roles and will have a new oil policy. This is related to the structure of the market. Perhaps the dominance of the multinational corporations in the market strengthens cartelization. What I mean is that supplying countries would normally sell only the oil which comes from their territory. Once the oil gets mixed into a universal cocktail, as the market is concerned, no country has the incentive to sell oil at a cheaper price. At the same time, the multinational corporations do arrange for intelligent distribution, but it is the only way to organize things. We must ask the question whether it would not be better to have a different strategy.

I understand President Ford's arguments rejecting indexation. Indexation does have the disadvantage which you describe, Mr. Presi-

dent. But producing countries calculate the price of oil in dollars. Because of inflation and exchange rate changes oil producer incomes have decreased and some of them cannot pay their bills. Iran, for instance, now finds itself short \$2–3 billion per year below what it had planned for. They now want to up the price of oil to make up the shortfall. I agree that indexation is probably not the best solution, but it would be extremely useful for the industrialized countries to say they were trying to achieve some solution to this OPEC problem. This could be useful in dealing with the indexation pressures. Also, by saying we want more stable exchange rates we could allay some of the fears of the LDC's.

I recall in Secretary Kissinger's speech the statement that we could not accept being subject to the whims of the cartel. But in a way we are lucky, because some of the cartel members are moderate, like Saudi Arabia. And others have good relations with the US, such as Iran. If radicals took over, it could be an intolerable situation. In trying to have a dialogue we should go as far as we can in demonstrating our goodwill. And we should encourage, in turn, our partners to act with goodwill.

In the organization of the energy market we rely very heavily on the private market. Because of the nature of energy distribution and the sources of supply, we need a more organized market. So far the uncertainty of the problem has inhibited progress. We favor more actions to regulate the energy market and to avoid the present absurd situation with respect to energy prices.

Prime Minister Miki: I would like now to deal with energy and primary products at the same time. Japan is the world's largest importer of primary products. The issue of primary products should be neutralized in an efficient way. Through the dialogue with the developing countries and cooperation with them the problems of primary products can be brought closer to solutions. Primary products are the most important problems for the developing countries. Some depend exclusively on them. And development programs have been destabilized as a result of instability in primary product markets. We feel this in Japan. Therefore, in Washington on August 6, during my visit to the US,⁶ I addressed myself to the promotion of LDC primary product exports.

A global scheme might be necessary to stabilize the earnings of developing countries from shortfalls in primary product exports. Dr. Kissinger has made an interesting proposal in the UN regarding the de-

⁶ Prime Minister Miki was in Washington August 3–7 during a longer visit in the United States. The memorandum of conversation of his August 6 meeting with President Ford is in the Ford Library, National Security Adviser, Memoranda of Conversations, Box 14.

velopment security facility and I agree with the spirit of this. I have a further recommendation with regard to the IMF compensatory finance mechanism. I think we should put emphasis on the most seriously affected countries. Instead of being able to borrow 50% of their quotas we should let them borrow 120%, for the poorest. To stabilize the export proceeds of primary products, special schemes should be worked out.

Chancellor Schmidt: I should like briefly to respond to Valéry's remarks. If we were in the shoes of the oil producers, we would more easily understand that they want to maintain an established rate for their export proceeds because the things they buy and sell, and the success of their development plans depend on exports. And exports are the result of quantity times price. If one goes down, they don't have as much as they need. We may have to accept some form of indexing, but would our bargaining position really be any better as the result? We could someday be in the same situation again.

Another remark of yours, Valéry, could lead us a bit further. That is the question of whether the organization of the oil market should be in the hands of the multinational corporations in the future. I know very well a number of the gentlemen who are chairmen of the board of big corporations, especially the chairman of the US-based oil operations. I do not know about Shell or BP. They are very responsible people on one hand, but they do not really know the future of their operations. They are as helpless as our governments. They don't know what their future is. They are willing to accept advice, but we have none to give them.

Iran will be an energetic leader of OPEC for the time being. They don't like the multinational corporations; they want to deal between governments. This should not mean that we do away with the multinational corporations. We can use them to execute arrangements made between governments.

The draft prepared by the officials of our countries might be a nice Communiqué,⁷ but afterwards it would be lost. We cannot leave it as we have done so far to our finance officials and Finance Ministers. We must put something more into it.

President Giscard was right in July when he said that if we used political or military pressures it would eventually fail. But if we only use economic pressure, these countries will not take it seriously. We are

⁷ The draft communiqué was transmitted in telegram 17418 from London, November 12. (National Archives, RG 59, Central Foreign Policy Files, P840178–2329) Senior G–7 officials prepared the draft at a November 11–12 meeting at the Carlton Hotel in New York and thus became known as the Carlton Group. A summary of the meeting is in telegrams 17458 and 17459 from London, November 12, both of which are printed in *Foreign Relations, 1969–1976*, volume XXXI, Foreign Economic Policy, 1973–1976, Documents 118 and 119.

facing a structural problem caused by change in the world energy market. There is a danger that this very great structural change could go on. The world has not been able to adjust very well in the last two years. I fear that it will not be able to adjust very much in the future to new disruptions.

Saudi Arabia is closely linked to the United States. It also has a great deal of funds in the City of London. I believe that they understand our problems. I know little of Venezuela, but I know more about Iran. The Iranians are well traveled, and they understand us better than we may believe. However, they are much too ambitious in their plans and above all in the kind of mentality by which they are led.

I am speaking aloud—I have no plan in mind yet. It may be advantageous to bring governments into direct contact with the oil producers in the near future. I don't say we should eliminate the multinational corporations—they are a good mechanism for sharing shortages and good marketers of oil. But they are not serious partners in OPEC capitals. In fact, they are despised. Theoretically, we should have an ordered market for oil as we have ordered market in agriculture, such as in the US and the EC.

I don't agree with the officials of my government on this. They are wrong. They want oil left to the free market, and feel that as a result Germany will get off better than the others. But to leave these decisions to officials somewhere in Africa or some Asian capital is not a good idea.

We could have a structural depression in the future as a result of this energy situation. It is ridiculous to develop our nuclear energy on a nationalistic basis or to deal with these issues purely on a national basis.

I don't believe that the conventional setup will lead to the necessary agreements. It is like hawks fighting in an arena. I asked myself, and this is not a German proposal, I asked myself whether or not we should not appoint one person in each of our countries to coordinate our policies, to understand the relationship between energy, raw materials, finance and monetary issues. If the situation goes on as it has done so far, it will not last longer than Easter. If the US speaks up as it did early this year at Prepcon I, and the EC does, the world will have the impression of disunity. The world should have the impression that we want to cooperate with one another. A strategy for cooperation is needed.

Prime Minister Wilson: The question of more or less power for the oil companies has been discussed. I am not sure we have that choice. The leaders of OPEC are leaders of superstates. They have power that none of us would aspire to. In 1973, during the Yom Kippur War, the Dutch were blacklisted by the Arabs. They tried a total boycott of the

Netherlands, sending them no oil. But the companies took their own decisions and acted above the state in the UK. They acted in accordance with their normal role up to a point, but at a place off of what is known as Land's End, in Britain, where the ships wait to get orders, many went not to their original destinations but to Rotterdam despite the oil boycott. The oil companies have very sensitive arrangements, and we should think twice if we think we can control them.

A second point, we need to admit that a lot of things have happened since oil prices have gone up. All of our discussions and all the multitude of international organizations failed to provide any common strategy at all. I don't mean only in the EC, but for oil consumers in general. I do not know what the strategy should be. I certainly don't want confrontation between consumers and producers. I am attracted by David Rockefeller's view that we should try to persuade OPEC to take a long term view. Some oil producing countries have a short term survival rate on oil. Their children may be paupers in two generations. In such cases we should persuade them to produce through helping them build up other types of production.

We should also consider new methods of getting energy such as tar sands and shale oil. However, I warn against in situ production. I hope you can find an in situ process that works. I doubt it, but I hope one can be found in our lifetime. In any case, we should emphasize research and alternative energy resources, and we should protect our alternative sources. Nuclear is expensive, and there are some problems. But it is important. One key problem is disposal of waste. We need more research on this; for instance, I gather that it can be turned into a type of glass. The UK is developing a steam generating light water reactor, like the US. We need to do more in the nuclear area. We were all told the the fast breeder reactor was the answer. We were told that this would not merely conserve but breed. But not one bit of new uranium has been produced; it has proved to be infertile. It is no more fertile than the pandas which were in the London Zoo for 15 years and didn't touch one another.

Finally, the Group of 77 has asked for four more seats at the Conference on International Economic Cooperation. I find it hard to believe that the country which will in 1980 produce 90% of all oil in Europe should not be represented.

President Ford: I should like to have Henry make an observation or two.

Secretary Kissinger: Thank you, Mr. President. I appreciate this opportunity. A number of the people around this table have expressed solicitude about my condition. They are not used to seeing me silent. It is unfamiliar to them.

I was impressed by the observations and train of thought of Chancellor Schmidt. I agree that we do not have a complete strategy, but I should like to analyze what we have been lacking.

Our strategy has been to transform market conditions for oil. Our basic theme has been conservation and the development of alternatives. Our goal is to reach a point where OPEC loses its unilateral power to control oil prices. This cannot occur before the 1980's, and in the next five years conditions mentioned by the leaders here will obtain.

At the same time, we should not talk about OPEC as a monolith. OPEC sets prices because it has the power to control production. The multinational corporations, as was mentioned, do help it, because it is more difficult to get individual countries to cut prices if the multinational corporations, which are technically equipped and familiar with the market, manage exports for them. OPEC cuts production to achieve set prices. On the other hand, cuts in production are not uniform. This is an opportunity for us. If the West has the strength to absorb the financial surpluses of OPEC, they must export oil in order to import goods. Iran can no longer significantly cut production to sustain oil prices. Iran is tempted to increase oil to keep up exports.

Chancellor Schmidt: Iran has already tried to make separate deals with us to export more oil.

Secretary Kissinger: That is exactly my point. To the extent that separate deals are desired by Iran, if consuming countries are not willing to deal at present prices the prices would weaken. Algeria, Iran and Iraq cannot afford to cut production. Only one country can cut production—Saudi Arabia.

Chancellor Schmidt: Also maybe Libya, Kuwait and the United Arab Emirates.

Secretary Kissinger: I agree. What this amounts to is that OPEC is playing with Persian Gulf chips. Iran provides the intellectual leadership, not the economic leadership. In addition, the countries sustaining oil prices are politically the most vulnerable; they cannot politically or psychologically sustain real confrontation with the West. We should not give them assurances by avoiding confrontation.

The military threats from American officials several months ago resulted from lack of planning and some bureaucratic disputes. But after the initial outburst, and after all our friends had disassociated themselves from us, the oil producing countries came to us to ask what was needed to prevent this course of action from happening. We should attempt to convey the idea that Saudi Arabia cannot underwrite the oil price increases for free without paying an economic and political price. I am confident that if one country's attempt to exert pressure for lower prices is successful with a particular oil producing country, other

consumers will jump in and take advantage. The oil prices are being maintained by moderate countries in OPEC—those who are most psychologically dependent on the US. We can do a lot if we are not immediately disassociated by our colleagues. We expect a cry of outrage from the producers. We can take that if we are not disavowed by our friends.

We agree on the need for cooperation with producers. With cooperation we can separate the moderates from the radicals within OPEC, the LDC's from the OPEC countries, and prevent a lot of other "pecs." There is now much greater flexibility on commodities in the US government than in the past. The President only two weeks ago overruled some agencies unwilling to go ahead with certain commodity negotiations.

Our strategy is to link these energy discussions with commodities. We should try to break what the Chancellor correctly called the unholy alliance between the LDC's and OPEC. This can happen, and we can achieve our results, if they know that their disruptive actions could stop discussions on commodities or that they will pay a price in terms of cooperation, or military exports. In this way we can combat our dependence with a coherent strategy.

It is highly probable that within the next year or two some industrialized OPEC countries will approach some of us for bilateral oil deals. Saudi Arabia is about 6 million barrels per day below capacity. Others are at the top of their production. It would be suicidal to enter a dialogue without cohesion among the oil importers. We should not be deceived into thinking that cooperation among us is confrontational vis-à-vis OPEC. We can, in this way, hold our ground if we are confronted. Consumer countries should work out a common strategy between now and 1980, for the next five years.

President Giscard: I found Henry's analysis on energy to be very interesting. His analysis of market strategy is right. It is in our interest to have a technical situation in which the OPEC countries sell large quantities of oil.

On the issue of confrontation, however, we should be careful. Confrontation strengthens the hands of the radicals at the expense of the moderates. In an international climate of confrontation it is important for the moderates to disassociate themselves from the radicals.

If the US wants to create special tensions, we could be apprised of the results. But a joint confrontational stand places the moderates in a difficult situation. And, if Secretary Kissinger's strategy is right, there will be some elements in our economy who will not be benefitted by a drop in oil prices. Some of our energy sources have aligned their prices with the oil market, for example natural gas. Therefore, national pro-

duction is aligned with high oil prices. This level is a sort of floor beyond which OPEC prices will not fall.

With respect to energy strategy, European strategy depends on coordination among the Nine. I hope we will engage ourselves in a homogenous strategy. Then the nine states can coordinate with the US and Japan. We could agree that if countries try to make bilateral deals with us, we should consult. We could agree to consult before exploring the matter to see how to make their response accord with common strategy.

Chancellor Schmidt: I feel there is no basic disagreement between Secretary Kissinger and President Giscard. I still feel that the reality of coordination among the six countries here differs from a partial strategy. I urge that President Giscard's last intervention be taken up, that a country will inform us mutually when offered special deals. I also urge that we do the same when we make special deals with respect to the delivery of industrial products, especially preferential deals. This partial strategy can work with a measure of solidarity at the bargaining table and cohesion here to facilitate its success. The will for solidarity of action has not fully emerged. We can talk about this further.

However, in less than one year everyone may be trying to rescue their own skins. This is a critical problem. Giscard was right last summer—this is an issue of grave political weight for the oil importers. Both the US and the UK will continue to be net consumers. If our countries run in different directions they will create a crisis in the industrialized West. Our destiny will lie in the hands of a few OPEC leaders rather than in our hands. After some recovery, we may be in a deep mess unless solidarity can be practiced.

Prime Minister Miki: We need solidarity among the consumers to avoid confrontation. But we will not solve the problems of the consuming countries without dealing with the producers. The producer nations want industrialization and they need aid from the industrialized countries. The Fourth World and OPEC might be divided. The non-oil producing LDC's take a dim view of OPEC. The producers do not like to see great divisions between them and the LDC's. The consuming countries should continue to engage in a dialogue with the oil producers. In this way OPEC can become more rational and logical in its orientation. We should not give up hope.

President Giscard: We need an upturn or we risk competition with one another instead of a coherent energy strategy. We must show the developing countries that we are aware of their problems. We must also adopt strategies which do not make these countries indifferent to energy price increases. We should try to isolate to some extent the oil

exporters, while showing them that we are aware of their problems. But attacks can strengthen the solidarity of the LDC's.

Without being sentimental, we must recognize that the developing country problems are difficult. And their economies are important parts of world economic equilibrium. We must not allow them to join together with OPEC in a bloc, and not make them indifferent to the world price of oil. For instance, we should be careful about expanding the IMF facilities so much that the LDC's think that whenever there is an increase in the price of oil the IMF will bail them out.

In any case, an increase in aid, given the situation with respect to our national budgets, is extremely difficult. We ought to find better ways of directing our bilateral aid. By using monetary assistance we create a lasting world inflationary situation. This will push the credit situation to a state of permanent tension. Certain commodity arrangements might be helpful, and we can find things that can be done in this area. We can set up reasonable and effective arrangements in commodities. Copper and tin, for instance, can be stockpiled, and cannot be manipulated by certain countries. We should also give thought to the stabilization of LDC exports. Such a system would contribute to the stability of the world economy. We should show awareness of the importance of continuous improvement in the lot of the LDC's.

Prime Minister Wilson: The effects of the world oil and commodity situations have divided the LDC's. Some have been able to compensate themselves for oil price increases. Many LDC's pay, as the result of the increases, a great deal more for machinery and feed grains. A fourth group is starving because of drought or floods. Bangladesh has suffered as a result of first a drought, and then floods.

I agree in a strategy of parallelism between oil and commodities. We have our own situation, and our problem with respect to oil. But some countries have a more important set of problems relating to commodities. None of us gains from periods of boom and bust. Booms are harmful to prices in our various countries; in the UK we almost needed sugar rationing last year because of the shortages. We therefore have no interest in price booms. But neither are busts in prices useful to us because they lead to underproduction.

I agree with President Giscard about budgetary aid. This is a matter of great political sensitivity. We have increased budgetary aid for the developing countries. We should continue this at a time when many of them suffer from major problems. Budgetary aid rather than financial assistance is the answer to this.

Chancellor Schmidt: The developing countries are going to have a \$35 billion balance of payments deficit. They have almost reached their capacity of borrowing—that is the LDC's other than OPEC. We have to help them. We ought to say in our statement something about their

enormous deficits and point out our dialogue strategy. Our objective should be to sever them from OPEC. We should also help them in order to aid recovery from world recession, and we should do it for moral reasons.

I am not convinced that the UK and France speak for all of us when they say we should speak up for development aid. It is not the most important thing that we strengthen the arguments for classic development aid. It is more important that we educate the developing countries to understand, think, and operate in market economy terms. We should make them understand that in the long run they can't spend more than they earn. We should help them to earn more rather than get more and more aid. And helping them to earn more will in part be dependent on the growth of the industrial countries.

How can we help them earn more money? One way is the SDR–aid link. As much as I have always been opposed to creating SDR's, since I believe there is enough world liquidity already, and as much as I have opposed the SDR–aid link which gives a greater percentage of SDR's to the LDC's, we could now think of this as one way to create new reserves. We could grant SDR's only for the developing countries. We would all declare that we wanted to be left out, thus giving the new SDR's only to the developing nations.

My main point is that we should do something analogous to the Lomé agreement.⁸ This is a good idea which could be refined and extended to other countries. It could be a global system under which a number of LDC's are given benefits. In this way the export earnings of a certain number of commodities could be stabilized. We would need funds for shortfall payments to the developing countries. If they earned more in the next period, they should pay it back. If they can't pay on time, they need to pay interest. There could be a lower interest rate to countries which can afford it less. If this were made part of the IMF we could use some other resources to subsidize the interest which developing countries would pay. This would be more than the Lomé model. It could be done with all industrialized countries on one side and all the developing countries on the other. It would take into account total raw materials exports. And this could be in the upcoming dialogue.

All of us have a deep interest in free trade in the world, which we discussed this morning before lunch. I want to stress this particularly—that we should make it clear that we are not giving up the market

⁸ On February 28, the EC and 46 LDCs signed the Lomé Convention, the provisions of which included an earnings stabilization fund for LDC primary commodity exports (known as Stabex); free entry into the EC for most LDC primary commodity exports; most-favored-nation status for EC exports to the 46 LDCs; and various development assistance initiatives. (*The New York Times*, March 1, 1975, p. 1)

economy for something else. In general, we should stress the free market apparatus. We should keep as much of the system as can be maintained. I am opposed to any international dirigism. There may have to be exceptions on oil, but those who depend on the world market should use the dialogue to indicate that we are not giving up the market, which is essential to our survival.

Prime Minister Wilson: Some of the developing countries are becoming more assertive with respect to their raw materials. The bauxite producers have imposed an export tax. Also some developing countries are refusing to export raw materials. The bauxite producers want to have their own alumina plant. Iron exporters want to process iron into pigiron.

If we stabilize prices, we are helping the wrong people. We need a change in our aid philosophy. Instead of helping the raw material exporters who can achieve big successes, we should say that aid should be primarily used to help countries get off the ground. This is the reason for giving emphasis in our aid to rural development.

The proponents of the new International Economic Order which Chancellor Schmidt criticizes, have supported many commodity initiatives. They also say the IMF and the World Bank should be democratically controlled. When created, these institutions had stockholder control; now the consumers want greater control than those who put up the money. They spend the money, others can contribute it. At Jamaica we succeeded in reducing support for this concept.

Prime Minister Moro: Consumer/producer arrangements are important, or even necessary, to achieve stability of industrialized country supplies and to contribute to development in the less developed countries. We should try to find effective solutions to the raw material problem and avoid price disruptions. We should not try to stabilize prices. That could lead to consumption modifications. The position of the raw material producers is not as strong as OPEC. We should seek stabilization of the commodities market, and protection against too great fluctuations in raw materials. In the 7th Special Session there was a suggestion to create stocks to stabilize prices. We need to achieve a certain international balance between us and the developing countries.

President Giscard: I have three comments:

—For India, Bangladesh, and Pakistan, there are not many solutions.

—In talking about the transfer of public real resources we need to reaffirm the need for emphasis on health and agriculture.

—The Lomé agreement has not yet led to the spending of a single dollar, pound or franc. For the time being it has not yet been applied. We should follow how the mechanism operates before we extend it.

Lomé will not prevent cartels. But if we have commodity arrangements, the LDC's will become accustomed to talking prices with the producers and may avoid, as a result, unilateral price setting.

With respect to the final document, I believe we should draft the text in the form of a declaration. Some others think the draft should be done along the lines of a press release. Do we favor a declaration or press release, or both?

Prime Minister Miki: The current draft contains some specific economic formulations. The Foreign Ministers are working on a detailed document. It can be used for the press. Perhaps we might have a separate declaration, of the type we have prepared, of a more political nature.

Prime Minister Wilson: Such a declaration would not be suitable for everyone. The Japanese statement is a sort of Communiqué. I do not think this would do the trick.

President Ford: I support Prime Minister Wilson. Much work has already been done on the Carlton draft, and I think we should stick with it.

President Giscard: We have been proceeding on the basis of the Carlton group paper. We should add to the document wording reflecting our discussion today on energy, raw materials and development. The Finance Ministers have already been drafting wording on the economic situation, trade and monetary issues. The Foreign Ministers should do a text on what we have done this afternoon.

Foreign Minister Sauvagnargues: We must recognize that we cannot speak in behalf of the European Community on subjects which are in the competence of the European Community. On the subject of energy and raw materials we are working under an EC mandate. We have said things here which go further than we have gone in EC forums. The draft of the Carlton group is general enough on one hand not to disrupt our strategy and on the other hand not to hurt with respect to EC discussions.

Prime Minister Wilson: I have more confidence in the Foreign Ministers than M. Sauvagnargues.

President Giscard: During the discussions there is a difference between what we have said and what we have agreed on. We go along with the conclusions. The question now is what will be said. The fact that we don't publish it doesn't mean we haven't agreed.

Could the Foreign Ministers meet tomorrow at 9:00 and the Heads of State at 10:00? The Foreign Ministers will join us at 11:00.

Prime Minister Miki: I hope that you will put the spirit of our declaration into the Communiqué if you publish only one document.

President Giscard: Yes, the Foreign Ministers will try to do this. They will try to include as much of the Japanese document as they can.⁹

⁹ For the final text of the communiqué, the Declaration of Rambouillet, issued at the end of the Summit, see Department of State *Bulletin*, December 8, 1975, pp. 805–807. It was also published in *The New York Times*, November 18, 1975, p. 14. Regarding energy, the Summit participants declared: “World economic growth is clearly linked to the increasing availability of energy sources. We are determined to secure for our economies the energy sources needed for their growth. Our common interests require that we continue to cooperate in order to reduce our dependence on imported energy through conservation and the development of alternative sources. Through these measures as well as international cooperation between producer and consumer countries, responding to the long term interests of both, we shall spare no effort in order to ensure more balanced conditions and a harmonious and steady development in the world energy market.”

89. Memorandum From the President’s Assistant for National Security Affairs (Scowcroft) to President Ford¹

Washington, December 10, 1975.

SUBJECT

Conference Energy Bill

I have examined Frank Zarb’s memo to you on the Conference Energy Bill and concluded that, from a foreign policy point of view, the Bill on balance merits your signature.²

From my perspective, the following points are key:

—From a foreign policy point of view the main impact of the Bill is to slow down the timetable of our reduced dependency effort. The “domestic composite” pricing scheme³ will almost certainly lead to greater dependence on OPEC oil over the next three years than would immediate decontrol, and thus fall sharply behind your State of the Union targets. It is, however, unlikely that dramatic progress in reducing our dependence on OPEC can be made during this three-year period in any

¹ Source: Ford Library, National Security Adviser, Presidential Subject File, Box 4, Energy (10). Secret. A stamped notation on the first page reads: “The President has seen.”

² Zarb’s memorandum was not found. Ford recalled in his autobiography that his “economic advisers,” Simon and Greenspan, advised him to veto the bill, but his “political advisers” and Zarb urged him to sign it. (*A Time To Heal*, pp. 340–341)

³ The average of the price of oil produced and sold domestically and the price of imported oil, weighted by their respective quantities, plus sales tax.

case. Even under immediate decontrol US imports will be 8 million bpd at the end of three years as opposed to roughly 9 million bpd under the most unfavorable scenario under the Conference Bill.

We will begin to have a chance to put real pressure on OPEC only at the turn of the decade. At that time, the Conference Bill will have enabled us to catch up in our efforts to reduce dependence by increasing prices substantially and thereby providing a strong incentive to produce and conserve. And decisions made over the next couple of years in anticipation of the higher energy prices in 40 months will have brought about important structural changes such as greater use of energy efficient industrial equipment and cars. Thus, while we will move more slowly towards the desired objectives we still will have a firm basis for reducing dependence.

—You have the ability to exert pressure for higher prices than currently set in the Bill in February, 1977, and every ninety days during the 40-month life of the agreement. This becomes a stronger lever as dependence on OPEC oil climbs as the result of the initial price reductions legislated by the Bill.

—Stockpiling authorities in the Bill would enable the US to begin moving promptly to build reserves and thereby to lower our vulnerability to embargoes.

—Authorities required to implement our commitments for sharing and conservation under the International Energy Program are contained in the Bill.

—Authorities for the USG to buy and sell foreign oil are also contained in the Bill. This would enable us to undertake bilateral deals with USG participation such as we could not do in the case of Iran and the Soviet Union.

—There appears to be a strong preference from our allies for having a firm base for slower but more certain progress toward reduced US dependence as opposed to a fragile base for quick and ambitious progress as under immediate decontrol. Congressional attempts to relegislate rollbacks or controls, perhaps of a highly stringent nature, or to enact other punitive measures against the companies, would create greater international uncertainty than that in the Conference Bill's Congressional review process.

—The adverse impact on the US economy of immediate decontrol (CEA estimates 1.2% decline in GNP and .3–.4% increase in unemployment by the fourth quarter of 1976; Treasury estimates 1.2% decline in GNP in 1976 and .2% increase in unemployment) would be a psychological and economic blow to our trading partners who, as expressed at Rambouillet, see our recovery as vital.

Recommendation:

That you sign the Energy Bill.⁴

⁴ President Ford signed the Energy Policy and Conservation Act (EPCA) which he had first proposed on January 30 (see footnote 3, Document 33), on December 22. (P.L. 94–163) For his remarks on signing the bill and his statement on the legislation, see *Public Papers of the Presidents of the United States: Gerald R. Ford, 1975*, pp. 1991–1994. Ford later called the bill “an inadequate measure” and decried the full year that Congress took to complete it: “People still didn’t believe that the energy crisis was real. In an attempt to break the deadlock, I did everything I could to convince Congress that it had to move. For nearly a year, I’d been giving speeches about the problem; I sent formal messages up to Capitol Hill, and I met with key lawmakers on at least thirty-three separate occasions. In less than three years, I warned, our petroleum imports would grow to nine million barrels a day, and we would be twice as vulnerable to an oil embargo as we had been in 1973.” (*A Time To Heal*, p. 340)

90. Editorial Note

The Conference on International Economic Cooperation met at the Ministerial level in Paris December 16–18, 1975, and established four commissions to deal with issues related to energy, raw materials, development, and finance. Participants agreed to schedule a meeting on January 26, 1976, of conference and commission co-chairmen to “prepare the work of the four commissions” within “the framework of the general guidelines” established at the October Prepcon (see Document 85). As for the energy commission, which, along with the other three, would hold its first meeting in Paris on February 11, 1976, the Department of State believed that it should concentrate on two areas: 1) analyzing “the relationship of energy supply, demand, and prices to the development of the global economy in an effort to seek to narrow the differences in perceptions of this relationship among the participants”; and 2) promoting “cooperative endeavors among producers and consumers to develop new energy supplies, to accelerate and smooth the integration of the producing countries into the global economy, and to facilitate the transfer of energy-related technology and expertise to the non-oil developing countries to help relieve their energy burdens.” Stephen Bosworth, Director of the Office of Fuels and Energy, would head the U.S. delegation as the industrial country co-chairman of the energy commission. (Telegram 9962 to all diplomatic posts, January 16; National Archives, RG 59, Central Foreign Policy Files, D760018–0154)

On December 19, 1975, the International Energy Agency Governing Board met in Paris and concluded an agreement on a Long-

Term Energy Cooperation Program, which included “a minimum safeguard price of \$7.00 FOB” for Persian Gulf oil in addition to a “commitment to implement it” in a way that was “acceptable” to the United States. The agreement also included a “provision for large joint projects, improved international access to energy investments, and all other elements of an overall package that we have considered essential.” Until the Governing Board convened in January to “conclude the definitive agreement,” had the status of a “Governing Board recommendation to governments,” but it was “understood and accepted” that negotiations had ended. (Telegram 33322 from USOECD Paris, December 20; *ibid.*, [no film number]) Telegram 33526 from USOECD Paris, December 23, contains the complete text of the draft. (*Ibid.*, D750445–0901) See footnote 2, Document 94.

91. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, December 31, 1975, 1730Z.

305385. Subject: Impact of US Energy Bill.²

1. Please deliver following message from Assistant Secretary Thomas O. Enders to head of host government delegation to IEA Governing Board. Brussels for Davignon. OECD Paris for Lantzke.

2. *Begin message.* “You will have heard that President Ford signed the Energy Bill into law on December 22. The authorities contained in this legislation will make it possible for the United States to adhere permanently to the Agreement on the International Energy Program. We are now in the process of preparing to deposit the formal notification of our consent to be bound by the IEP.”³

This legislation also contains many of the essential portions of the administration’s energy program.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D750451–0625. Confidential; Priority. Drafted by Raicht; cleared by Katz, Preeg, and Phillip Trimble (L/EB); and approved by Enders. Sent to Ankara, Bern, Bonn, Brussels, Copenhagen, Dublin, London, Luxembourg, Madrid, Oslo, Ottawa, Rome Stockholm, The Hague, Tokyo, Vienna, Wellington, and USOECD Paris. Repeated Priority to USEC Brussels.

² See footnote 4, Document 89.

³ Sent on January 7, 1976, in telegram 4007 to Brussels. (National Archives, RG 59, Central Foreign Policy Files, D760006–0262)

It establishes a number of important conservation measures which will have increasing impact over the next five years.

- It sets average fuel economy standards for automobiles for 1980 and 1985;

- It extends the authority of the Federal Energy Administration (FEA) to direct power plants and other major fuelburning installations to convert to the use of coal;

- It requires energy efficiency labeling of major appliances and certain other consumer products and sets energy efficiency standards for certain categories of appliances;

- It requires FEA to set 1980 conservation targets for the ten major energy consuming industries, thus establishing a program to encourage increased efficiency in US industrial energy use;

- It provides for development and implementation of state energy conservation programs with Federal financial and technical assistance.

We estimate that these measures will have a substantial impact on energy demand over the next decade and will make a major contribution to the ability of the US to meet its goals for reduced dependence on imported oil by 1980 and 1985.

The oil pricing provisions fall short of what we had originally proposed to the Congress. The Act sets an average price of \$7.66 per barrel for all domestically produced oil. With the removal of the \$2 per barrel import fee on December 21, we estimate that prices will decrease about \$0.40 per barrel as a result of the rollback. The law gives the President authority to adjust the composite price upward by as much as ten percent annually, with Congressional approval.

The Act also contains the following provisions supportive of our joint efforts in the IEA:

- It authorizes prompt initiation of a strategic oil storage program; an early storage plan to build additional stocks up to 150 million barrels or 25 days of imports by 1978, and a long-range reserve of up to one billion barrels, which will be completed by 1982. This is over and above present stockpiling levels of about 100 days under the IEA definition.

- It requires the President to submit to Congress mandatory conservation plans within six months. After Congressional approval, these plans can be used to carry out US obligations to restrain demand under the IEP.

- It authorizes the President to promulgate rules for oil allocation as necessary to carry out US obligations under the IEP. This would not be subject to approval by Congress.

- It establishes a legal basis for US industry cooperation with the IEA under a voluntary agreement.

- It provides authority for collection of oil market data and authorizes transmittal to the IEA of information required under the IEP.

Although it only partly meets our original targets, I believe this legislation provides a solid foundation for a continuing U.S. effort to reduce our dependence on imported oil to an acceptable level. Over the

next two years we estimate that US oil imports will increase marginally (about 250,000 barrels per day) because of the effect of this legislation. After that, however, the impact of the bill will become much more pronounced and our import levels will decline. By 1985 US imports are projected at five million barrels per day—compared to eight million barrels per day under our prior estimates. In addition, legislation now close to passage by Congress for production and exploration of our Naval Petroleum Reserves and other measures proposed by the President should reduce US oil imports even further.

This bill reinforces the US commitment to joint cooperation in the IEA. The Long Term Cooperation Program, on which we achieved tentative agreement earlier this month, is essential to ensure that our individual and collective efforts are adequate to achieve our energy objectives. I look forward to completing this agreement at our next meeting. With best regards."

Robinson

92. Memorandum From the Administrator of the Federal Energy Administration (Zarb) to President Ford¹

Washington, January 13, 1976.

SUBJECT

U.S. Government Oil Purchase Agreement

Proposal

The USG has the opportunity to negotiate with Iran an agreement for the purchase of 500 MB/D of crude oil for a period of five years, at prices below OPEC levels and with price adjustments tied to changes in the U.S. wholesale price index. The State Department proposes to negotiate for a firm discount of at least 50 cents per barrel with further savings anticipated on periodic price adjustments. Defense and FEA believe a firm discount of at least \$1.00 per barrel is necessary to minimize the risk of short-term loss by the USG in reselling the oil. Iran's interest in the agreement reflects anticipated financing difficulties in meeting

¹ Source: Ford Library, National Security Adviser, NSC Middle East and South Asian Affairs Staff: Convenience Files, Box 7, Iran—Oil. Secret.

its development and military needs and the low level of demand for Iranian crude in the currently depressed market.

Mechanics

The USG would purchase the oil directly from Iran and resell it to U.S. companies for delivery to the U.S. The Technical Purchasing Authority (TPA) provision of the Energy Policy and Conservation Act (EPCA) would provide enabling legislation, although the required appropriations legislation would be enacted only after the Congress had the chance to review the proposal. (A more detailed paper developing the mechanics of the proposal is attached.)²

Advantages and Disadvantages of Proposal

The principal advantages of the proposal identified by the interested agencies are essentially international and political.

- The relationship between the U.S. and Iran would be strengthened, and a possible severe cutback in Iranian purchases of U.S. military equipment and industrial goods could be averted.

- A measure of instability would be introduced into the international oil market by Iran's violation of OPEC agreements, and the doubling of Iran's share of the U.S. market at the expense of other OPEC countries. These factors could weaken the OPEC cartel's ability to unilaterally establish prices and production levels.

- The U.S. would switch about 8 percent of its oil imports to a cheaper and a politically more secure (i.e., non-Arab) source. An estimated annual savings of \$180 million—assuming an average \$1.00 per barrel discount—versus a total import oil bill of over \$28 billion would result.

The principal disadvantages of the proposal identified by Defense, CEA and FEA focus on the energy and economic aspects and the domestic political implications.

- Involving the USG in the business of buying and selling oil would encourage those proponents of greater governmental involvement in the oil industry generally and of nationalization of imports more specifically.

- The amount of savings to be gained is not significant and the benefits to consumers would not be identifiable.

- The 500 MB/D lifted from Iran would displace some liftings from Saudi Arabia, which probably would threaten the US/Saudi relationship.

² "Mechanics of Oil Purchase Agreement" is attached but not printed.

- The size of the discount would not significantly undermine OPEC's strength, and the indexation feature would represent an unfortunate precedent, not only with respect to Iran, but also with respect to other oil producers and raw materials exporters in general.

- The market and revenue pressures on Iran that have caused Iran to seek a bilateral agreement with the U.S. represent precisely the OPEC vulnerability to market forces that consuming countries are trying to encourage.

- The nature of the advantages preclude their being discussed publicly with Congress, either because of the political sensitivity of the issue or because the economic advantage would not be deemed to be significant.

Consideration of a Possible Alternative

If it is decided not to pursue the proposal currently under consideration, the possibility of entering into a sizable oil purchase agreement to fill the strategic reserves mandated by the EPCA may warrant consideration. Since the USG, under such an arrangement could commit the oil to reserves and therefore obviate any market impact, a potential supplier might consider a deep enough discount, providing sufficient economic benefit, to override domestic political considerations. Such a proposal could be evaluated in the context of the Early Storage Program and the Strategic Storage Program presently being developed in the Federal Energy Administration.

Conclusion

State discounts some of the disadvantages outlined above, but joins Defense, CEA and FEA in concluding that a decision to proceed with the proposal should be deferred for further evaluation of the likely responses of the oil market and of the Congress.³

³ After reading Zarb's memorandum, Scowcroft sent a memorandum to White House Staff Secretary James E. Connor, January 17, in which he wrote: "I fully support the objectives of the proposed arrangement with Iran. However, while it may not be possible to conclude the arrangement immediately, I recommend that we press ahead as a matter of the highest priority to resolve the issues which we now find troublesome." (Ford Library, National Security Adviser, NSC Middle East and South Asian Affairs Staff: Convenience Files, Box 7, Iran—Oil)

**93. National Security Study Memorandum 237/Council on
International Economic Policy Study Memorandum 38¹**

Washington, February 5, 1976.

TO

The Secretary of State
The Secretary of the Treasury
The Secretary of Defense
The Administrator, Federal Energy Administration
The Director of Central Intelligence

SUBJECT

U.S. International Energy Policy

The President has directed that a study be undertaken of measures to ensure a reliable supply of required energy imports at reasonable prices over the next five years. The study should especially consider possibilities for influencing pricing and production decisions in exporting nations.

The study should address the following:

—The likely level of U.S. energy import dependence over the next five years.

—Possibilities for diversifying imports of energy by type and source and for encouraging increased production capacity in countries willing to export more oil.

—The degree to which diversification and increased production could influence OPEC pricing decisions and improve the security of supply for the United States and our allies.

—The international and internal dynamics of the OPEC cartel and the motivations and objectives of its more important members, including possible reasons for and likelihood of embargoes or price increases over the next five years.

—The factors most likely to influence the cartel's decisions, including the anticipated level of world demand for OPEC oil, the likely balance of trade positions of OPEC countries over the next five years, strategies they may follow to increase income and ways in which the United States might influence those strategies to its advantage, including the use of bilateral agreements.

—Means to strengthen consumer solidarity in the IEA.

¹ Source: Ford Library, National Security Council, Institutional Files, Box 41, NSSM 237—International Energy Policy (1). Secret; Sensitive.

—Possibilities for the United States to encourage restraints in OPEC pricing over the near term, including examination of possibilities for unilateral action, multilateral action, use of the CIEC, and use of the IEA.

The study should contain options and recommendations on the above issues. It should be conducted by representatives of the addressees, the National Security Council Staff and the Staff of the Council on International Economic Policy, and be chaired by a representative of the Secretary of State. The report should be submitted to the President by March 15, 1976.

John M. Dunn

*Acting Executive Director
Council on International Economic Policy*

Brent Scowcroft

Assistant to the President for National Security Affairs

94. Memorandum From the President's Assistant for National Security Affairs (Scowcroft) to President Ford¹

Washington, February 16, 1976.

SUBJECT

International Energy Agency Adopts Long Term Energy Cooperation Program

On January 30 the International Energy Agency adopted a long term program of cooperation² which closely resembles the one proposed in Secretary Kissinger's speech of February 1975.³ The following are major points in the program:

¹ Source: Ford Library, National Security Adviser, Presidential Subject File, Box 4, Energy (10). Secret; Sensitive. A stamped notation on the first page reads: "The President has seen." Ford initialed the memorandum.

² In telegram 3089 from USOECD Paris, January 30, Enders reported to Kissinger that the IEA Governing Board at its January 29–30 meeting adopted the Long-Term Cooperation Program. (National Archives, RG 59, Central Foreign Policy Files, P840090–1665) Telegram 3092 from USOECD Paris, January 31, provides a summary of the 2-day meeting. (Ibid.) Telegram 3305 from USOECD Paris, February 3, includes the text of the IEA Secretariat's conclusions regarding the Governing Board's discussions. (Ibid., D760040–0978) See also Document 90. For the text of the Long-Term Cooperation Program adopted at the January 29–30 Governing Board meeting, see Scott, *The History of the International Energy Agency*, vol. III, pp. 175–204.

³ See footnote 4, Document 39.

—*A minimum safeguard price* (MSP) of \$7 per barrel FOB Persian Gulf (equivalent to \$8–\$8.50 landed in the US). State believes that authority to implement the MSP is available to the President in the national security provisions of the Trade Expansion Act of 1963. To avoid a potential showdown with Congress, our negotiators stated that the agreement binds the US to the extent that authority is presently available to the Executive to implement such a price. If such authority is not available the Executive is bound to seek necessary authority from the Congress should implementation of the agreement be required (i.e., a drop in the world price below the MSP).

—Agreement of participating countries to consider, on a case-by-case basis, *off-take guarantees* to other IEA members joining us in large scale energy projects in the US.

—Agreement to establish an *overall R&D strategy* for the group, including technical assistance in helping each country develop its own R&D program, expanded exchanges of R&D information, and joint projects.

—Establishment of *conservation targets*, a monitoring of conservation programs, and an exchange of information on conservation techniques.

—*Agreement not to impose new restrictions on access* of IEA members to energy investment and supplies in other IEA countries (Canada, because of its provincial problem, reserved on this provision).

A few aspects of this long term program posed difficulties for individual IEA member countries. But the widespread conviction that it was important to make progress in the IEA in the face of continuing OPEC domination of oil prices overcame this reluctance. No participant believes that these efforts will substantially weaken OPEC in the immediate future. Consumer cooperation, especially with respect to new investment, technology and reduced consumption, could begin to restore a better balance to the energy market, thereby strengthening consumer position relative to OPEC after four or five years.

US leadership in IEA has persuaded countries which were at first reluctant participants to realize that their ultimate interests were in strong consumer cooperation. Compared to the chaos of the immediate post-embargo period, when consumer nations were going their separate ways and were tempted to deal with OPEC on OPEC's terms, consumer solidarity and confidence have come a long way.

We are currently examining possible approaches to the next phase of our international energy policy. A joint NSSM/CIEPSM study is examining measures to ensure a reliable supply of required energy imports at reasonable prices over the next five years, with special empha-

sis on the possibilities for influencing OPEC pricing and production decisions.⁴ It will examine the following:

- projections of US energy dependence;
- possibilities for diversifying US imports and encouraging production in countries willing to export more oil;
- the character of the OPEC cartel and its likely performance, motivations and objectives;
- factors most likely to influence OPEC's decisions in a way most favorable to us and our allies;
- ways to strengthen the IEA; and
- near term possibilities for encouraging OPEC restraint.

The study will be completed by the end of March.

⁴ See Document 93.

95. Memorandum of Conversation¹

Washington, March 13, 1976, 10 a.m.

PARTICIPANTS

The Secretary
General Scowcroft
Frank Zarb
Charles Robinson
Paul Barbian, Notetaker

SUBJECT

Iran Oil Negotiations

The Secretary: Frank, how have you been?

Zarb: Just fine, Henry. Your speech has really caused a sensation.²

The Secretary: It has generated a new definition of non-partisanship.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P770092–0067. Secret; Sensitive.

² Kissinger gave a speech before the World Affairs Council in Boston on March 11 defending the Ford administration's record on foreign policy. He argued that both liberal and conservative critics could together end up "wrecking the nation's ability to conduct a strong, creative, moderate and prudent foreign policy." For text of the speech, see Department of State *Bulletin*, April 5, 1976, pp. 425–432. Excerpts were published in *The New York Times*, March 12, 1976, p. 4.

Zarb: Anyone who can be attacked in one day by both Reagan and Jackson must be all good.

The Secretary: They've been going around for weeks attacking American foreign policy and accusing us of weakness. And the first time I hit back, they call it unfair. But I've got news for them, I'm going to hit them again in Dallas on March 22.³

Scowcroft: Even Carter hit back. I understand he's got Brzezinski working for him. That won't help him very much.

Robinson: I understand Carter wants your job.

The Secretary: Brzezinski is a total whore. He's been on every side of every argument. He wrote a book on *Peaceful Engagement* and now that we are doing most of what he said in the book, he charges us with weakness.

Zarb: May I say a few things about oil?

The Secretary: Of course.

Zarb: We have been talking for the last 6 months about this Iranian oil deal but recently Congress passed a bill of tremendous importance.⁴ It gives us a very important international tool. Under this legislation, we are able to buy 1 billion barrels of oil as a government. The one billion barrels of oil will be stored as a reserve. We can begin buying the oil just as fast as we can build storage facilities.

The Secretary: You mean one billion barrels of oil per year?

Zarb: No, one billion barrels of oil total.

Robinson: That's about 500 thousand barrels per day.

The Secretary: For what period of time.

Robinson: 500 thousand barrels per day for about 1 year.

Zarb: There's no point worrying about logistics. The point is we have buying power.

The Secretary: Who buys the oil?

Zarb: I do.

The Secretary: Does that mean that DOD is out of it? Anything that excludes DOD, I'm for.

Zarb: The main advantage of this new tool is that it allows us to construct a deal whereby members of OPEC can sell cheaper than the market price and can say that they are not selling to the market—rather

³ Kissinger delivered an address on foreign policy to the World Affairs Council in Dallas on March 22. See Department of State *Bulletin*, April 12, 1976, pp. 457–465.

⁴ Reference is to the Naval Petroleum Reserves Production Act of 1976 (P.L. 94–258), which President Ford signed on April 5. The act authorized the Secretary of the Interior to establish national petroleum reserves within the United States that would be regulated in a manner consistent with the total energy needs of the country.

they are selling for storage. And we can make the commitment that we will store the oil and not let it enter the market for a given period of time.

The Secretary: How much is one billion barrels of oil?

Robinson: We have been talking to Iran about 500 thousand barrels per day for about a year and that would fill up the 1 billion barrels.

Zarb: The one billion barrels is above the current import level.

Scowcroft: The deal gives us two possibilities. Either we buy it at a discount and save the money and store it, or, eventually we put the oil on the market and that will also depress the price.

Zarb: I don't think we can break OPEC regardless of what we do with the Shah.

The Secretary: Chuck, do you agree with that?

Robinson: Well, not entirely. I would have to resist strenuously.

The Secretary: I have a great club over Chuck. If he doesn't agree with me, I will settle the Marcona problem for \$5 million.

Scowcroft: You can't do that, I have stock in Marcona.

Robinson: Although the amount of 500 thousand barrels a day doesn't sound like a great deal, you have to remember that that would be new production for the Shah and it would take away from the amount that other suppliers can sell on the market.

The Secretary: What I can't get the economists in this town to understand is that the importance of this deal is political. The political impact of 500 thousand barrels from Iran will be very large. I want the Saudis to weep and I want them to be uncertain. Simon keeps saying that the Saudis are willing to auction 2 million barrels. But they always come up with some last minute alibi. We've been screwing around with the Iran deal for the past year and quibbling over trivialities. Whether we get a dollar or a dollar 25¢ per barrel discount doesn't matter. What's important is the political impact. Chuck, do you disagree with me?

Robinson: No.

The Secretary: You'll go far.

Zarb: Can't we get the two deals together?

The Secretary: What I'm after is the symbolism of the Shah breaking the OPEC line.

Robinson: We could tie the storage program in with two years of . . .

Zarb: We can do it many different ways. All of them will come out the same place. I can structure the cash flow however the Iranians want it. We will have to avoid selling the oil to private companies for resale. We have faced two main objections to the Iranian oil deal from the

outset. Greenspan is opposed to the Government becoming involved in the market system. He sees government involvement in the oil market as a form of communism. The other problem we're facing is that if we get too small a discount, we'll have a bad public image. That's the benefit of the storage program. If we buy the oil for storage, we will be able to get a bigger discount from the supplier.

Robinson: The deal would force a reappraisal of the OPEC formula. A 500 thousand barrel deal doesn't have to be for five years. It can be phased out and the storage plan phased in.

Zarb: Panama City didn't help any.⁵ The companies had armed guards and Lear jets and all of the things that gave the negotiations the worse possible image.

The Secretary: Did we know about the Panama City meeting in advance?

Zarb: We knew there was going to be a meeting but I didn't know where it was going to be.

Robinson: The companies were close to a deal with the Saudis before the Panama City.

Zarb: They met to work out the terms of surrender.

The Secretary: The cowardice and stupidity of US business amazes me. Some man named Hartley jumped me at a leadership meeting in Los Angeles and said that our negotiations with the Soviets for an oil deal⁶ is a communistic plot to destroy American oil companies.

Zarb: Our main concern is selling the program to the Congress and the public. The storage legislation gives me all the necessary tools. I'll have better leverage to buy; because of the lower prices the deal will have a better political image, and because the government is buying oil not for the free market but for storage, the freedom fighters will be put off. If we try to go the other way, with a straight bilateral deal, we won't be able to bring along Rumsfeld, Greenspan, and the President.

Robinson: Can't we get the bilateral deal first and then phase in yours?

Zarb: With this law, I can begin signing contracts for eight years. When I was in Venezuela, I described the deal to the Minister of Petroleum and he called me back the next day to talk about it further. I didn't give him any of the details because Chuck and I had agreed not to do that.

⁵ Representatives of the four U.S. partners in the Arabian American Oil Company, Exxon, Mobil, Texaco, and Standard Oil of California (later re-named Chevron), met with Yamani in Panama City, Florida, March 6–12 to negotiate an agreement on Saudi Arabia's complete takeover of the company. At the time, the partners had a 40 percent stake in Aramco. (*The New York Times*, March 13, 1976, p. 45)

⁶ See footnote 2, Document 86.

The Secretary: What would 500 thousand a day for a year do to our reserve position?

Robinson: Well, we would have about 800 million barrels.

The Secretary: That would not leave much left over for other countries.

Zarb: I think we run up against the same problem there.

Robinson: I'm very discouraged about our relationship with Greenspan and Defense. We've run up against the same problems every time.

Scowcroft: If we have a deeper discount, would we be able to get more support?

The Secretary: The *Wall Street Journal* confronts everybody as long it keeps the market free.

Scowcroft: If we start as a Iran bilateral deal and then switch to storage as soon as storage is ready. I understand General Dynamics is negotiating with the Iranians right now to swap oil for weapons.

The Secretary: Would the oil companies buy that kind of a swap? If we go ahead with it, we'll wind up with a bunch of barter deals that give Iran exactly what they want. And that will dilute the political impact. They can set the price for military equipment at any level so there is no real discount. I don't care about the economics of the deal. I want the Saudis to be unhappy. I want there to be a visible gap between the price we're paying for oil and the OPEC price. I want the Shah to break the OPEC line.

Scowcroft: Could we auction the oil?

Zarb: Yes we could, but I suggest that we start the negotiations where everybody in the government is comfortable: with the storage program. Then move it back towards the bilateral deal.

The Secretary: Suppose we get a very good price discount on storage. Then we could sell it to the public as a great achievement.

Robinson: If we can get the two together, we can accelerate purchases.

The Secretary: (to Zarb) I think it is a very ingenious idea. We can use the storage legislation as a lever to get the other thing.

Scowcroft: Do you have a quality problem? Do you have enough storage for a billion barrels of heavy?

Zarb: No, we need to have a mix of heavy and light.

The Secretary: We could do a seven-year deal.

Zarb: I would prefer a seven-year deal. We need to have 150 thousand barrels in place by 1978.

The Secretary: It's an ingenious idea. If we can marry the two together, then let's get off of DOD. They leak everything and I agree with Frank that we cannot move them.

Robinson: But that won't solve the Shah's problem.

The Secretary: We can use the two-year deal as leverage for the five-year deal. We'll get some impact on OPEC, if we get a seven-year deal at a discount.

Scowcroft: And the storage program allows the Shah to hide behind the OPEC line.

Robinson: A billion barrels is 500 thousand barrels a day for six years. It's about 1 year of our crude oil imports.

The Secretary: One year is a long time.

Zarb: Let Chuck and I go ahead on some of the details.

Robinson: Ansary will be here.

The Secretary: Yeah, but let's drop Defense. They'll write a memo and leak it and that will hurt the Shah.

Robinson: DOD hates the Shah.

The Secretary: Why?

Robinson: Because they think Saudi Arabia is more stable and a better ally over the long term.

The Secretary: This deal wouldn't upset relations with Saudi Arabia. It wouldn't hit them in the stomach. It wouldn't be like calling for the internationalization of Jerusalem.

When Ansary is here, we're going to have lunch. I need only 30 minutes with Ansary. Then lunch for the four of us. Then a social dinner. We will have to invite Zahedi to the social dinner.

Paul, has DOD been invited to the dinner yet?

Barbian: I'll have to check.

The Secretary: Do you know Ansary?

Zarb: No.

The Secretary: You're probably too young.

Robinson: He wants me to take him (Zarb) to Tehran.

The Secretary: He really carries on. I've seen him in Zurich and Cannes.

Zarb: I'm losing interest in the deal but I sure do want to meet Ansary.

The Secretary: Okay. Our plan is to get the deal on storage plus some front end. And we'll have a general discussion at the dinner with Ansary.

96. Memorandum of Conversation¹

Washington, March 29, 1976, 12:50 p.m.

SUBJECT

U.S.-Iran Oil Agreement (II)

PARTICIPANTS

Henry A. Kissinger
Secretary of StateHushang Ansary
Iranian Minister of
Finance and EconomyFrank G. Zarb
Administrator
Federal Energy AdministrationCharles W. Robinson
Under Secretary of State
for Economic AffairsArdeshir Zahedi
Iranian AmbassadorBrent Scowcroft
Assistant to the
President for National
Security AffairsRutherford M. Poats, E
Notetaker

Kissinger: We have been thinking about this project of a bilateral oil agreement for a year and a half. I have continued to think that it would be in our interests from the points of view of both immediate and long term strategy. What we have not been able to do is to come up with a workable scheme because to do so we must satisfy everyone here that putting the government into the buying of oil will achieve an advantage for the United States. On your part, you have difficulties as an OPEC member in giving us a financial advantage. I believe we can find a way and that we ought to be able to put together an agreement now.

The question is whether we can find a formula that will have full support within the Administration and can be presented with enthusiasm on the Hill.

At one time we were thinking of working it through Defense purchases. We have had to exclude that. If we could do it all with FEA, it would avoid a lot of bureaucratic problems. Frank has an idea. Let him

¹ Source: National Archives, RG 59, Records of Henry Kissinger, Lot 91D414, Box 16, Classified External Memoranda of Conversations, March, 1976. Confidential; Nodis. Drafted by Poats. This lunchtime meeting continued a discussion that had begun at noon without Zarb and Scowcroft. The group met again for dinner at 8:30 p.m. with the addition of Atherton and Ellsworth. Between his lunch and dinner meetings, from 4:34 to 5:18 p.m., Ansary met with President Ford in the Oval Office, during which Kissinger briefed the President on their progress regarding a bilateral oil deal. Ford assured Ansary that his "interest" was "for something being done." The memoranda of conversation of all three of these March 29 meetings are printed in *Foreign Relations, 1969–1976*, volume XXVII, Iran; Iraq, 1973–1976, Documents 168–170.

present it now and then you can make your counter-proposal—or you can always just accept his proposition.

Ansary: I'm always easy.

Kissinger: Let me just make this clear: I am for an arrangement.

Zarb: In looking at this question, we have to deal with two problems: The U.S. Government is not in the oil business, and to change this would take a strong showing that it was very advantageous to do so.

There is one vehicle now to get around these problems. It is our legislation to establish a Strategic Oil Reserve of one billion barrels with an initial target of 500 million barrels by 1980.² FEA is authorized to purchase and store. We can make direct deals with domestic or foreign suppliers of oil. In doing so, we would not change our basic oil distribution system; the oil would not go on the market except in an emergency.

We would need to show that we could get very favorable terms in order to buy offshore—a significant discount below world market prices.

Kissinger: Before we get into prices, let me touch on one issue that I know is on the Shah's mind: Iran wants to increase its sales revenues now, but the Strategic Reserve can't buy much Iranian oil until 1978.

Ansary: Yes, we started these discussions because we wanted to continue to purchase U.S. military and industrial equipment, and by increasing our sales to you we could increase your sales to us—the best form of recycling. How can this be accommodated if you can't start buying oil for the Reserve for a year and a half?

Zarb: If we could come to terms on a long-term supply to the Reserve, we could work out a solution to your cash-flow problem.

Ansary: When we talk about financial benefits to the U.S., we must look at just what this means. If you follow the precedents of other government agency purchases of oil, it would run through the majors, and they take a profit. We need to find an arrangement that deals with the gap between our sales to the oil companies and our capacity to produce, and to do so in a way that gives the financial benefit to the U.S. Government, rather than the companies.

Zarb: We assume that the Consortium companies will gradually increase their take-down from Iran. The Reserve program would be in excess of this.

Ansary: How would you assure that there would be no erosion of normal Consortium sales growth in the U.S. market? The Strategic Reserve does fit this concept, but the other sales?

² See footnote 4, Document 95.

Zarb: The Reserve purchases could over the next two years reach a rate of 300,000 barrels a day using tank farms and other interim storage. We could start the stream of payments to you earlier than the oil deliveries.

Ansary: On the basis of a schedule you would set.

Zarb: That's one possibility.

Ansary: I see. Then we need to turn to prices and other details.

Robinson: Correct me if I am wrong, Frank, but there would be another way for FEA to take Iranian oil without storing it, right?

Zarb: Yes, Title III of the overall agreement could provide for near-term acquisition by a U.S. Government agency to take it down through the major oil companies.

Ansary: That's what I don't like.

Robinson: On the basis that it would be incremental sales.

Ansary: This would put someone in between us, taking a profit.

Kissinger: If we buy it for storage, how will we get it?

Ansary: Load it on your tankers. The question is the price.

Kissinger: You would give us more or less the same profit margin as the Consortium companies get?

Ansary: Our idea was to make it more advantageous to you but in a manner that would not put us in an embarrassing situation within OPEC. We could do this by linking prices to changes in your consumer price index.

Zarb: If we can agree to a long-term Strategic Reserve scheme, we can then solve the interim problem.

Ansary: What are the criteria for purchases for your Reserve?

Zarb: We have authority to buy domestic oil or foreign oil. The types must match our refinery requirements and locations.

Ansary: Will you have problems if you exclude domestic suppliers?

Zarb: Yes. But the primary problem is the argument by some that we should use our government-owned oil. We have a present capacity to provide 160,000 barrels per day from government-owned sources, and this can rise to over 300,000 barrels per day in a year or so. My view is that we would achieve maximum benefits for the U.S. if we bought foreign oil, provided we could get the right prices.

Ansary: What quality requirements?

Zarb: We are developing a schedule of purchases by amounts and types and locations.

Ansary: What proportion of light to heavy?

Zarb: We are close to a final decision on this.

Ansary: When will you be ready to ask for an appropriation?

Zarb: Friday.³

Robinson: It will not be tied to Iran. If Congress comes through with the money, we will be ready to make a deal.

Zahedi: I understand you have discussed with the Venezuelans and the Saudis buying their oil for the Reserve.

Kissinger: That's why we know the price can be \$3 below the market.

Ansary: If the Saudis sell it, the money goes into their reserves. If Iran sells it, the money goes back to you for your production and exports of manufactured and agricultural goods.

Zarb: That's why we are trying to put our ideas together on a plan to use Iranian oil.

(To Zahedi) Yes, the Venezuelans raised this subject when I was there,⁴ and we discussed it in general terms.

Ansary: Can you go into details today on what you need to make a decision? I want to be clear that the United States Government will be able to move on this and what steps must be taken. If later we find that it backfires, it would not be good for anyone. Frankly, one reason I have been dragging my feet on stating the terms and conditions Iran would accept is that over and over we have talked and nothing materialized. I don't want to put our cards on the table and then get no deal.

Kissinger: Frank, how soon could we act? I'd rather not complete any arrangement until the Congress has appropriated the money.

Zarb: I agree.

Ansary: We will abide by your suggestions as to the best route.

Kissinger: I am impressed by the possibilities of Frank's route. He has the legal authority and a program, with appropriations virtually assured. As soon as you and Frank and Chuck can work out an agreement, assuming the President's approval, we could implement it immediately. We've got in this room now, except for the President, all the people needed to put this together.

Ansary: Unless I am wrong, the last time I was here the President approved the idea of a government purchase agreement in principle.⁵

³ April 2.

⁴ Zarb was part of a U.S. delegation led by Kissinger that visited Venezuela in mid-February. (Telegram 2056 from Caracas, February 20; National Archives, RG 59, Central Foreign Policy Files, D760066–0257)

⁵ Ansary was in Washington for the March 3–4, 1975, meeting of the U.S.–Iran Joint Commission. He met with President Ford and Kissinger on March 14. The memorandum of conversation is printed in *Foreign Relations, 1969–1976*, vol. XXII, Iran; Iraq, 1973–1976, Document 109.

Kissinger: The President could order the departments to proceed. But this would lead to a situation in which objections emerged from within the Executive Branch during the Congressional hearings. The result would be to no one's benefit. My bureaucratic instinct is that the most promising approach is Frank's. The meeting I had with him a few weeks ago⁶ broke the back of the problem. My recommendation is that you put everything on the table, get the main elements agreed, then—about a month before the final appropriation—you and Chuck and Frank get together and work out the final deal. In this way we could in good conscience testify that we did not have a deal with Iran before submitting the appropriation to Congress.

Zahedi: How long do you expect the appropriation process to take?

Zarb: Probably about 60 days.

Kissinger: Is there any serious opposition?

Zarb: None that we can see now, but you never can be sure.

Zahedi: Perhaps this could be tied in with your visit, Henry. You could see His Imperial Majesty in Tehran and then we could have a meeting of the Joint Commission in Isfahan.⁷

Kissinger: Isfahan belongs among the ranks of the most exquisite sights in the world.

You will be seeing the President this afternoon and then Frank. I'll see you again tonight.

⁶ No record of this meeting has been found.

⁷ Kissinger visited Tehran August 6–7 and attended a meeting of the U.S.-Iran Joint Commission.

97. **Summary Paper Prepared by Robert Hormats and Robert Oakley of the National Security Council Staff¹**

Washington, undated.

ECONOMIC CONTINGENCY PLANNING

In the event of a deterioration of the Arab/Israeli situation, Arab oil producing states could be motivated to use their control over oil resources, and possibly such economic power as might be available through their financial assets, to place a range of pressures on the United States and the industrial world to achieve political ends in the Middle East. While the circumstances under which these states would move from the threat of economic action against the United States to action itself are unclear, a number of possible Arab actions have been addressed in *Section I—Economic Contingencies*. These range from low impact situations to those involving the use of maximum economic leverage.

Of the *embargo contingencies* outlined in Part I (A), a selective embargo against the US, an embargo against all participant countries in the International Energy Program (IEP) at levels which would not trigger the emergency sharing provisions of the Program, and a replay of the last embargo are considered to have about the same likelihood of being applied. Each would have some degree of economic and political impact on the US without the unfavorable political repercussions against the Arabs which would ensue in the event of an all-out embargo against all member-states of the IEP. The latter situation has been addressed, however, as a worst-case contingency.

Part I(B) of Section I outlines *oil pricing contingencies* which certain Arab member-states of OPEC might consider in an Arab/Israeli conflict situation. It is judged that the Arabs will not resort to the use of oil pricing to attain political ends, for political reasons as well as the fact that selective prices would be virtually impossible to administer effectively. Nevertheless, market factors will probably create oil price in-

¹ Source: Ford Library, National Security Adviser, Presidential Subject File, Box 4, Energy (12). Secret; Nodis. Attached to an April 16 memorandum from Hormats to Scowcroft, which explains that the paper summarizes an updated version ("earlier this week") of "a broader contingency study done a year ago." Hormats wrote: "Greenspan, Zarb, and I have been meeting periodically on the issue of contingency planning for a Middle East embargo. At this point, Greenspan feels extremely uneasy about the degree of preparedness in the US, particularly on measures to be taken to reduce the impact of an embargo." The updated contingency study is Tab B of Hormats's memorandum. Tab A is a memorandum from Hormats and Oakley summarizing the broader contingency study that had been done a year earlier. Regarding the earlier study, see Document 34.

creases if embargo actions are used, but price increases would probably not be of the same order of magnitude as those which occurred in 1973.

Part II of Section I outlines contingencies involving the movement by Arab states of liquid assets. Any or all of the several actions described are considered to be possible within the context of another Arab/Israeli war, although each could do economic damage to the Arabs themselves. A worst-case situation involving massive shifting of assets between countries, banks and currencies is described; actions of this type, however, can be met by existing arrangements between international financial institutions, if such are required under the circumstances.

Part III of Section I lists other possible Arab actions of an economic nature. While all would be some damage to the US, none would have a serious impact on the domestic US economy.

Section II—US Economic Contingency Options outlines approaches to meet these contingencies. In discussing options to counteract Arab oil actions, this section focuses on programs designed to increase domestic oil production or achieve consumption restraint.

The basic conclusion of this section is that *under present circumstances, with existing legislative authority, and with the successful application as required of the International Energy Program and existing domestic and international financial safeguards, the United States is capable of mitigating, and in certain cases counteracting, the effects of any foreseen Arab economic actions. However, certain actions, particularly an oil embargo, would do considerable damage to the US domestic economy and would force a reduction in US productive capacity and the US standard of living.*

Section III—Retributive Actions discusses possible alternatives for offensive economic measures against those countries using economic action against the US or other industrial or financial states. These include trade actions; the suspension of military assistance and sales; the forced withdrawal of private US firms and individuals dealing with targeted countries; and blocking or confiscation of OAPEC assets. In that they are retributive and not counteractive in nature, they would be used to increase the political and economic cost to OAPEC states of actions against the US or other countries—but *all hold the considerable danger of increasing pressures on and removing restraints from OAPEC to move immediately to higher and more damaging levels of economic action in response.*

98. Telegram From the Department of State to Secretary of State Kissinger in Oslo¹

Washington, May 22, 1976, 2132Z.

Tosec 130192/126380. Subject: Action Memorandum: Possibility of an OPEC Price Increase. To the Secretary from Robinson and Rogers.

1. The Problem. On May 27 OPEC Oil Ministers will meet in Bali to discuss, among other things, the possibility of raising oil prices.² You earlier approved a recommendation that we instruct our Ambassadors in key OPEC capitals to make appropriate representations after we had a chance to assess the effects of your UNCTAD speech.³ The question is whether we should now proceed with those representations.

2. Background Analysis. The non-confrontational atmosphere generated by your speech in Nairobi has enhanced the possibility of moderation by the cartel in its deliberations on prices. On economic grounds alone, the cartel might have trouble with an increase because of the drop in demand for heavy crude and the problem that it has with price differentials. All these factors will tend to support the OPEC moderates—Saudi Arabia, Kuwait and the Emirates—who are opposed to an increase at this time.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D760199–1131. Confidential; Immediate. Drafted by Sorenson; cleared by Robinson, Katz, and Sober and in AF, EA, S, and ARA; and approved by Rogers. Kissinger was in Oslo for a meeting of NATO Foreign Ministers.

² On May 28, at the conclusion of the 2-day meeting in Bali, OPEC announced that it would continue its 9-month-old freeze on oil prices. (*The New York Times*, May 29, 1976, p. 1) On May 24, the Embassy in Jidda transmitted a message from Prince Fahd in which he noted that after his contacts with “all the Gulf countries,” he could say that “no increase in oil prices” would result from the OPEC meeting. Fahd added that he would be “confronted with difficulties from one or more members, Iran in particular,” but confirmed that the Saudi position would “not change.” (Telegram 3703 from Jidda, May 24; Ford Library, National Security Adviser, Presidential Country Files for the Middle East and South Asia, Box 24, Saudi Arabia—State Department Telegrams to SECSTATE—NODIS (12))

³ Kissinger’s address before the fourth session of UNCTAD in Nairobi on May 6 included this statement on energy: “In energy we strongly support the efforts of oil producers and consumer from both the industrialized and the developing world to achieve cooperative solutions at the Conference on International Economic Cooperation. We urge that our proposal for an International Energy Institute—which would help developing countries take advantage of their domestic energy resources—receive priority attention in the months ahead.” For the full text of Kissinger’s speech, see Department of State *Bulletin*, May 31, 1976, pp. 657–672. Excerpts of the speech were published in *The New York Times*, May 7, 1976, p. 12. Kissinger first proposed an International Energy Institute to study the availability of energy resources, especially in non-oil-producing developing countries, in his address to the Seventh Special Session of the UN General Assembly; see footnote 3, Document 80.

A. We have already made clear our view that new price increases are not warranted. In April in the CIEC Energy Commission we put forward a strong analytical case against high oil prices, emphasizing the particularly severe impact further rises would have on non-oil LDCs.⁴ We also took issue directly with the OPEC contention that higher prices are needed to ration oil for its “non-substitutable” uses. During his recent trip to the Middle East, Zarb pushed for a continuation of the price freeze.⁵

B. On the other hand, OPEC has clearly sought in the CIEC Energy Commission to lay the basis for justifying an increase in oil prices. More recent reports also indicate that OPEC’s Economic Commission Board has prepared studies purporting to show that import prices from industrialized countries have increased 15.4 percent over the past nine months, thus further buttressing the case for an increase. Finally, it is clear that some of the producers, such as the Iranians and Indonesians, are determined to press for an increase.

3. Options.

A. Instruct our Ambassadors in key OPEC capitals to make discreet, non-confrontational representations pitched to the circumstances and views of each OPEC government. (A suggested cable is at Tab A)⁶

Pros:

—A direct approach would give us the opportunity to explain that our own studies show the price of OPEC imports from industrialized countries has gone up only 2.72 percent (instead of 15.4 percent) as alleged by OPEC’s experts over the past nine months. We could thus further strengthen the hands of the OPEC moderates. In the capitals of the

⁴ According to the Mission to the OECD’s summary of the first 2 days of the April round of the CIEC, the United States tabled a paper in the Energy Commission “which argued essentially that world is in transition from economy based mainly on oil-produced energy to economy based on other forms; this transition should be smooth, not based on crisis atmosphere; sufficient fossil fuels are available to bridge the transition; danger exists that too rapid concentration on expensive alternatives could lead to serious misallocation of resources; and that oil prices should be at level which encourages economically efficient use of resources and smooth transition to alternatives.” The G-19’s response to this paper was “highly critical.” (Telegram 12032 from USOECD Paris, April 23; National Archives, RG 59, Central Foreign Policy Files, D760155–0147) An overview of the entire April round of the CIEC is in telegram 12482 from USOECD Paris, April 29. (Ibid., D760162–0152)

⁵ During Zarb’s visit to Saudi Arabia in early May, Yamani informed him that he thought the OPEC meeting in Bali would result in a price increase. (Telegram 3264 from Jidda, May 6; *ibid.*, D760175–0884) On May 9, Zarb met with Amouzegar in Tehran, and the two discussed what might happen at the OPEC meeting. Amouzegar said that “he was not at all sure what line OPEC would take,” but that Iran would “probably occupy its traditional position between the price extremists and the price moderates.” (Telegram 4694 from Tehran, May 10; *ibid.*, D760179–0725)

⁶ The draft instruction to Embassies in OPEC capitals is in telegram Tosec 130196/126371, May 22. (Ibid., D760200–0095)

hard-liners, we would stress our mutual interest in maintaining the present constructive atmosphere, in improving economic stability and in expanding world demand. If done without being abrasive and confrontational, it could do some good.

—More importantly, domestic political considerations require that we do all we can to influence the OPEC decision. DepSec Robinson will testify before Senator Kennedy's Energy Subcommittee on June 8. This will probably be just after the outcome of the OPEC price deliberations become known. If we are confronted with a price increase it would not be enough to respond to Congress and to the American people that we made our case on oil prices in the CIEC and that Frank Zarb raised the question during his recent Middle East swing. Ambassadorial representations would enable us to say that we had gone directly to producer governments with our case at a crucial time.

Cons:

—If the producers decide to continue the freeze or to raise prices only slightly for any of several reasons (including market conditions), they could nevertheless contend that they acted in compliance to our *démarches* and that we should in turn make concessions in other areas (e.g., commodities). This could make our dealings with North/South economic issues in CIEC and elsewhere more difficult.

—Our position against further price increases is well known to key OPEC countries through intensive discussions and analysis at the April CIEC Energy Commission. If additional action is needed, we could re-emphasize our position unilaterally in a public statement (option B below).

—A further *démarche* at this stage is unlikely to change the position of any OPEC government. Moreover, it will make us look like mendicants and provide another opportunity for OPEC members to lecture us on the rationale for a possible increase.

—If OPEC raises prices despite our *démarches*, we demonstrate our impotence on oil price issues, which serves neither our domestic political nor international interests.

Option B: Issue a public statement prior to the Bali meeting that makes the strong economic case against new price increases. This statement would stress that the prices of OPEC imports have risen less than three percent since the October price hike of 10 percent, that further increases would endanger the fragile economic recovery that is beginning to be widespread, and that market conditions do not warrant higher prices. (A draft statement for your consideration is at Tab B).⁷

⁷The draft statement is in telegram Tosec 130195/126370, May 22. (Ibid., D760200–0093)

Pros:

—The statement would give wide domestic and international exposure to our case against new price increases.

—With this statement, our price arguments in CIEC in April, and the recent Zarb trip we can demonstrate to the Congress and public that we made an effort to influence the OPEC price decision.

—The public statement could challenge the credibility of the study of the OPEC Economic Commission Board and provide ammunition for the use of the Saudis and other OPEC moderates at Bali as well as *démarches*.

—Should OPEC continue the oil price freeze, the producers could not assert that it was in compliance to our bilateral *démarches*, thus requiring concessions on our side. (They will, in any event, insist in CIEC and elsewhere that the industrialized nations must take action to match their “contribution” to global warfare.)

Cons:

—Would not take advantage of personal influence that our Ambassadors might be able to exert on key officials in producers’ capitals.

—If producers raise prices despite our efforts, it would publicly demonstrate our inability to influence pricing decisions.

—Our statement would probably be characterized by some producers as unwarranted interference in OPEC affairs, perhaps making it more difficult for the moderates to oppose price increases.

Option C: To make *démarches* in OPEC capitals and issue a public statement (i.e., options A & B).

Pros:

—Will doubly emphasize our opposition to oil price increases and show Congress we pulled out all the stops to influence the OPEC decision.

—Will give two opportunities to take issue with the OPEC Economic Commission Board’s study.

Cons:

—Same as all cons for option A.

—Same as second and third cons for option B.

—May be seen as over-reaction by the U.S. and result in non-moderates in OPEC pressing harder for a significant price increase.

Option D: Decide not to take any additional action prior to the Bali meeting.

Pros:

—We have already made our position known in the CIEC and through the Zarb trip.

—Is consistent with non-confrontational approach to oil price issue through multilateral dialogue.

—Avoids calling attention to our impotence if OPEC decides upon a price increase.

Cons:

—Administration open to charge that we made insufficient effort.

—Gives up opportunity to challenge OPEC's study of import inflation, which will probably be an important element in Bali discussions.

—Could be viewed by producers as acquiescence to "moderate" price increases.

Recommendation:⁸

D, E, NEA and ARA prefer option C and recommend you approve the attached cable instructing our Ambassadors in OPEC countries, at their discretion and only if they believe that it would not be counter-productive, to make appropriate representations, based upon the circumstances and views of the governments concerned. The Department simultaneously to issue a statement, preferably in response to question at noon press briefing.

As a fallback, D, E, NEA and ARA believe that at a minimum we should instruct our Ambassadors to make appropriate representations as in the attached draft cable at Tab A.

EB, EA and AF, on the other hand, recommend option B that you agree to the Department's issuing a public statement along the lines attached at Tab B. We will coordinate the final statement with FEA and Treasury before it is issued.

If you do not favor a public statement, EB, EA and AF recommend option D—that we rely on the record made already in CIEC and with the Zarb trip and take no further action prior to the Bali meeting.

4. Approved by ARA–WRogers; cleared by D–Mr. Robinson, ARA–Mr. Grunwald, NEA–Mr. Sober, EB–Mr. Katz, EA–Mr. Edmond, AF–Mr. Blake, S–Mr. Aherne.

5. For S/S: Tabs A and B follow in septels.

Robinson

⁸ No record of whether Kissinger approved any of the recommendations has been found.

99. **Memorandum From Robert Hormats of the National Security Council Staff to the President's Assistant for National Security Affairs (Scowcroft)**¹

Washington, July 14, 1976.

SUBJECT

NSSM 237: International Energy Strategy Meeting with Zarb et al, July 14, 1976,
at 6 p.m., Roosevelt Room

Bureaucratic Setting

NSSM 237 (Tab B)² requested a study of options available to the United States on international energy policy. A lengthy series of intense working group discussions has now resulted in a draft response (summary at Tab C).³ The work was done initially by State (chairman), FEA, Treasury and Defense, under NSC and CIEP guidance; OMB and a personal representative of Secretary Richardson, head of the Energy Resources Council (ERC), were brought in for the final stages.

We have now scheduled a meeting of the Undersecretaries Committee, the next stage in the NSSM process; this will be held on July 22 and be chaired by Undersecretary Rogers. In the meantime, however, Zarb has decided to put a more visible ERC imprint on the study by holding his own meeting;⁴ it is not clear what his substantive purpose is, since FEA was one of the principal drafters of the NSSM response and concurs fully.

Your objective in this meeting is to accommodate Zarb's desire to assert ERC involvement without allowing the ongoing NSSM process to be sidetracked. Talking points are at Tab A.⁵

Findings of the Study

The NSSM response provides some very useful insights, but has emerged more as a brief for the current direction of energy policy and a vehicle for securing its high-level approval, than as an examination of options or new alternatives. While it may well be that we in fact have few realistic options, the NSSM response is, in this sense at least, incomplete.

¹ Source: Ford Library, National Security Council, Institutional Files, Box 41, NSSM 237—U.S. International Energy Policy (1). Secret. Sent for information.

² Attached; printed as Document 93.

³ Attached but not printed. The draft NSSM study is in Ford Library, National Security Council, Institutional Files, Box 41, NSSM 237—U.S. International Energy Policy (1).

⁴ No record of either Zarb's meeting or the Under Secretaries Committee meeting has been found.

⁵ Attached but not printed.

The study itself is broken down into several lengthy sub-studies. You need address only the overview paper (Tab C).

The key conclusions of the study are:

—US supply and price vulnerability will remain linked to the vulnerability of the other industrialized countries.

—The objective of our international energy policy should be to reduce both supply and price vulnerability.

—US import requirements will rise to 7.4–10 million barrels per day (MBD) by 1980 from the 5.9 MBD of 1975.

—The collective vulnerability of other industrialized countries will increase slightly by 1980 and significantly by 1985.

—OPEC will remain an effective cartel over the next five years and probably for some time thereafter.

—Our continued heavy dependence on imported oil requires close attention to our relations with key producers.

—The US should continue to implement its policies through the existing oil company supply system.

Options

As noted above, the options section is in fact a series of recommendations. These are as follows:

1. To reduce supply vulnerability, the US should:

—Intensify efforts, domestically and within the IEA framework, to reduce dependence, going beyond laws and programs already in place.

—Strengthen emergency anti-embargo measures by accelerating creation of strategic petroleum reserves and pressing the IEA to strengthen its emergency stockpile program.

—Consider diversifying sources of oil through bilateral deals, looking closely at Mexico and Saudi Arabia and, less immediately, at Iran and China.

—Not attempt to negotiate a supply commitment with OPEC in the CIEC context.

2. To reduce the probability of future price increases, the US should:

—Intensify efforts to reduce dependency, domestically and in the IEA, to constrain OPEC price-setting ability.

—Seek to obtain a price discount, directly or indirectly, in any bilateral agreements.

—Not seek a general price agreement with OPEC in CIEC or elsewhere.

—Continue to “jawbone” bilaterally and multilaterally, particularly in the CIEC.

—Not subordinate our overall relations with key producers to the oil price issue.

Comments

1. *The dependency figures contained in the NSSM are at the low end of the range of probability*, even though FEA agreed to raise their initial figures, which assumed a fully successful Project Independence. Most outside projections, and most non-FEA government opinion, suggests that the 7.4–10 MBD range is very optimistic, even assuming North Slope oil is available. Projections for 1985 are analytically much more difficult, but the 5.9–9.4 MBD used in the study is probably even more optimistic still than the 1980 estimates. By minimizing import dependence, the study exaggerates the possibility of achieving our stated objective of energy independence.

2. The study underscores that the *vulnerability of Western Europe and Japan is in effect our vulnerability* as well, given the political imperative of maintaining our ties with other industrialized nations. The study does not draw, however, what appears to be the logical conclusion of this observation—that energy independence is in some ways a hollow goal for the US. It will help by reducing demand for OPEC oil, and thus reducing OPEC's ability to raise prices, but since other industrialized nations cannot achieve independence, our vulnerability—indirect but no less significant—will continue.

3. The study effectively points out the enormous cost of the 1973 embargo and subsequent price increases. The embargo itself cost the US some \$20 million⁶ in lost GNP, increased unemployment by 500,000, and deepened and lengthened the recession. Higher prices immediately involve the direct transfer of wealth, and with it, welfare. They also involve, however, the enormous capital costs of restructuring industry to accommodate changes in the price of energy relative to other factors of production, and the continuing drain of using relatively less efficient means of production. (One model indicates that a \$1 barrel price increase costs the US \$60 billion, in 1972 dollars, over a six-year period. Extrapolation is analytically questionable, but illustratively indicates that the \$8 increase since 1973 will eventually cost the US \$500 billion in lost domestic production.) Higher prices have also seriously affected the growth prospects of non-producing LDCs, and added to our assistance burden. The *political cost* of the constraints on our Middle East policy, and of the strains on our relationships with other industrialized and developing countries, is not quantifiable.

4. There is a substantial risk, even a *probability*, of additional increases in oil prices in coming years. The cartel is likely to remain viable, and de-

⁶ “? billion” is handwritten in the margin.

mand estimates indicate that by 1980 total OPEC revenues would be higher at \$16 per barrel than at current prices. Of course this analysis is based on economic rather than political factors, and it was political factors which provided the catalyst to make OPEC an effective cartel in the first place.

5. The *study abandons CIEC* as a means of reaching price of supply agreement with the producing countries. This leaves us in effect fighting defensive battles in the three other Commissions with no energy quid to be extracted for progress on quos in other areas. An agreement in CIEC could probably be obtained only by accepting conditions such as the indexation of oil prices to the prices of exports of the industrialized countries. Agreement on price could also reduce pressure to improve the supply situation.

6. This generally pessimistic picture on continued dependence has understandably pushed the working group toward a *policy of accommodation with the oil producers*, encouraging consumer adjustment to higher prices and the development of cooperative links to insure supply. State clearly sees confrontation as contrary to the national interest, and bilateral oil arrangements essentially at current prices as a means of assuring supply and a useful source of diplomatic leverage. Higher prices also make FEA's Project Independence at least a theoretical goal. Herein lies a major fault of the paper: although in fact there may be little to support options aimed at breaking up the cartel, whether by attempting to seduce or bludgeon Saudi Arabia, or through "economic warfare" on OPEC generally, an options paper should discuss the pros and cons of more forceful courses of action, if only to eliminate them as realistic options. (I have long argued for a closer examination of US relations with Saudi Arabia, in the oil context as well as in broader terms. This might be a good occasion to do it.)

7. Another important next step would be a systematic examination, on a country-by-country basis, of the *feasibility and advisability of bilateral oil arrangements*. Since bilateral deals would be aimed primarily at reducing supply vulnerability rather than lowering prices, we should probably be prepared to pay the going price. This is not noted under the paper's supply "options"; to the contrary, an optimistic recommendation that we should push for price breaks in these arrangements is noted under the price "options". Bilaterals are now being pursued on an uncoordinated—one might even say haphazard—basis, with little or no attention to the broad conditions under which we should enter such agreements or to the relative attractiveness of various partners. First, however, we must have a clear decision made on whether or not we intend to seek price advantages in these agreements. This, in turn, depends on whether we are focusing on price or supply assurance.

100. Briefing Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Katz) to Secretary of State Kissinger¹

Washington, July 16, 1976.

Assessment of the International Energy Agency

The IEA has been in existence for slightly more than a year and a half. Its record to date is one of considerable achievement, tempered however, by a number of shortcomings. In political terms the agency has been an unqualified success in forging a cooperative consumer approach under US leadership and in formulating an integrated strategy on energy which responds to the challenge posed by the Third World. The key elements of the International Energy Program (IEP) are now in place—an emergency mechanism to ensure a collective response to future embargoes; a long-term cooperative program which provides the tools which will enable us over time to shift the supply/demand conditions in the world oil market and thus lessen OPEC's unilateral pricing power; and an oil market information system. The agency has been signally useful as a forum for coordinating industrialized country positions for the dialogue on energy in CIEC.

There have, however, been some disappointments—particularly our inability to move ahead rapidly on certain portions of the cooperative programs which have been agreed upon. This is especially true in the field of conservation where we have failed to apply our resources adequately. The US record is even worse than that of Europe and Japan. We account for some 50% of the IEA's oil consumption and have the greatest potential among the IEA countries for implementing meaningful measures. Our IEA partners expect us to take the initiative on conservation, and to date we have not met the challenge. We have failed to approach energy conservation in the IEA with the degree of commitment that has been directed toward energy supply expansion.

Long-Term Program

Negotiation of the January 1976 long-term program to reduce our joint dependence on imported oil constitutes one of the agency's major achievements. The program provides for coordination of national efforts and cooperative measures in conservation, the accelerated production of new energy, and R&D. It provides us with the framework necessary to achieve our common objective of reduced dependence and

¹Source: National Archives, RG 59, Central Foreign Policy Files, P760114–1151. Confidential. Drafted by D.S. Wilson (EB/ORF/FSE) and cleared by Raicht.

vulnerability. Several elements of the program such as national reviews, sectoral studies and R&D cooperation are well underway. Others such as project cooperation, the MSP and the setting of medium and long-term import dependency goals are in the process of being elaborated. The US has identified three priority areas for possible joint project cooperation—coal, synthetic fuels, and enriched uranium services. IEA work programs are already underway in the nuclear and coal sectors which, together with conservation, constitute the most viable alternatives to oil over the next decade.

As concrete and visible evidence of our commitment to reduced oil imports we are pressing for the establishment of national reduced dependence targets by IEA countries over the next 6–9 months.² We have called for an IEA Ministerial meeting which would endorse these targets and ensure that member countries make the political commitment to implement the more vigorous policy necessary to achieve them. Such a commitment could assist the Administration in persuading a reluctant Congress to adopt a strong and effective US domestic energy policy.

Coordination for Energy Commission

Another of the agency's notable successes has been the key role it plays in the coordination of industrial country strategy and tactics in the Energy Commission of the CIEC. Common industrial country positions are formulated and endorsed by the IEA Governing Board. The IEA mechanism has proved extremely useful in thrashing out specific issues such as the question of an ongoing post-CIEC dialogue with producers and how to present our International Energy Institute (IEI) proposal to the Energy Commission. Through the IEA we have succeeded in moderating the European push toward a comprehensive post-CIEC consultation on oil prices and in alleviating concerns over the expected scope and mandate of the IEI. The IEA mechanism has greatly facilitated our effort to ensure that the industrial countries speak in the energy dialogue with one voice.

Emergency Program

In order to reduce our short-term vulnerability to supply interruptions the agency established as a matter of priority an emergency oil sharing scheme. That program is now in place and operational. A test of the oil allocation mechanism will be conducted this fall to verify its

² The United States introduced this proposal in the March 16 IEA Governing Board meeting as part of its plan to implement the Long-Term Cooperation Program. (Telegram 62056 to USOECD Paris, March 13; *ibid.*, Central Foreign Policy Files, D760096–0217) Kissinger reiterated the proposal in his opening statement to the OECD Ministerial meeting on June 21. For the text, see Department of State *Bulletin*, July 19, 1976, pp. 73–83.

effectiveness. The program provides important psychological protection and evidence indicates that it would considerably reduce the future impact of a 1973-type embargo. It would also reduce the tendency for individual IEA countries to compete for available oil, thus bidding up prices to a higher level than would otherwise prevail, as occurred during the 1973 embargo.

Future of the IEA

To date the IEA has been highly successful in projecting the exceptional image of an action-oriented organization. Now that its key programs are in place, we will have to work to sustain the momentum which has propelled the agency up to the present. As has been the case for other international bodies there is a danger that interest will wane and levels of official representation at meetings will drop. Your proposal for establishing joint reduced dependency objectives backed by concrete programs and a Ministerial-level meeting to endorse them should serve to maintain the impetus over the months ahead.

US Energy Policy and the IEA

By virtue of the dominant position of the US in the IEA, our own domestic energy program has a significant bearing upon the effectiveness of the agency. As is true for the IEA, our domestic program has been a mixture of achievements and shortcomings. The impasse over domestic energy policy which prevailed throughout most of 1975 seriously hindered our efforts to extract strong commitments from other IEA member countries. The Energy Policy and Conservation Act (EPCA) signed by the President in December 1975 constitutes a step in the right direction—albeit insufficient. On the positive side it provides for major conservation efforts and authorizes the creation of a strategic storage program to lessen the adverse economic consequences of new embargoes. But it falls short of what is required if we are to make meaningful headway in achieving our energy independence objectives. The bill does not immediately decontrol oil and natural gas prices which is viewed by most IEA countries as a matter of the highest priority for the US; neither does it contain financial incentives for the accelerated development of energy supplies. The Administration is pressing for additional legislation—e.g., to deregulate interstate natural gas prices, to establish an Energy Independence Authority, to provide authority for US participation in the OECD Financial Support Fund—but both the upcoming election and Congressional skepticism about the reality of the energy crisis make uncertain the prospects for these efforts.

Our IEA partners understandably expect us to take the initiative on conservation and new supplies. Perception of doubt or hesitation on our part will complicate and can ultimately compromise our efforts to bring forth the major commitment of the national resources which will

be required to achieve our IEA objectives. Hence there exists a direct relationship between convincing and effective US domestic energy policies and credible IEA programs.

101. Memorandum by Robert Hormats of the National Security Council Staff¹

Washington, July 19, 1976.

MEMORANDUM FOR

The Secretary of Commerce
The Deputy Secretary of State
The Deputy Secretary of Defense
The Administrator, Federal Energy Administration
The Chairman, Council of Economic Advisors

SUBJECT

Questions for Attention in Further Development of NSSM 237

The following is an effort to pose questions which merit attention in the further development of NSSM/CIEPSM 237. They reflect a consensus derived from the July 14 meeting² which you attended under Frank Zarb's Chairmanship, and the papers you submitted pursuant to that discussion. These questions will be considered in light of the analyses, conclusions, and recommendations contained in the NSSM/CIEPSM at the Undersecretary level meeting to be chaired by Undersecretary Rogers later this week.³

1. *Assumptions:* Are the main assumption of the NSSM study valid; *to wit:* continued significant US, European and Japanese dependence on OPEC oil through 1985, inextricable linkage of interests between the US and its major allies and thus an unavoidable necessity to pursue joint international energy objectives and strategies, significant supply and price vulnerability of major US allies and thus the necessity for both a non-confrontational strategy with respect to OPEC and lower oil

¹ Source: Ford Library, National Security Council, Institutional Files, Box 41, NSSM 237—U.S. International Energy Policy (1). Secret.

² No record of the meeting has been found. See Document 99.

³ No record of the meeting has been found. A July 21 memorandum from Joseph A. Greenwald in the Bureau of Economic and Business Affairs provided Rogers with a general framework to address the issues raised in Hormats's memorandum. (National Archives, RG 59, S/S Files: Lot 80D212, NSSM 237)

prices, and the critical role of Saudi Arabia as a moderator of OPEC pricing policies and a guarantor of supply.

2. *What are US objectives and interests with regard to OPEC pricing?* What level of international oil prices is in the US interest? Are short-term US price objectives consistent with US long-term interests? This should be explored in terms of the impact of the international oil price on U.S. efforts to accelerate energy conservation and develop alternative sources as well as on U.S. global interests. Is the same oil price which is in the U.S. domestic interest also in the interest of our economic partners? Is there a difference? If so, what are the implications for joint strategies, policies and actions with other industrialized nations? To what extent would a price increase affect U.S. national security interests?

3. *Contingency Planning: To what extent can policies be developed during the present non-crisis period in order to strengthen the basis for U.S. counter-action in the event of various types of crises?* What U.S. counter-actions would be most appropriate to deal with differing types of potential oil-related crises? What specific forms of economic leverage are available to the U.S. unilaterally, or with its IEA partners, for counter-action in the event of unacceptable price increases or supply interruption? How might such leverage be used as a deterrent? What considerations are likely to increase or decrease U.S. counter-leverage? Do longer-term supply contracts provide an improved basis for U.S. counter-action in the event of a disruption; for instance would the abrogation of contracts significantly improve the U.S. case domestically or internationally with respect to forceful U.S. counter-action? Would such arrangements thereby serve as a deterrent to the interruption of supplies?

4. *How do the non-oil exporting developing countries fit into U.S. strategy?* Is there any significant linkage between their interests and moderation by OPEC? What policies or actions should the U.S. undertake to support the developing countries' position? What are the risks associated with attempts to split the LDCs from OPEC? What policies or responses should the U.S. consider in the event of a change in the developing countries' position brought about, for example, by an OPEC decision to grant them lower oil prices?

5. *How might the U.S. better diversify sources of energy supply?* Are there ways of encouraging more production in non-Arab countries? What might the U.S. do to advance its oil interests in relation to potentially large and more reliable suppliers such as Mexico, the PRC, or Venezuela? What might such country-specific strategies include?

6. *How might the U.S. better address the critical significance of Saudi Arabia to both U.S. and IEA supply security and price objectives?* What are prospects for a significant shift in the internal Saudi political situation

between now and 1980? What are the implications for US policy? What demands are the Saudis likely to make in order to continue to play a moderating role; what considerations are involved in their decisions? What US policies should be considered to support a moderating role for the Saudis? What policies or actions should the US consider in the event of a change in the Saudi policy?

102. Memorandum From Robert Hormats of the National Security Council Staff to the President's Assistant for National Security Affairs (Scowcroft)¹

Washington, July 26, 1976.

SUBJECT

NSSM 237 and US Energy Policy

Developing the response to NSSM 237 has been an unsettling process,² primarily because it reveals the sorry state of US domestic energy policy and its very dubious foundation in Project Independence. In short, there appears to be grounds for a complete rethinking of US energy policy.

The early stages of the NSSM study brought out again what we have known all along—that while FEA's ambition to achieve "energy independence" may be useful as a rhetorical goal, it is neither an attainable objective nor a basket in which we should put many of our eggs. *FEA's import targets are simply unreachable*, at any reasonable cost, even under FEA's extremely optimistic assumptions about our ability to conserve energy and increase production from alternate sources. In the course of the study, FEA revised its likely import requirement figures

¹ Source: Ford Library, National Security Council, Institutional Files, Box 41, NSSM 237—U.S. International Energy Policy (1). Secret; Eyes Only. Sent for information.

² See Documents 93, 99, and 101. Scowcroft wrote in the margin: "But what do we do about the study? Use it as a vehicle to surface those questions?" Hormats responded in an August 9 memorandum to Scowcroft: "The answer is yes. We are now addressing both the types of changes which might be necessary to strengthen our domestic attempts to reduce oil imports and the international issues of price and security based on the assumption that we will be more dependent on imports than we had earlier anticipated in view of the optimistic forecasts of Operation Independence." He added: "Everyone now appears satisfied that the new orientations of the study are more consistent with the policy needs of the USG over the next several years." (Ford Library, National Security Council, Institutional Files, Box 41, NSSM 237—U.S. International Energy Policy (1))

upward considerably, but they are still 10%–20% lower than those of most other analysts. When somewhat more realistic import requirements are used, it becomes evident that over a 10–15 year period energy independence has almost no meaning for us in terms of decreasing our vulnerability to supply interruptions; we are going to remain very vulnerable for the foreseeable future. Perhaps more important in the short run, we will remain politically vulnerable through the irreversible dependence of our industrialized allies no matter how independent the United States may become. (On the price side, however, reducing demand does make it more difficult for the OPEC cartel to set prices, since it increases the excess of supply over demand.)

As meetings have progressed toward the policy level, it has also become increasingly apparent that *there are questions of the most basic sort about our oil policy for which we do not have adequate answers*, and that as a result our energy policy is built on what are at best unfounded assumptions. The major assumption was that an international energy policy should be based on the understanding that domestically we would be making steady progress toward reduced dependence, which in turn would decrease our vulnerability and indirectly that of our allies, and exert downward pressure on prices. FEA has now openly admitted that progress toward independence is a questionable proposition at best and that they do not know whether it is in our interest to see oil prices rise or fall. FEA is now telling us that we on the *international side* should work through our analysis and tell them how to revise their Project Independence blueprint.

Furthermore, it has become apparent that *purely economic analysis is inadequate to the study*. The NSSM analysis shows that the oil-producing countries will maintain their ability to set prices, at even higher levels, as long as the producers with small populations, and therefore limited capacity to absorb revenues, are willing to provide financial support—either directly or by restricting production—to those producers which need or believe they need greater income. Whether they will continue to do this is a political rather than economic question.

The implications are sweeping. If everything we do economically is at once uncertain, unlikely to produce any results, and at the margin of political events, then there are a number of political actions which we will have to consider more seriously. One key question is how we can induce moderation in OPEC cartel members and build relationships which avoid price or supply disruption. We are not now examining this systematically. (Accepting increased vulnerability may also raise the cost of holding to our preferred—and frequently negatively perceived—positions in the North-South dialogue, and argue instead for a more accommodating U.S. position.)

It would be useful to you to confront Zarb with a number of key questions so that he can either persuade you that the problems do not exist or agree that we must trace through their implications. Such questions would center on the issue of whether we must now adjust our international policy to the probability that our dependence in imports will increase over the next decade or more. Then we must decide whether the thrust of U.S. policy should shift to a more calculated policy of encouraging the oil producers to exercise restraint, adopting a more accommodating view on commodity issues, diversifying our energy sources on a priority basis, building strategic reserve stocks more rapidly (which, as you know, I believe to be our best economic means of coping with, and deferring, an embargo), or more actively seeking agreements to reduce the possibility of arbitrary supply and price action.

103. Memorandum From Robert Hormats of the National Security Council Staff to the President's Assistant for National Security Affairs (Scowcroft)¹

Washington, September 15, 1976.

SUBJECT

Your 5:30 Meeting on OPEC Price Increase

Zarb has called this meeting² (to include you, Greenspan, Richardson, and Robinson) to discuss an OPEC price increase.

[*less than 1 line not declassified*] Saudi Arabia, Iran, and Venezuela have already agreed to a 10–15% increase, to be formally decided in Doha, Qatar in December. Arguments supporting the increase include: greatly increased demand for oil in industrialized countries, increasing the market strength of OPEC; desire by some OPEC countries to make up lost purchasing power caused by inflation in industrialized nations; less fear of harming recovery in the West now that economic activity is increasing.

¹ Source: Ford Library, National Security Adviser, Presidential Subject File, Box 5, Energy (15). Secret. Sent for action.

² No record of the meeting has been found. A September 23 memorandum from Hormats to Scowcroft briefed him for a meeting he would attend later that day on the potential for an OPEC price increase. (Ibid.)

Pursuant to your instructions, I asked State last week to work with CIA and Treasury to prepare an options paper outlining the types of things which might be done to prevent a price increase.³ This will be completed by the end of the week. After having examined a number of options, the working group concluded that the following steps should be taken:

—Porter should be instructed to follow-up his recent conversation with Prince Fahd⁴ and indicate US appreciation of his position opposing a price increase this year.

—A letter to King Khalid, along with letters applying pressures on the Shah and Perez of Venezuela, later in the fall.

—US Ambassadors should make *démarches* in other OPEC countries.

—Delegates to CIEC should speak up publicly and in the corridors against a further price increase.

A number of other “hard-ball” options were considered and rejected. These include: more support for Congressional actions on the boycott; an export surcharge by industrialized countries on sales to OPEC countries; and threats not to help non-oil LDCs to overcome difficulties which would be caused by a new oil price increase. In addition, some incentives to be more responsible—expansion of the activities of the corps of engineers, indexation of Saudi reserve access in the US, and facilitation of Saudi investment in American agricultural and other commodities—were also considered and rejected.

What this all boils down to is:

—It is likely that a decision has already been made to increase the price of oil from 10% to 15% next year.

—[*less than 1 line not declassified*] such a decision has not been reached, our leverage (given the substantial increase in demand for oil by industrialized countries) is very weak.

—To the extent that the only undecided element in the minds of the OPEC countries is whether the price should be increased 10% or 15%, we might have some marginal influence.

—The Saudis are keyed to equation, but the key to insuring Saudi help is pressure on the Iranians and Venezuelans to oppose a price in-

³ The paper, “Strategy Paper for the President on December Oil Price Decision,” undated, is attached to Hormats’s September 23 memorandum.

⁴ According to telegram 6094 from Jidda, September 8, Porter met with Fahd on September 7 at the former’s request to discuss a September 2 letter from President Ford to the Crown Prince on arms sales. (National Archives, RG 59, Central Foreign Policy Files, D760339–0131) The letter was transmitted in telegram 217223 to Jidda, September 2. (*Ibid.*, P850071–2596)

crease (which could, at best, result in their moderating the presently extreme demands for a large price increase).

—In any case, the US *must* put forward its best case against an increase lest we appear indifferent to an impending development which will be highly costly to us, to our allies, and to the developing countries. (We should, however, avoid investing too much prestige if we believe this to be a losing cause.)

Tactics

—The first step is a letter to Khalid attempting to lock him into Fahd's recent statements on his behalf opposing a price increase (Tab A).⁵ If we wish to be tougher, we could send a high-level American official to Saudi Arabia to indicate the enormous problems which could result for American Presidents wishing to support the Saudi dynasty if the price of oil is increased. The emissary could also point out the still fragile condition of a number of developed country economies.

—Strong letters to the Iranians and Venezuelans arguing against a price increase on grounds that it would be politically disruptive and economically unjustifiable.

—Démarches in other OPEC capitals.

—Gentle reminders in key non-oil LDCs as to the likely impact of a price increase on their economies and on the will and ability of other developed countries to assist them.⁶

⁵ Not attached and not found.

⁶ President Ford met with Prince Saud on September 17 and told him that "any increase this December or for '77 would be extremely damaging, not only for the United States, but even more so for our industrial colleagues who are in a much more fragile situation." Ford added: "We plan to discuss this not just with you but also with Iran and Venezuela. It would be disastrous to push the world economy back to the recession of last year. So we hope His Majesty's views will prevail." Saud replied: "His Majesty is just as determined as last summer not to have an increase. But it will be difficult, and it will depend heavily on what you can do with Iran and Venezuela. His Majesty has said at least he will refuse more than a modest increase, and will categorically refuse anything beyond 5 percent." (Ford Library, National Security Adviser, Memoranda of Conversations, Box 21)

104. Memorandum From the Deputy Assistant Secretary of State for International Resources and Food Policy (Bosworth) to Robert Hormats of the National Security Council Staff¹

Washington, September 29, 1976.

SUBJECT

First Draft of Expanded NSSM/CIEPSM 237 on US International Energy Policy

Attached is the new first draft of the expanded NSSM 237 on international energy policy.² The NSSM follows closely the outline agreed to at the interagency working group meeting following consideration of the earlier NSSM by the meeting of principals chaired by Frank Zarb and the subsequent meeting of Under Secretary Rogers and his interagency counterparts.³ We believe that this expanded NSSM answers all the questions raised in these meetings and fulfills the requirement that the NSSM be comprehensive in nature.

During the writing of individual chapters, there have been some suggestions to reorder the structure of the NSSM. We think the current structure is the most logical way to present all of the arguments in a comprehensive manner, as requested by principals. However, at our meeting next week, one of the matters we should discuss is whether this structure or some other would be more appropriate.

As now written, the NSSM is structured in two major parts. The first part (Chapters I–X) analyzes the various issues and describes measures that might be appropriate to address the issues. The second part discusses three comprehensive energy strategies and policy options to implement the strategies, and requests decisions by principals.

A brief description of the individual chapters follows. The introductory chapter (I) sets the stage by indicating our level of dependence and demonstrating that OPEC market power did not result solely from the '73 embargo, but was a phenomenon that had been growing since 1970. This is relevant in answering the question of what we can or cannot do to manipulate future OPEC decisions. The collective vulnerability chapter (II) defines the context for our consideration of all other aspects of the NSSM. The price/supply chapter (III) uses econometric and judgmental models to establish the parameters of future produc-

¹ Source: Ford Library, National Security Council, Institutional Files, Box 41, NSSM 237—U.S. International Energy Policy (2). Secret. Drafted by Creekmore on September 29. Also sent to the other members of the interagency working group drafting the NSSM 237 study. NSSM 237 is Document 93.

² Attached but not printed.

³ No records of these meetings have been found. See Document 99 and footnote 4 thereto.

tion and pricing possibilities. Though the numbers generated by these two models are not the same, the general thrust of both is that we probably face increasing real prices between now and 1985. Chapter IV (Embargo Vulnerability) analyzes the possibilities for new politically-inspired supply disruptions and describes measures that might be taken to reduce the impact of such disruptions. Chapters V–X concentrate on the long-term global energy balance and in this connection look separately at our domestic policy (V), our policy toward other consumers in the IEA (VI), our policies toward OPEC (VII), the role of the international oil companies (VIII), our policies toward the non-oil LDCs (IX), and the role of CIEC in our overall energy policy (X).

The final chapter pulls together the pertinent analyses of the earlier chapters and poses for decision by principals three comprehensive strategies, and policy options to accomplish them, that the nation can follow in the next 10–15 years. The first of these strategies is driven by a more vigorous domestic energy program than has thus far been adopted. Adoption of this strategy, however, requires a realistic conviction on the part of the policy-makers that such a domestic program is really feasible. A number of initiatives in other areas flow from the decision on the domestic program.

The second comprehensive strategy involves recognition that we will not get a stronger domestic program than measures already adopted and that we will become more dependent on imports. It, therefore, concentrates on (1) trying to ensure adequate global production levels in the future and (2) increasing our protective measures against politically-inspired supply disruptions.

The third strategy recognizes our current inability to get stronger domestic energy measures than we now have but relies on production and pricing decisions by OPEC (restricted production, higher prices) to force us gradually to take actions for which we do not have the political will at present. Selection of this option would make it unwise for us to seek special arrangements on production or pricing with the Saudis and other producers. We would instead go through the motions to protest price increases but not really push the producers on this.

I would like us to meet on Monday at 3:00 pm in Room 1205 at New State to discuss this first draft of the NSSM.⁴ At this meeting, I would hope to evaluate the first draft along two lines: (1) Have all the substantive issues been appropriately addressed? (2) Is the current structure acceptable or should it be modified? Once these decisions are made, we can focus on language modifications that may be needed to make the presentation of the substance more precise and digestible.

⁴ No record of this meeting has been found.

105. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, October 27, 1976, 1846Z.

264714. Subject: IEA: US Position on Reduced Dependence Objectives Proposal. Ref: State 263497.² Brussels pass to Davignon.

1. All addressees should seek earliest possible opportunity to convey following text of message on US reduced import dependency proposal³ from Assistant Secretary Katz to host government officials concerned with IEA matters, and report reactions by return cable ASAP. You should inform host governments that Mr. Katz will head US delegation to November 8–9 GB meeting.

2. For Bonn: FRG position will be crucial in developing IEA support for reduced dependency concept. You should ensure, therefore, that text is delivered to both Rohwedder and Hermes and report their personal reactions soonest to position outlined.

3. For London, Tokyo, Ottawa, and Oslo: Host governments in your capitals have all expressed significant reservation about one or more major elements of reduced dependency proposal. You should therefore ensure text is delivered to highest appropriate level concerned with international energy policy making and IEA. (*Note:* For Tokyo: We have already discussed text with Kinoshita (MITI and Karita (Gaimusho) at CIEC meeting in Paris.)

4. *Begin text:* At its meeting on November 8–9, the Governing Board is scheduled to take a formal decision on the process and timetable for establishing objectives for the reduction of IEA dependence on imported oil. The United States considers this decision, and the

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D760401–0400. Confidential; Immediate. Drafted by Raicht; cleared by Bosworth and in EUR/RPE, the Treasury Department, and FEA; and approved by Katz. Sent to Ankara, Athens, Bern, Bonn, Brussels for the Embassy and USEC, Copenhagen, Dublin, London, Luxembourg, Madrid, Oslo, Ottawa, USOECD Paris, Rome, Stockholm, The Hague, Tokyo, Vienna, and Wellington. Repeated to the Embassy in Paris.

² Telegram 263497 to the same addressees, October 23, transmitted the text of an issues or “process” paper prepared by the Standing Group on Long-Term Cooperation “bringing together energy demand and supply projections as submitted by countries for the conservation and accelerated development review process.” (*Ibid.*, D760398–0790)

³ See footnote 2, Document 100. At a restricted IEA meeting on September 8, Bosworth proposed establishing individual national objectives for reduced dependence. Telegram 26657 from USOECD Paris, September 13, transmitted a summary of the meeting. (National Archives, RG 59, Central Foreign Policy Files, D76345–0436)

process it will launch, to be of fundamental importance to the viability and future effectiveness of industrialized country cooperation in energy.

The updated version of the OECD's Long-Term Energy Assessment, and similar studies by other sources, project a total world demand for OPEC oil in 1985 of at least 40 MMBD, on the basis of the energy policies now in place in our countries and relatively conservative assumptions for our economic growth. In the US view, the degree of vulnerability to unilateral oil price increases and threats of supply interruptions which such dependency would entail is clearly unacceptable.

There are, of course, several reasons why industrialized country consumption will probably never reach these projected levels. First, it is very doubtful that OPEC would be willing, or able, to produce that much oil by 1985: OPEC surplus production capacity has declined and, while a few countries, most notably Saudi Arabia, have the potential to increase capacity to meet the projected demand, we cannot assume they will choose to do so, particularly since, as they have stated repeatedly, their revenues at present production levels far exceed even their projected future financial requirements.

Of more immediate significance, however, is the fact that as our demand for OPEC oil increases during the short term future, the real price of oil will almost certainly increase either as a result of OPEC's monopolistic exploitation of our vulnerability, or simply because of the operation of traditional market forces. Whichever the reason, if present trends continue, the resulting higher costs for energy within our economies will have a significant adverse impact on economic growth. As a result, our actual demand for oil over the medium and long-term probably will be held to levels considerably lower than projected. But there is little cause for comfort in such an assessment when we consider the economic costs to our societies, and to the world economy generally, of such a reduced growth scenario.

There is, however, an alternative to this profoundly worrying forecast for the future: An alternative which hopefully will ensure a continued satisfactory increase in our economic growth, while at the same time avoiding the dangers of the "boom-and-bust" energy use patterns just described. But this will come about only if we act quickly to improve the efficiency of our energy consumption and develop our own sources of energy so as to bring about a more acceptable long-term global balance of supply and demand for energy. Current studies indicate that the implementation of a series of more vigorous energy policies could reduce the demand of the OECD countries for imported oil in 1985 by as much as one third. Whether or not a swing of this magnitude in our requirements for imported oil would be feasible cannot, at

this point, be determined. However, it is essential that we begin now to determine:

- how much of a change in our combined requirements for imported oil is both possible and practical, given essential economic, social and other goals; and

- how individual IEA countries, operating within our cooperative framework and taking account of individual economic and social goals and diverse levels of resource endowment and patterns of energy use, can contribute to this shift in the global energy balance.

Bearing in mind the preliminary discussions on this subject which have already taken place in the IEA, the US believes several key points concerning issues and procedures have emerged which should be endorsed by the Governing Board at its next meeting:

- First, it is clear that each individual country must retain sole control over its own energy decisions: An exercise in which supranational decisions are imposed on governments is not envisioned. However, the assessment of the current and potential performance of individual countries must be a mutual one. This is a further step towards the necessary interlocking (although not the integration) of our national energy programs. In the end, we must each be satisfied that the acceptance of responsibility for contributing to the desired shift in our collective energy balance reflects equitable sharing of costs and benefits.

- Second, we need a quantitative group objective for reduced dependency, supported by individual country acceptance of responsibility for meeting their fair share of that objective, including the concrete policy measures that will be required. For its part, the US could itself envision accepting a quantified national reduced dependency objective expressed in terms of millions of barrels of imported oil by 1985. Other countries may choose to express their share of responsibility for meeting the group's target in a different manner. Regardless of the specific method chosen, however, it should provide a quantifiable standard against which individual country performance can be measured. The sum of all of these individual national commitments, when expressed in terms of quantified impact on oil consumption for the group, should be able to be described in terms of a projected import dependency objective for the group as a whole.

- Third, national commitments to these objectives must be credible, and of a roughly parallel nature. This is a difficult issue in view of the differences among our various governmental systems. The US would envision a process of political undertakings, not legally binding commitments. However, we have already begun the process of consulting with the US Congress concerning the establishment of the US

national objective within the IEA in order to help ensure that the goal chosen is a national goal, with Congressional support for the concomitant policy measures required to reach it. The review of national performance through the IEA's annual review procedures would ensure that there is parallelism in the carrying out of such national commitments.

—And fourth, the establishment of these objectives and their regular review in terms of actual performance must take place at the policymaking, not the technical, level within the IEA and national governments themselves. Therefore, we believe that while initial development of these objectives would be done at Governing Board levels, their formal establishment and the ultimate enunciation of the political commitments underlying them should take place at the Ministerial level.

The US believes that the “process” paper circulated recently by the SLT Chairman is generally consonant with the US position outlined above. We would agree, however, with the statement by Chairman Davignon at the last Governing Board meeting (GB (76) 38 Add.1)⁴ that “although the evaluation of government measures is always a difficult exercise, such evaluation and the development of yardsticks are unavoidable.” The US believes such yardsticks must be quantitative in nature and that the “process” adopted by the IEA should make this clear. We therefore believe an additional step should be inserted between steps B and C of the present draft to read as follows:

“Countries may choose to express their share of responsibility for meeting the group target in different ways. Regardless of the specific method chosen, however, it should provide a quantifiable standard against which individual country performance can be measured. The sum of all of these individual national commitments, when expressed in terms of quantified impact on oil consumption for the group, should be able to be described in terms of a projected import dependency objective for the group as a whole.”

With this amendment, the US believes the “process” paper could serve as an appropriate basis for the development of an agreed IEA process for the establishment of reduced dependency objectives. We strongly believe, therefore, that the Governing Board, at its November 8–9 meeting, should reach agreement along these lines, and that the process described in the SLT Chairman's note for the articulation of the

⁴The text of Davignon's statement was transmitted in telegram 31468 from USOECD Paris, October 25. (*Ibid.*)

reduced dependency objectives should begin promptly thereafter. *End text.*⁵

Robinson

⁵ According to telegram 33425 from USOECD Paris, November 10, the IEA Governing Board “took important step November 9 and adopted satisfactory decision to initiate process for establishing reduced dependence objectives by 1985 for IEA, as proposed by Secretary Kissinger during last OECD Ministerial,” despite “efforts by some delegations (particularly UK) to weaken exercise.” (Ibid.)

106. Memorandum From the President’s Assistant for National Security Affairs (Scowcroft) to President Ford¹

Washington, October 28, 1976.

SUBJECT

Possible Oil Price Increase: Letters to Key OPEC Leaders

We have been receiving increasing indications [*less than 1 line not declassified*] through public statements of officials of various OPEC countries, that a decision to increase the price of oil may be taken at the meeting of OPEC Petroleum Ministers in December.

It is important that you make known to key OPEC leaders, forcefully and unequivocally, your opposition to any such price increase. It would have serious and perhaps even catastrophic effects in both developed and developing countries.

—In the case of the developed countries, an increase would have a significant inflationary and recessionary impact. Our analysis indicates that a 15 percent increase in oil prices would cost the developed countries \$15 billion directly and \$32 billion in reduced GNP. Even in countries where economic recovery is well underway, its continuation is by no means assured. In other developed countries, the recovery remains fragile and uneven, while in still others it has scarcely begun. The critical balance of payments difficulties of Italy and the United Kingdom would of course be made significantly more severe, with consequent

¹ Source: Ford Library, National Security Adviser, Presidential Subject File, Box 5, Energy (17). Secret. Sent for action. A stamped notation on the first page reads: “The President has seen.”

additional strain on the economic and political stability of those countries.

—In the case of the oil-importing developing countries, the cost would be \$3.5–\$4 billion, roughly half in direct costs and the other half from oil-related increases in import prices. Some of the healthier economies have been able to begin to adjust to the quadrupling of oil prices since 1973, and are also feeling the positive effects of increased economic activity in the developed countries. Other developing countries, however, remain in desperate financial straits and are politically unable to further curtail their imports. Their increased oil bills represent a direct burden on the already strained international financial system.

The attached letters to the Shah of Iran, King Khalid of Saudi Arabia, and President Perez of Venezuela² point out how disruptive a price increase would be, both politically and economically, and also rebut the argument that a price increase is necessary to offset the increased price of OPEC imports from the developed countries. The letters are somewhat firmer in tone than your previous communications on this subject,³ as is appropriate given the apparent willingness of the oil producers to continue to maximize their short-term income at the expense of the global community. The letters also point out that an increase would negatively affect the images of the producers in this country at a critical time.

Saudi Arabia's position on oil prices has been consistently more moderate and responsible than that of the other oil producers. They singlehandedly blocked the last attempt at increase by walking out of the Bali OPEC meeting. We have recently had indications, including your recent conversation with Prince Saud,⁴ that the Saudis remain concerned about the effects of a price increase but need our help in reducing pressure on them from other oil producers. Your letter to King Khalid reflects this distinction. It also reassures those Saudis who reportedly believe we are not sufficiently appreciative of what they have done to date in holding the line on price increase.

I have requested development of an overall strategy paper on this issue,⁵ to include diplomatic options for complementing these letters. I will report to you separately on the recommendations of this strategy paper.

² See Document 110.

³ See Document 80.

⁴ See footnote 6, Document 103.

⁵ The strategy paper, "Policy Actions to Attempt to Influence the Saudis to Hold Price Line in December OPEC Meeting," is attached to an October 25 memorandum from Executive Secretary of the Department of State C. Arthur Borg to Scowcroft. (Ford Library, National Security Adviser, Presidential Subject File, Box 5, Energy (17))

Recommendation:

That you approve the letters to the Shah of Iran, King Khalid of Saudi Arabia, and President Perez of Venezuela, which are attached at Tab A. If the letters are satisfactory, I propose dispatching them by cable and following up with originals which you can sign on your return to Washington. (Secretary Kissinger, Alan Greenspan and Clement Malin of FEA concur)⁶

⁶ Ford approved the recommendation. The Department sent instructions to Ambassadors in OPEC capitals—not including Jidda, Caracas, and Tehran—to “make early approach at highest available level to host governments to convey our concerns over the impact of a further oil price increase.” (Telegram 279392, November 12; National Archives, RG 59, Central Foreign Policy Files, D760424–0298) The Department also sent guidance to all diplomatic posts “for use in any conversations with host government officials in which the December OPEC price decision is raised.” (Telegram 278391, November 11; *ibid.*) Kissinger also sent a personal message regarding U.S. concerns about an oil price rise to the Foreign Ministers of Brazil, Peru, India, Sri Lanka, Yugoslavia, Congo, and Zambia. (Telegram 281096, November 16; *ibid.*, D760426–0833)

107. Telegram From the Mission to the Organization for Economic Cooperation and Development to the Department of State¹

Paris, October 29, 1976, 1940Z.

32138. Subject: CIEC: Text of G–8 Paper on Energy Investment Tabled by U.S. in ENC.²

Begin text:

Proposal for Cooperation in Energy Investment

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D760404–0665. Unclassified; Priority. Repeated to all OECD capitals, Algiers, Jidda, Buenos Aires, Brasilia, Yaounde, New Delhi, Jakarta, Baghdad, Tehran, Kingston, Mexico City, Lagos, Islamabad, Lima, Cairo, Caracas, Belgrade, Lusaka, Kinshasa, and USUN.

² The seventh round of the CIEC commissions was held in Paris October 20–28. Discussion on the first day was devoted to an EC working paper on “Energy Cooperation” that had been introduced on the last day of the September round. The Saudi co-chairman described the paper as an “attempt to establish a mechanism which could be used to deprive producer countries of their ‘sovereign right’ to dispose of their resources as they saw fit.” (Telegram 31366 from USOECD Paris, October 22; *ibid.*, D760397–0268) The October 22 and 23 sessions are summarized in telegram 31467 from USOECD Paris, October 25; the October 25 and 26 sessions in telegram 31793 from USOECD Paris, October 27; and the October 27 and 28 sessions in telegram 32132 from USOECD Paris, October 29. (All *ibid.*, D760399–0139, D760401–0556, D760404–0652)

1. Participating countries recognize that the establishment and maintenance of a satisfactory global balance of energy supply and demand during and beyond the transition period will require major capital investment in the exploration, development, and utilization of new energy, both conventional and non-conventional. It is recognized that in order to create a climate more conducive to investment under mutually satisfactory conditions, international cooperation on a continuing basis should be intensified.

2. The industrialized countries recognize the need to facilitate investment in the development of energy resources, conventional and non-conventional, in their own territories and in the developing countries commensurate with the urgent need to assure adequate world energy supplies. In this regard, they recognize the need to maintain and improve access to capital markets by the developing countries.

3. The oil exporting countries recognize the need to take account of the world's requirements for energy, and in particular requirements for oil and gas, during the transition period in formulating their plans for investment in new production capacity and supporting infrastructure.

4. The participating countries recognize that the accelerated development of the indigenous energy resources, conventional and non-conventional, of the energy deficient developing countries is essential to the economic progress of these countries. This development will require major amounts of capital. The industrialized and oil exporting countries, to a greater or lesser extent, are the primary sources of such capital.

5. Participating countries recognize the important role the private sector plays in providing much of the capital, as well as much of the technology and know-how, for the exploration and development of the energy resources of the energy deficient developing countries. It is also recognized that, in order to facilitate the flow of such capital into energy resource development in the EDDCs, unnecessary constraints should be reduced. In this respect, cooperation agreements between investing and host countries could be appropriate in some cases. Foreign investment should be consistent with the needs of the host countries and make an optimum contribution to the fulfillment of their economic development plans.

6. The Energy Commission conducted a preliminary examination of the proposal to establish an International Resources Bank to facilitate investment in raw materials, including energy, in developing countries, with particular attention to its potential to facilitate increased investment in energy development in the energy deficient developing countries. The participating countries welcome the recent decision by the IBRD/IMF Development Committee to study the International Resources Bank proposal and suggest that the Development Committee's

examination of the proposal take account of the urgent need of many developing countries to reduce their dependence on imported energy.

7. It is also recognized that the official international lending institutions have played and will continue to play an important role in the development of indigenous energy resources in the energy deficient developing countries. Participating countries recommend that these institutions, in the context of their overall development lending activities, recognize the urgency of the energy investment requirements, including infrastructure, of such countries.

End text.

Katz

108. Memorandum of Conversation¹

Washington, October 30, 1976.

PARTICIPANTS

Secretary Kissinger
 Mr. Robinson, Deputy Secretary
 Mr. Rogers, Under Secretary for Economic Affairs
 Mr. Katz, Assistant Secretary for Economic & Business Affairs
 Mr. Atherton, Assistant Secretary for Near East and South Asian Affairs
 Jock Covey, notetaker

SUBJECT

OPEC Price Increase

Robinson: There are two reasons for this meeting. One, to make it clear that an OPEC price increase would have a crucial effect on European economies and, secondly, that the only strategic thinking that anyone has shown so far is contained in the Presidential letters² that you saw a couple of days ago—and nobody feels that these letters will be a breakthrough.

Kissinger: No, the only thing the Arabs understand is threats and promises.

¹ Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 180, Geopolitical File, Middle East. Secret; Sensitive; Nodis.

² See Document 110.

Katz: They know that they will bear the burden of the consequences.

Kissinger: That is crap! They know no such thing.

Atherton: The Saudis do.

Kissinger: But you know the Shah does not understand.

Rogers: He thinks in terms of the myth. He just doesn't understand how rickety the UK and Italian economies are. We can propose an action program right now, but we probably should wait until Tuesday to decide who we should send out there.

Kissinger: Who did you have in mind?

Rogers: Any of us or maybe Alan Greenspan.

Kissinger: Absolutely not! The present state of our own economy is proof that it would be stupid to send him. He is a slightly more polished version of Zarb, who did such a great job on the Iran oil deal. The Shah will not listen to another amateur in business for himself.

Katz: You think it would be better to send someone from outside the government?

Kissinger: Sure.

Atherton: What about David Rockefeller?

Kissinger: Too soft.

Robinson: If production limits do not go up, then the prices will go up. The Saudis are expecting us to be responsible and by that they mean they expect us to show responsibility in arms sales and in our handling of the boycott and in our behavior in CIEC.

Kissinger: CIEC! Bullshit! They have nothing to gain in CIEC.

Robinson: You are absolutely right, but that is what they are saying. The oil companies are accelerating the whole process by paying up to a 50¢ premium on the oil they are buying now. They are laying in their stocks before the price goes up and they expect to make a large profit on it and they have clearly signalled that they expect a price increase. Now we have got to make it clear to these guys how disastrous a price increase would be for the situation in the UK and Italy. These guys are not naive. They are among the most sophisticated economists in the world, but they must be motivated. We have to get to them but we cannot do it ourselves. We have to coordinate this with the British and with the Italians.

Kissinger: Bullshit!

Robinson: We should not be in the position of pleading for Europe.

Kissinger: I want Porter to get back there. There is no sense not having our Ambassador in place there. He is doing us no good on that promotion board. Do you think you need him there?

Atherton: It's not all that busy.

Rogers: The OPEC price increase is the biggest financial event in years.

Robinson: It does not look as if we are concerned.

Kissinger: Just get him back there and I need by Monday a strategy paper.³ For the Saudis we have to consider arms, discriminatory legislation . . . but I do not think we can get the UK and the Italians to go along.

Robinson: I just don't think we should be in the position of pleading for the Europeans.

Kissinger: They will not get out in front. They will try to show that they are all good boys and after all, we are pleading for the *world* economy. But we will never get anybody—not the French, maybe the Germans.

Let's have a talk with the French, British and Germans. See what they think about the price increases and what they will be doing to deal with it. What penalties do they suggest to try to avoid it?

Robinson: What about the Japanese?

Katz: They will run.

Kissinger: They are all terrified. The Japanese will not join anything. Let's do this on an informal basis. Ask the Ambassadors in Washington to get papers. Can you (Robinson) follow that?

Robinson: Yes. Just a word on Mexico. They need capital to develop the Gulf oil field. The idea is to get U.S. oil companies to participate—to be paid out of future proceeds.

Kissinger: How would you do that?

Robinson: Jova discussed the plan with Lopez-Portillo. He says that he is receptive to the idea. We ought to have someone go down there, though . . .

Kissinger: Who do you have in mind?

Robinson: Bill Rogers would be good.

Kissinger: Fine.

³ Not found.

109. Memorandum of Conversation¹

Washington, November 8, 1976, 2:30 p.m.

SUBJECT

OPEC Meeting on Oil Price and CIEC Ministerial

PARTICIPANTS

The Secretary
The Deputy Secretary
Under Secretary Rogers
Assistant Secretary Atherton
Paul Boeker, EB
Richard Vine, EUR
Robert Hormats, NSC
Stephen Bosworth, EB/ORF (Notetaker)

[Omitted here is discussion unrelated to energy issues.]

The Secretary: All right, on OPEC ... what are we trying to accomplish?

Rogers: We want at a minimum to eliminate any OPEC price increase or even to have the current freeze extended. The issue has enormous significance. A 15 percent price increase will reduce the GNP of the seven largest industrialized countries by \$32 billion.

The Secretary: Why?

Rogers: That is assuming no offsetting policy measures. It will happen because ...

The Secretary: How did we keep Joan Braden² out of this meeting?

Rogers: I am having another meeting on this subject. She will be included. Do you want her here?

The Secretary: No.

Rogers: A 15 percent increase for the US will impact on our trade balance by \$11 billion. It will reduce GNP growth from 5½ to 4½ percent.

The Secretary: How do we answer the Shah's point when he asks why he should pay the price of our lousy policy?

Rogers: In fact, the increase of his import costs is only 4 percent. He has no case for price increase.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P820118–1904. Secret; Nodis. Drafted by Bosworth on November 19. The meeting was held in the Secretary's office.

² Consumer Affairs Coordinator and Special Assistant, Bureau of Economic and Business Affairs.

Robinson: This is basically correct. But the Shah and the rest of OPEC feel that the best [*last?*] price adjustments were not adequate. The LDCs will be the hardest hit. A 15 percent increase would raise the oil bill by \$3.2 billion. And exports would also be hit, but in effect, the total cost would be perhaps \$5 billion. The LDCs', of course, strongest argument is for holding down prices. But the OPEC also claim that we are not reducing oil consumption and that they will be helping us to do that by raising prices.

The Secretary: This is just an elegant way of saying that market conditions are favorable to an increase.

Robinson: We must bring every effort to bear on this.

The Secretary: Another round of bleeding argument won't work. What does Porter say about this?

Robinson: Saudi Arabia has already said it won't support an increase.

The Secretary: But that is what the Saudis always say.

Hormats: We must also pressure Iran and Venezuela.

The Secretary: What is our pressure?

Rogers: We have the arms supply point, the bids to fill the strategic oil reserve, and our imports of the LNG.

The Secretary: The SOR is no longer of interest to them. They are now selling as much as they can produce. The SOR is now bidding up the oil price. This is a classic example of why we are in this mess. We had a 15-month window in which we could have had a \$1 price cut. The geniuses wanted \$3. It is a classic horror story of what happens when we subordinate strategy to bureaucracy.

Atherton: It is not typical of the Shah to react favorably to a threat on the arms issue. It would be more likely that he would call our bluff and go elsewhere.

The Secretary: It is not viable unless we get French cooperation. I am more inclined to get the IEA together and say what we are going to do.

Rogers: That is important, but it doesn't impact on the decision.

The Secretary: I think we ought to meet with the IEA at as high a level as possible.

Rogers: Why not at your level? We could call urgently for a meeting to discuss the price increase.

Robinson: Some of these things are better pursued bilaterally.

The Secretary: We can arrange that in the context of an IEA meeting.

Hormats: The IEA might be somewhat too public. Bilaterals with key Europeans followed by emissaries to key OPEC countries might be more suitable.

The Secretary: Who would we send?

Hormats: It could be Bill or yourself.

(Secretary leaves briefly and then returns.)

Rogers: Mr. Secretary, I think we have an idea to propose. First, we will have Jules Katz make a statement in the IEA meeting, which is going on today and tomorrow, about the OPEC price issue saying that we want to consult.³ We will then get the Ambassadors of four major countries (UK, Germany, France, and Japan) in here and say we want to begin urgent consultations. We will stress that we should make coordinated *démarches* to the OPEC countries on arms. We will need to know whether we can talk from a common front.

The Secretary: You can't have the Japanese. They will go immediately to the Arabs and tell them everything.

Robinson: Do we know for sure that the UK doesn't favor a price increase?

Vine: Yes, they are sweating a possible increase.

The Secretary: OK, so we have a statement by Jules Katz.

Rogers: We will try to draft something right after this meeting.

Robinson: Shouldn't we also have a public statement?

The Secretary: Yes, we have to do something publicly.

Rogers: First, we have to level with the public on the impact of a price increase. We have the CIA analysis.⁴

The Secretary: We can't talk tough unless we say what we are willing to do.

Rogers: We can then say we are consulting with the Europeans and make *démarches* to OPEC on possible consequences of price increase. Would it be appropriate for you to say that?

The Secretary: When?

Rogers: As soon as possible.

The Secretary: Who will talk to the Ambassadors?

Rogers: You could do it, or I could do it.

The Secretary: You do it. Let's get the Saudi Ambassador in here. I want him to understand that this is not a minor matter. It could affect the whole US attitude toward the Mid East.

³ Katz's statement in the November 8–9 IEA meeting is in telegram 33245 from USOECD Paris, November 9. (National Archives, RG 59, Central Foreign Policy Files, D760417–0660) A summary of the meeting is in telegram 33428 from USOECD Paris, November 10. (*Ibid.*, D760419–0298)

⁴ Not further identified. On November 12, *The New York Times* reported that a Department of State spokesman said that the Department had told OPEC of U.S. opposition to a price rise.

Robinson: We should also do the Iranian.

The Secretary: Let's get them both in here.

Atherton: I think a good argument is the one about getting off to a good start with the new US Administration.

The Secretary: But the problem is that they would like to stick the old Administration rather than the new one. I want to tell them that if they increase the price, I'll make sure they pay a heavy price themselves.

Hormats: Another point is the international financial system. A price increase could topple it. We have already massive LDC debt.

The Secretary: That is how we got Downey released from China. We said his Mother was dying. They let him go and his Mother has never looked better. We can try that argument, but I don't think it's too strong. OK, within 48 hours I want the French, German, and British Ambassadors in here. We want to talk about what coordination measures they would be willing to take. We will send letters from me to their foreign ministers setting out the problem, indicating what might be done, and asking for urgent consultations.⁵ We want to know their attitude toward particular items. In the meantime, I'll see the Iranian and Saudi Ambassadors.

Hormats: I think you should also include the Venezuelans.

The Secretary: OK. I don't think anyone should visit these countries until we get some answer on the consultations with the Europeans.

Rogers: I don't see what Simon can do.

Robinson: He is PNG in Saudi Arabia from his last visit.

The Secretary: Why?

Robinson: He threw his weight around and aroused a lot of antagonism.

Boeker: The political argument might be more effective. The Vice President might be a more appropriate emissary.

The Secretary: You go and then have them turn us down; that will cost us.

Hormats: But the only way to make these points is with a personal visit.

Robinson: There is a problem in the Saudi Government on this issue. With Yamani on one side and the King and others opposed.

⁵ Telegram 280066 to London, Bonn, and Paris, November 13, transmitted the text of Kissinger's letter that Rogers gave to U.K., West German, and French Embassy officials in Washington. The letter to the Foreign Ministers proposed "consultations on possible common elements of approaches to the oil producers." (National Archives, RG 59, Central Foreign Policy Files, D760425–0190)

Hormats: Fahd is the key.

The Secretary: There are two reasons to send someone—to see that they are doing something and to see what, if anything, we can achieve.

Atherton: I like the idea of the Vice President.

The Secretary: That is out of the question.

Atherton: But they will listen to . . .

The Secretary: What about Ford?

Rogers: It won't hurt his political future.

The Secretary: I have no problem with the Vice President, but let that issue wait until we do the other things.

Boeker: There is one other issue which is related to this. The Europeans are having trouble getting themselves together on CIEC, and they may try to get it postponed and blame it on us.

The Secretary: I'm strongly in favor of postponing the CIEC Ministerial. Who's been saying it should not be postponed?

Boeker: It may well happen, but that does not fit well with our plan with oil price increase. If it is possible, OPEC will raise prices in December and then face us with a second price decision after a postponed Ministerial. They will set us up for a double dip.

The Secretary: I don't understand how anyone cannot favor a postponement. I don't understand what this Administration could produce with only four months to go.

Robinson: That is right. The G-77 has asked Perez Guerrero⁶ to go to Carter. We also have a report that Kuwait wants a postponement.

The Secretary: That is fine.

Boeker: But can we accept the possibility that it is postponed because of us?

The Secretary: CIEC would be a disaster. We have no Administration that can take any decisions. Who is talking about our wanting a December Ministerial?

Rogers: All we are saying is that we not take the initiative for postponement.

The Secretary: Why don't we take the initiative?

Robinson: I have already discussed with the French, the Dutch and Australians.

Rogers: The problem is the Europeans would like to postpone it and blame it on us. We should maintain our current position through the November session.

⁶ Manuel Pérez Guerrero of Venezuela and Canadian Foreign Secretary Allan MacEachen were co-chairmen of the CIEC.

The Secretary: I don't see what the advantage is of having it. If, by the end of November, it is not postponed, then we should take the initiative. We won't deal and we shouldn't give the impression that we can.

Boeker: But we have to be careful that we do not pay a price for postponement. We don't want to raise LDC expectations.

The Secretary: But what can we possibly produce. If the election had gone the other way, I was willing to use CIEC to make a step forward. But now it is senseless to try and do that. It would be irresponsible for us to try to take a major step in December. Nothing can come out of the meeting four weeks before a change in Administration.

Robinson: A December CIEC meeting certainly won't satisfy the LDCs.

The Secretary: If it hasn't been postponed by November 20, we should take the initiative. I don't know what I would do at the December Ministerial.

Rogers: We can wait through the November commission session.

The Secretary: We can't possibly get a good package by December—only a bureaucratic deal.

Boeker: If we take the initiative on postponement we may have to pay.

The Secretary: Why should we pay? Just tell them. Tell the Europeans that on the whole we think postponement is in the interest of the dialogue.

Hormats: It gives the LDCs a pretext. They can say we are dragging our feet.

The Secretary: But we can't go forward now and should just tell them. They are not children.

Rogers: It is really their problem. That is, to decide whether to terminate CIEC to take the chance of going forward.

The Secretary: They'd be nuts to break it off. Carter is likely to be more forward. CIEC is not a way out of an oil price increase. If the Administration were not changing we could have used the CIEC to head off a price increase. Our position on the whole is that we prefer to defer the Ministerial. If it is not deferred by the twentieth, then we must actively work to defer it. If we have it, I'll send you (Robinson). There is no function that I would have, and I could play games and make a great speech, but so what? Tell MacEachen that this is our view. We won't say anything useful there. What can we possibly get out of Treasury now?

Rogers: They will go for increasing ODA. We have a proposal on your desk.

The Secretary: Fine.

Hormats: We also need strategy for the LDCs.

The Secretary: Who do we approach?

Rogers: The moderate LDCs.

The Secretary: OK. We want letters to the Germans, French, and British Foreign Ministers. Call in their Ambassadors and give them to them. Get the Saudi and Iranian in for me, and the Venezuelan.

Robinson: Do we try to contact MacEachen before he meets with Perez Guerrero?

The Secretary: Yes, tell him our views.⁷

⁷Telegram Tosec 320162/299942, December 10, informed Kissinger that MacEachen and Pérez Guerrero announced the postponement of the CIEC Ministerial until the “first part” of 1977. (National Archives, RG 59, Central Foreign Policy Files, D760455–1196)

110. Letter From President Ford to Venezuelan President Pérez¹

Washington, November 9, 1976.

Dear Mr. President:

The decision last May of the Organization of Petroleum Exporting Countries not to increase the price of oil² was a responsible action which has contributed to the process of global economic recovery. In the spirit of our countries’ close relationship, however, I wish to bring to your attention my deep concern about reports that Venezuela may seek an increase in the price of oil at the December OPEC meeting, and to urge you to bring your country’s considerable influence to bear instead to oppose an increase, which would have harmful effects on world inflation and recovery, the plight of the developing countries, and international economic cooperation.

The oil exporting countries have already made substantial gains in purchasing power as a result of economic recovery and greater de-

¹Source: Ford Library, National Security Adviser, Presidential Correspondence with Foreign Leaders, Box 5, Venezuela—President Carlos A. Pérez. Secret. Similar letters were sent to King Khalid and the Shah on October 29. (Both *ibid.*, NSC International Economic Affairs Staff: Convenience Files, Box 5, OPEC (1)) Telegram 275886 to Caracas, November 9, instructed the Ambassador to inform either the President or the Foreign Minister that similar “démarches” were being made to Saudi Arabia and Iran. (National Archives, RG 59, Central Foreign Policy Files, P840105–0533)

²See footnote 2, Document 98.

mand for oil in the oil-importing countries. OPEC nations will earn \$125 billion this year from their oil exports, about 20 percent more than in 1975, and more than 400 percent above what they earned in 1973 on a similar volume of oil exports. In this regard, I understand that the marketing difficulties confronted by Venezuela earlier this year have eased, at least in part because of the modifications made by my Government in our domestic oil entitlements program. It is unfortunate that Venezuela appears to have responded to this strengthened market position by implementing a unilateral price increase, during a period in which OPEC had decided not to increase the prices.

A further oil price increase would generate inflationary pressures which are not in any nation's interest. Currently the industrialized countries are making dramatic progress in controlling inflation through major policy actions, with the average rate of inflation for major countries falling to half its 1974 rate. Our analysis of the composition of exports from the major industrialized countries to the oil producers indicates that the prices of these goods have risen only by 30 percent since mid-1973, and by only 4 percent over the past year. Prices of our largest export—grain—have actually fallen by \$50 a ton in the last year. But the industrialized countries alone cannot solve the problem of inflation. Oil-producing countries too have a responsibility to control world inflation.

I am also concerned that an increase in the price of oil could undermine the fragile economic recovery and the already weak balance of payments situation in both developing and industrialized countries. The oil bill of the oil-importing developing countries has quadrupled from \$2 billion in 1973 to \$13 billion this year. Some of these developing countries are just beginning to regain a more satisfactory rate of growth and to reduce their trade deficits as demand for their exports has increased and they have begun to adjust to the burden of higher oil prices. Many of the poorer developing countries, however, continue to experience desperate balance of payments difficulties and, as a result, wholly unsatisfactory prospects for economic growth. Among the industrialized countries, there are several which have not yet begun to recover from the severe economic recession of 1974–1975 and continue to experience large balance of payments deficits; a number have virtually exhausted their ability to borrow. Even in the United States, where recent economic activity has been more vigorous, the recovery has slowed. My deep concern, therefore, is that the possibility of truly global economic recovery which we are seeing will be threatened by the slowdown in growth and the adverse inflationary and balance of payments effects of a new increase in the price of oil. All countries have a vital interest in the maintenance and strengthening of the global recovery and the increase in international trade which will accompany it.

Finally, I am concerned that a new increase in oil prices could prejudice the creative and constructive process of dialogue among developed and developing countries to which your government and you yourself have made a major contribution. I am also committed to that process. I have taken a number of decisions to ensure a positive United States approach to the problems of the developing world. This year the United States will provide more funds for economic assistance than in any year since our post-war Marshall Plan, more aid than any other country in the world. I also have committed my Government to give serious consideration to a number of other new approaches to the problems of the developing countries. I am working to maintain support for constructive policies toward the developing world. I believe that further progress in a number of areas of the North-South relationship, including the official development assistance made available to the developing world, should be possible in the coming months. In particular, I am optimistic that the Conference on International Economic Cooperation, which is scheduled to meet at the ministerial level in mid-December, can achieve positive and concrete results beneficial to developed and developing countries. But the international structure which both you and I wish to build must be based on due regard for the impact of individual national decisions on the rest of the world. Actions which appear to overlook this impact seriously undermine domestic support in this country for a constructive approach to the problems of the developing world.

I hope, therefore, that when you have given full consideration to all the implications of the oil price question, the significant influence of Venezuela and your personal stature and international leadership will contribute to a decision by the oil-exporting countries as responsible as that of May and that there will be no new price increase.³

Sincerely,

Gerald R. Ford

³ In his November 20 reply, Pérez wrote that it was "not just to persist in attributing the problems of the world economy, especially inflation, to the Organization of Petroleum Exporting Countries." (National Archives, RG 59, Central Foreign Policy Files) King Khalid wrote to Ford that Saudi Arabia would "continue to play a role to withstand moves" toward raising oil prices," as it always had, but that it could not "impose its will upon all of the (OPEC) members." (Telegram 7452 from Jidda, November 14; Ford Library, National Security Adviser, Presidential Country Files for the Middle East and South Asia, Box 29, Saudi Arabia—State Department Telegrams to SECSTATE-NODIS (15)) The Shah replied that if oil was "sold cheaply," no "alternative source of energy" would be developed and "the world dependence on the rapidly depleting supplies of oil" would continue to increase. (Telegram 277569 to Tehran, November 11; National Archives, RG 59, Central Foreign Policy Files, D760421-0054)

111. Memorandum of Conversation¹

Washington, November 29, 1976, 9:58–10:37 a.m.

PARTICIPANTS

President Ford

Amb. Ali Alireza, Saudi Ambassador to the United States

Brent Scowcroft, Assistant to the President for National Security Affairs

President: It's not very pleasant weather.

Alireza: I rather like it. We are deprived of rain in Saudi Arabia so I appreciate it.

President: First, I appreciate your delaying your trip to meet with me. I wanted to consult with you about an issue that is of importance to us all. It's not a partisan political issue in this country but a problem of general concern. When Governor Carter was here² we discussed it and we are in general agreement on the problem of oil prices.

You were here when I had that good talk with Prince Saud last Fall,³ so I don't need to describe the discussion we had at that time.

We have been communicating with other governments on this issue⁴ and will continue to do so. I am gravely concerned about the world economic situation and the possible impact of an increase in oil prices. I noticed that President Perez visited Moscow where it was announced there was a friendship agreement and that Soviet leaders would visit Venezuela. I am deeply worried about the economic situation both in the more industrial states and in the less developed countries, which are very vulnerable. In Portugal we have been working hard to get a moderate government operating and eliminate Communist influence. A deterioration in this economic situation could reverse the progress we have made. In Italy also there are grave economic problems, which if the present government can't solve, it will undoubtedly bring Communists into the government. Great Britain is now trying to negotiate an IMF loan to stabilize its currency. While it is not directly related, the Australians have just devalued. . . .

¹ Source: Ford Library, National Security Adviser, Memoranda of Conversations, Box 21. Secret; Nodis. The meeting was held in the Oval Office. Brackets are in the original. Ford met again with Alireza on December 14 to discuss OPEC's consideration of an oil price rise at its Doha meeting scheduled for December 15. (Ibid.)

² Ford met with President-elect Jimmy Carter in the Oval Office from 3:40 to 4:44 p.m. on November 22. (Ibid., White House Office Files, President's Daily Diary)

³ See footnote 6, Document 103.

⁴ See footnote 6, Document 106 and Document 110.

I think our two countries have been working together against the expansion of Soviet and Communist influence and I wanted to talk about what we might be able to do in this situation.

I don't need to tell you my feelings for Saudi Arabia over the many years. I have fought hard for Saudi Arabia and supported the closest of relations between us. I fought against irresponsible actions on the boycott on the part of the Congress. I will continue to do so because our aims and objectives are identical. I will continue to do so even after I leave office. But it is difficult when the American people see a price increase which does such damage around the world. I want to help, but when my economists tell me of the jeopardy a price increase could put the world economy recovery in, I want to work with you to deal with this problem.

Soviet influence in the Middle East has been much reduced, but a change in attitude in the United States could also jeopardize that. We want to continue working for peace in the Middle East, but any sharp action by OPEC will make it harder to move toward peace.

I know it is a very difficult problem for the King and I know he is working toward our common goal, but I hope you will communicate to him my deep concern about the economic and political difficulties we face. Again, I am sorry I had to delay your trip.

Alireza: Mr. President, it is always a privilege to be able to meet with you and convey your views to my King.

My government has spent about 10 percent of its wealth in helping other countries around the world. Prince Saud has told me to tell you that we are still doing everything we can, but one thing has changed—demand has now outrun supply. But the problem is political not economic. We will do everything we can without breaking OPEC. But if you could bring pressure on other members it would be helpful. If through your good office you can persuade other producers . . .

President: I plan to meet with others of your colleagues.⁵

Alireza: Tomorrow the pilgrimage begins and the King plans to meet at Mecca to discuss this issue.

As far as Great Britain, Italy, and the other countries you mentioned are concerned, we have done what we could through loans and other measures.

President: You have been very responsible.

Alireza: As far as the Communists and the Soviet Union are concerned, you know our position and I need not repeat it. We greatly appreciate your fight on the Maverick and the boycott with the Congress.

⁵ Ford discussed his concerns about an oil price increase with the Venezuelan Ambassador on December 1. (Ford Library, National Security Adviser, Memoranda of Conversations, Box 21)

President: I have spoken with my successor on this and urged that he oppose further legislation. Notwithstanding his campaign rhetoric, he indicated his position would be responsible.

Alireza: Secretary Kissinger has spoken with me and Ambassador Zahedi, and Deputy Secretary Robinson spoke to me. We understand your message. But again I would urge your intervention with other producers.

President: We shall do so. We have the prospect of a substantial world economic recovery right now, but it is very fragile in a number of areas and I am afraid it could be destroyed.

Alireza: We have been hit hard by inflation in industrial prices.

President: I agree. But we are making progress in that regard, but it takes time. I also appreciate your responsible leadership on Lebanon, such as at the Riyadh conference. I think there is real progress now, thanks to your leadership.

Alireza: I hope you can restrain the neighbor to the south. Without the Syrian troops in the area, the guerrillas will have free rein.

President: We are working with the Israelis on that point and I am hopeful that the Lebanese situation can be resolved.

Alireza: We are grateful for your leadership over your term of office. As you know, the Saud family has for years led the fight against Communism. We are fortunate to have them leading our country. [More discussion on these lines.]

President: We are very grateful for that leadership. I will impress on my successor the importance of our two countries working together for our common objectives.

Alireza: You are not only head of the United States, but the leader of one of the two great powers in the world. We look to you to lead us in the fight against radicalism and leftist influence.

President: Please convey my greetings to King Khalid. Please assure him of my warm regards and my hope that we can continue to work together to meet these problems.⁶

⁶ On December 9, Khalid sent a letter to Ford in which he wrote: "Concerning the price of oil, we appreciate Your Excellency's clarification, and undoubtedly you appreciate the efforts which the Kingdom made to freeze the price of oil for 15 months; we definitely wanted to prolong this period at the coming meeting of OPEC. However, the increasing demand for oil has led to a rise in its price." Khalid explained that the real price of oil had risen 5 percent above its posted price and that "the consumer in Europe and America and Japan, moreover, is paying this price, while the oil companies are benefiting from the differential." Khalid concluded by assuring Ford that Saudi Arabia would "continue its efforts with its friends in OPEC to lighten the burden, and to arrive at the lowest increase (in the price of oil) that is reasonable and acceptable." (Telegram 7941 from Jidda, December 9; National Archives, RG 59, Central Foreign Policy Files, D760455–0563)

Alireza: It is never an imposition for me to discuss with you on behalf of my government. I am always at your disposal.

President: I hope you have a good trip. I think the new Mexican President is a good man. I met with him last September.

Alireza: Their currency is in trouble right now.

President: They have problems but I think with half a chance the new President will do well.

[The conversation ended.]

112. Memorandum of Conversation¹

Washington, December 7, 1976, 10–11:23 a.m..

PARTICIPANTS

President Ford

Amb. Ardeshir Zahedi, Ambassador of Iran

Brent Scowcroft, Assistant to the President for National Security Affairs

Alan Greenspan, Chairman of the Council of Economic Advisors

[There is a brief discussion of the weather here and in Iran, hydro-electric projects in Iran, the Helmand River project. etc.]

The President: Let me extend to the Shah my personal regards. I have great personal regard and affection for him. I hope that in the future years the close relations we have between our two countries will continue. There is a strong feeling in the United States for the Shah and Iran.

But I want to talk about an issue which troubles me—the Doha meeting² and a possible oil price increase. I have read the Shah's letter³ very carefully. I both agree and disagree with it. I agree wholeheartedly with his points about conservation. The industrial world has not done enough, and it is essential. I have proposed a conservation plan which the Congress has not yet accepted. We are searching and we need to do more with respect to alternate sources of energy. I do disagree with him

¹ Source: Ford Library, National Security Adviser, Memoranda of Conversations, Box 21. Secret; Nodis. The meeting was held in the Oval Office. Brackets are in the original.

² The meeting of OPEC Oil Ministers was held in Doha December 15–17. See Document 113.

³ See footnote 3, Document 110.

on the issue of oil price and its relation to industrial prices. These are honest differences between friends.

But let me talk about the impact that an increase will have. There is unanimity among my advisers that the world economic health is not good. Any increase in the price of oil would have a serious impact on the world financial structure. Its precise impact is hard to predict accurately.

An increase would also have a serious impact on our capability to help the developing countries. If economic conditions here don't improve, the American people will ask how they can continue helping the developing world when we have such serious difficulties at home. If our economic situation improves—I am an optimist, but we do have this pause, which I feel will be resolved in the direction of stable growth—we will be able to continue and expand our efforts toward North-South cooperation. The other industrial countries are lagging behind now the United States, and the resources for North-South cooperation simply wouldn't be available if economic progress halted.

I am a strong supporter of the Shah. I think he has done great things for his country and is a strong force for moderation and stability in the Middle East. I spoke out publicly during the campaign in support of the Shah. I want to continue my participation in public affairs after I leave. I want to continue my support of Iran—I would like to visit there at some time. It would help me greatly in my efforts if the Shah could exercise a moderating influence in the OPEC meeting. I understand his position and I agree with part of his position. But we have to look at it in a broader perspective now and I think an increase would have a serious impact on the world economic structure.

Zahedi: It is a great honor for me to meet with you, Mr. President. I want you to know how greatly you are admired by the Shah and by my people. I say that from the heart on his behalf and my behalf.

I don't want to take your time, but two years ago when prices were going up I talked to Secretary Kissinger and Secretary Simon and would have gone to the area right then and would have helped. But the past is past.

Again, the meetings on the North-South dialogue have not gone well. There are people in this government who are not sympathetic. Then under President Johnson and early in the Nixon Administration, when I was Foreign Minister, we proposed that oil resources be set aside to buy industrial equipment on a swap basis. The Congress objected to that too and it never came to fruition.

The decision on holding this meeting in December was accidental, based on a number of countries' budgets. But I have been talking to other Ambassadors about postponing the meeting. I talked with His Imperial Majesty about it, but it is almost impossible. Had I known of

your letter to His Imperial Majesty, I would have urged that it be held earlier or not at all. The timing was not good.

The Shah told me how much respect he has for you and he would like to do whatever he could. But he said he could not propose a change of date for the meeting but would accept it if others do.

On the question of price, he said it is inevitable there would be an increase but he proposed that it be a moderate one. Our industrial import costs are going up rapidly. The price of services has risen tremendously. The price per month has gone up from \$3–4,000 to \$12,000–16,000.

But we do understand the problem, and we have been thinking of only a 10 percent increase. We thought about setting aside 10 percent of each barrel to help the needy countries. This failed, and we compromised on \$600 million of which we—the Arabs—gave 40 percent. Again, on the agricultural fund, we have contributed about \$400 million and the developed countries haven't done too well. Then bilaterally we have set aside about 7 percent of our Gross National Product to help the developing world and our neighbors. [He listed some who are being helpful.]

We do understand the problem. The recommendations for the proposed increase range from Algeria who is proposing 40 percent—that would be irresponsible—to Saudi Arabia which publicly says 5 percent but they are trying to be the white knight. There will be an increase. What would be moderate?

The President: The only way we can reassure the world economy is to have no increase.

Zahedi: That is not possible.

The President: I am telling you the facts. Any increase would jeopardize the economy and no increase would be a shot in the arm. The next best would be a delay. Is that possible?

Zahedi: Now, it is almost impossible. If it were done early in the fall—when Secretary Kissinger and I were joking about it—if you had asked for March, it would have been easy. But Secretary Kissinger said wait until after the election.

I know how you spoke up for Iran and the Shah is deeply grateful. I don't believe any of the OPEC countries would agree to a delay because it would look like they were forced to.

The President: That's why I asked you to come in quietly. I want to have no confrontation, and that is why this meeting is private. You say a delay or no increase is out of the question. Start with the Nigerian 40 percent. That would be catastrophic.

Zahedi: Most of them are talking of 20–25 percent.

The President: That would also be catastrophic. Alan, maybe you can address it in more detail.

Greenspan: I think it is a fact that the world has not yet adjusted to the earlier increase.⁴ The early very sharp increase was very destabilizing. It was possible to accommodate as well as we did because there was considerable lending flexibility, both among borrowers and lenders. Now, however, that flexibility has vanished. The international financial structure is now stretched thin. What is wrong in the strong industrial countries is a lack of confidence. That is the basic reason for the pause. The reason for the confidence gap is the huge increase in debts. The overhang of an oil price increase adds greatly to that lack of confidence. No price increase would have a very beneficial psychological effect around the world. It would bring us together and help the world economy to move again.

I agree with the Shah that oil is scarce and has to be priced against competing fuels. It is a matter of time. Alternate sources take time and tremendous investment.

Since it is a matter of psychological confidence, there is no such thing as a moderate increase. And the psychological benefit of no increase, in the face of all the current fears, would be substantial.

The President: There is just one more thing. The situation, in several countries, is very serious. Take Italy. They are having serious economic problems but at the bottom it is political. If the government can't cope, there will be Communists in the government. In France, the situation is potentially serious, with strong Communist forces. In Portugal, the situation is very tenuous with the government just hanging on and the threat of a collapse. In Spain also, they are making great progress, but it is still fragile. That is why I come back to no increase or a delay. Any increase adds to the danger of a financial crisis, to failure in some governments, even to the danger of military crisis.

Zahedi: I think there is no doubt there will be an increase, especially after the steel price increase in this country. Many newspapers are now speculating there will be a 7–15 percent increase. We would not accept a big increase. There will be an increase, but we are concerned about the security situation in Europe. We know more than most how important Europe is and the dangers of being isolated. That is why we are giving bilateral help to European governments. The price of oil is about one-half percent in the United States and about one or one-and-a-half percent in Europe. Unless people get a shock, they won't realize we have to switch from oil. We have plenty of coal.

⁴ See footnote 4, Document 82.

I spoke in Mexico with President Lopez Portillo. What a great love he has for you.

The President: He is very impressive.

Zahedi: We cannot let Mexico collapse. Some are going to help them. Our Minister of Finance is going there in January.

I think if nothing unusual happens—and the Shah hasn't told me so I am guessing—it would be about ten percent. The highest would be 15 percent and we would fight anything over 15 percent. Less than ten percent, I don't know, but I honestly don't think so. The Shah said I could promise you he would be moderate and very moderate.

I will report this conversation also. But the Shah understands; he has great feeling for you and for the United States. And I feel very strongly about the United States and our relationship. Anything I can do, I would like to.

The President: I appreciate that and I know it is true. That is why I thought we could talk together this way as close friends. Please express to him my admiration and affection for him. I hope that the great influence he has will be directed toward a moderate increase.

Zahedi: I will tell him again. You and Mrs. Ford have an invitation to visit Iran. I hope you come as many times as you can and stay as long as possible. You are a great man and we love you, whether you are in or out of office.

The President: I am very grateful and we would at some time like to take advantage of your very kind offer.

113. Telegram From the Department of State to All Diplomatic Posts¹

Washington, December 22, 1976, 1922Z.

309057. Subject: OPEC's Split Decision at Doha.²

The following is an INR special assessment:

1. Summary. The two-tier oil price system which emerged from the Doha OPEC meeting appears to create an unstable situation. While it evidences the international strains on the cartel, particularly those between Saudi Arabia and such price hawks as Iran and Iraq, we do not believe it means that OPEC is likely to break up, nor necessarily that the Saudis can or will always want to dictate moderate increases. With economic activity in the West still soft and with large stocks on hand, it seems likely that the majority of OPEC will not be able to impose an immediate ten percent price increase, especially if Saudi Arabia increases production to capacity. If the two-tier price structure were to be maintained, it would raise the free world's oil bill in 1977 by about 13 billion dollars above that with frozen prices. A flat five percent increase would add 6.3 billion dollars on to the free world's oil bill. The two-tier price structure would also cost the oil-importing LDCs 1.3 billion dollars, or 500 million dollars above the 800 million dollars additionally pledged by OPEC at Doha. Later in the year, Saudi Arabia might go along with a higher oil price, especially if demand for oil turns firm and a lower price for Saudi oil would merely mean higher profits for the oil companies.

2. OPEC's Split Decision at Doha. It was generally expected that the December 15–17 OPEC Oil Ministers' conference in Doha, Qatar would cause spirited debate, but that the differences would be negoti-

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D760469–1220. Confidential; Priority. Drafted by David H. Vance (INR/REC), cleared by Creekmore and in INR/RNA, and approved by the Director of INR/REC. Also sent Priority to Toronto, Hamburg, Munich, Frankfurt, Milan, Marseille, Bombay, Melbourne, and Sydney.

² A summary of the December 15–17 meeting and excerpts from the December 17 Department of State press conference were sent to all diplomatic posts in telegram 306331, December 18. (Ibid., D760465–0702) The White House released a statement regarding the price rise on December 17 that begins: "We deeply regret OPEC's decision to raise, once again, the price of oil. We very much appreciate the efforts of those OPEC members, particularly Saudi Arabia and the United Arab Emirates, whose sense of international responsibility and concern for the adverse impact of an oil price increase on the world economy led them to advocate restraint and to refuse to go along with the increase proposed by the others. Unfortunately, however, the majority of OPEC members, citing artificial economic justifications and ignoring the destructive consequences of their actions, chose to take a course which can only be termed irresponsible." For the full text of the statement, see *Public Papers of the Presidents of the United States: Gerald R. Ford, 1976–77*, p. 2873.

ated and compromised. To everyone's surprise a compromise between the Saudis on the one hand and the large faction led by Iran on the other hand was not achieved. The result is a two-tier price for OPEC oil. The majority decision, accepted by only 11 of the 13 OPEC states, was to increase prices by 15 percent in two stages—ten percent effective January 1st and another five percent on July 1st. Saudi Arabia and the United Arab Emirates decided to increase their prices by only five percent.

3. The announced prices, represented as is OPEC's usual practice in terms of "marker crude," are 12.70 dollars per barrel as of January 1st and 13.30 dollars per barrel as of July 1st for the eleven, and 12.08 dollars per barrel as of January 1st for Saudi Arabia and the UAE. There is a strong paradox in the eleven's use of this practice at Doha, since the marker crude is Saudi light, and the majority could not in fact control the Saudi price this time.

4. The split-price decision allowed a statement to be issued³ and prevented the meeting from ending in even greater disarray—important in preserving OPEC unity—but it papers over a wide gulf. Saudi Arabia originally insisted on a six-month price freeze while Iran, Iraq, and most of the other countries insisted the increase should be at least 15 percent.

5. Saudi Arabia modified its position only after Oil Minister Yamani flew back for consultation with Crown Prince Fahd, who was acting as Regent, and by phone with King Khalid who was in Switzerland. After Yamani's return, the Saudi delegation simply stated five percent as its final position and made little further attempt to persuade any other delegations to switch over. The UAE had already promised to follow the Saudis' lead on whatever increase they finally proposed.

6. Iran, and most of the other ten countries which finally stuck with them were not prepared to settle for less than ten percent for 1977 as a whole, and there was considerable bitterness about both the Saudis' position and Yamani's tactics.

7. In a press conference at the end of the meeting, Yamani said:

—Saudi Arabia would lift all restraints on oil production and let the market decide how much it would produce.

—He expects the West, especially the United States, to show its "appreciation" for Saudi Arabia's oil pricing restraint by helping bring about a Middle East peace settlement at Geneva and by conceding something to LDC demands in the North-South dialogue.

—The Saudi action does not mean the breakup of OPEC.

³ The final press release was transmitted in telegram 1393 from Doha, December 17. (National Archives, RG 59, Central Foreign Policy Files, D760464–1147)

—The five percent increase will only take from the oil companies the extra profit they have been making recently in the open market because spot prices have been above the OPEC “marker crude” price. (Spot market crude prices are notoriously volatile and and unrepresentative of the prices at which nearly all crude moves under contract. Since spot prices have risen in large part in anticipation of OPEC’s price increase, they would probably have dropped in the absence of such an increase. Had no increase at all been voted, it is unlikely that the oil companies would have been able to reap the extra profit Yamani claims.)

8. Other OPEC countries have also emphasized that cartel solidarity is not threatened, but all express the hope that Saudi Arabia will not hurt them by significantly increasing production to cut into their market shares. Many also warn against “games” by the oil companies to buy at the lower price and sell at the higher one.

9. While consumer countries may be tempted to take comfort from the display at Doha of the traditional difficulties which face cartels, it would certainly be a mistake to assume that OPEC is likely to break up or that the Saudis can or will always sharply restrain price increases. All of the members recognize the benefits they obtain from the cartel and none have any interest in seeing it break up. However bitter they may be, they will strive to paper over their differences and present as solid a front to the world as before.

10. The situation which emerged from Doha, however, seems clearly unstable, and it appears highly unlikely that the dual oil price system can be sustained for long. Saudi Arabia seems serious in its intent to increase production as called for to bring the OPEC price down to its five percent increase. It probably will not be able to bring enough production on stream fast enough to limit the overall price increase to five percent, but with economic activity in the West soft and large stocks on hand, it should be able to compel substantial shaving from the ten percent increase adopted by the remaining OPEC countries, if it follows through on its stated intention to do so.

11. Saudi Arabia is estimated to have excess producing capacity of two to three million barrels per day at present, and can easily push up production by at least one million B/D in a matter of days and by more in a matter of months. Thus failure to meet Saudi prices could mean a substantial loss in market shares for the eleven, and once any price reduction takes place in one or more countries, other countries would find holding out progressively more difficult.

12. There are certain contractual agreements which the companies have with various members of the eleven, and these members can be expected to apply as much pressure on the companies as possible to keep up their liftings on pain of loss of future access. On the other hand,

many of these countries have been the regular “discounters” in the past and there are indications some, particularly Indonesia, probably will not even try to implement the full ten percent to begin with.

13. It is, therefore, probable that the eleven will have to moderate their announced higher increases, although they will use various devices, such as manipulation of differentials, extending longer credits, etc., to put a “fig leaf” on their actions and avoid any formal declaration.

14. The next regularly scheduled meeting of OPEC Ministers was set at the Doha meeting for July 12, 1977, but there is nothing to prevent them from calling a special meeting at any time. There will certainly be pressure for an early meeting to work out their differences and reach a compromise single price.

15. If the two-tier structure were to be maintained and the percentages produced by the two group of OPEC countries were to remain the same as they have been recently the effective increase for the first half of 1977 would be 8.3 percent, for the last half 11.6 percent, and the average for 1977 around ten percent. If the percentages received from each group of OPEC countries by each of the consuming countries were to remain the same as they have been recently (as shown below) and if demand grows at current rates, the impact on the major industrialized countries would be as follows:

Country	Recent Percent of OPEC Imports		Projected Increase in Oil Bill (billion dollars)
	From Saudi Arabia and UAE	From Other OPEC	
United States	31.7	68.3	3.8
Canada	28.8	71.2	0.1
Japan	52.2	47.8	1.8
United Kingdom	26.4	73.6	0.5
West Germany	26.8	73.2	1.5
France	48.9	51.1	0.9
Italy	37.0	63.0	0.9
Avg for EEC “Big Four”	35.4	64.6	—

Country	Average Percent Effective Price Increase		
	1st Half	2nd Half	1977
United States	8.4	11.8	10.1
Canada	8.6	12.1	10.4
Japan	7.4	9.8	8.6
United Kingdom	8.7	12.4	10.6
West Germany	8.7	12.3	10.5
France	7.6	10.1	8.8
Italy	8.2	11.3	9.8
Avg for EEC “Big Four”	8.2	11.5	9.9

For the Free World as a whole, the increase in oil import bills over what they would be with the price of oil frozen is estimated at 12.7 billion dollars if the two-tier price is maintained, as against 6.3 billion dollars for an across-the-board five percent increase.

16. The Oil Ministers also decided unanimously at Doha to increase OPEC's assistance to oil-importing developing countries by 800 million dollars, citing their desire "to enhance solidarity with other LDCs and their efforts to attain a new international economic order." The 800 million dollars only represents around six percent of the additional revenues OPEC nations can expect from the price increase. Furthermore, if the oil-importing LDCs were to find themselves paying the world average for their oil imports and if their demand grows at recent rates, their oil bill will increase by about 1.3 billion dollars, 0.5 billion dollars or 62.5 percent more than the additional aid voted them by OPEC.

17. While it is difficult to say exactly what the situation will be in six months from now, the Saudis may decide or feel forced to go along with a larger increase by that time. If the Western economies rebound strongly and the demand for oil becomes very strong, they may decide that the market calls for an increase and that if they don't take the profit the oil companies will. Further moderation on their part may be forthcoming for political reasons, however, if they feel good progress is being made toward a Middle East peace settlement.

Robinson

114. Letter From President Ford to Saudi King Khalid¹

Washington, December 29, 1976.

Your Majesty:

I wish to express to you directly my personal admiration for Saudi Arabia's demonstration of responsible leadership at the OPEC Ministerial Conference in Doha.² While I continue to fear that even a modest increase may lead to unfortunate setbacks among developed and developing economies, your own example of restraint was most commendable and, I am sure, very difficult under the circumstances.

I regret that most of the other OPEC nations were not motivated by the same sense of shared concern for the health of the world economy upon which we all depend. However, Your Majesty's determination to stand firmly against the many pressures for a larger price rise and to increase your country's oil production has made an important contribution to the cause of international cooperation which is an important goal for both our nations. It has also moderated significantly what could otherwise have been a dangerous blow to the world economy at a particularly difficult time.

I know that my feelings are shared by countless Americans and others throughout the world who see in your decision a further example of the responsible approach to world problems which has been a characteristic of Saudi Arabian foreign policy and which has so ably and conscientiously been maintained under your leadership. I am confident that the United States will, for its part, continue to work closely with Your Majesty's Government for the solution of global economic problems within a framework of cooperation between developed, oil-producing and developing nations. The United States will also continue to work with Saudi Arabia as it pursues its efforts to bring about further progress in this coming year toward our shared objective of a just and lasting peace in the Middle East.

¹ Source: Ford Library, National Security Adviser, Presidential Correspondence with Foreign Leaders, Box 4, Saudi Arabia—King Khalid. No classification marking. Ford sent a similar letter to UAE President Zayed on the same day. (Ibid., United Arab Emirates—President Zayid bin Sultan al-Nuhayan) Scowcroft informed Ford in a December 29 memorandum that the Department of State recommended sending the letters. Scowcroft concurred with the recommendation, noting: "This would be both a useful political gesture, wrapping up the efforts we made to help the moderates hold the line at the Doha meeting, and a further vehicle for reassuring both leaders of our respect and admiration for the decision they took against the majority vote of OPEC." (Ibid., NSC Middle East and South Asian Affairs Staff: Convenience Files, Box 36, Middle East—Oil (7))

² See Document 113.

In closing, I wish to reaffirm my appreciation for Your Majesty's wise leadership and for the contributions which you and Your Majesty's Government have made to the enhancement of relations between our two countries—a relationship of such immense importance to regional and world peace and stability. May Your Majesty continue to enjoy the fullest blessings of health, happiness and prosperity in the future.

With warm good wishes,

Gerald R. Ford

115. Briefing Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Katz) to Secretary of State Kissinger¹

Washington, January 3, 1977.

Preliminary Strategy for Dealing with the OPEC Price Increase

Our intensive diplomatic efforts prior to the Doha meeting² favorably influenced the final OPEC price decision. As late as October, there was a general expectation that prices would be increased on January 1 by about 15 percent.

Because of the Doha decision to establish a two-tier price regime, it is impossible now to predict precisely at what level the price is likely to stabilize during the first half of 1977. Nor is it certain that the eleven producers, which decided on an immediate ten percent increase, will go forward with their announced additional five percent in July. The Saudis have moved promptly to increase production and appear to be very serious in their determination to limit the price increase to 5 percent. Increased Saudi production, along with the anticipated lower demand for liftings because of the pre-Doha buildup of stocks, should put considerable pressure on the other producers to lower their prices. Some of the eleven are already considering how they could lower their effective price by altering their credit terms and quality and transportation differentials. On the other hand, the eleven will undoubtedly

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P770013–0590. Confidential. Drafted by Creekmore on December 30.

² See Documents 109, 110, 111, and 112.

threaten the companies that they risk their future access to assured supply if they shift purchases now to the cheaper producers.

Our evolving price strategy over the first six months of 1977 has two objectives: 1) to intensify pressure on the eleven to lower their prices to the level established by the Saudis and the UAE, and 2) to mobilize world opinion against a new price increase in July. We will be developing a full set of initiatives with other relevant agencies over the next weeks, but we intend to undertake the following actions soon:

—Document publicly the adverse impact of the Doha price decision on the global economy and particularly on the LDCs. I will make this point in my testimony before the Senate Banking Committee on January 5. In addition, we are coordinating in the IEA a common line and agreed projections on the Doha impact for use by member governments in discussions with LDCs and OPEC producers.

—Jawbone the Aramco partners to implement the lower Saudi and UAE price decision by passing the full savings through to their customers. The Saudis have indicated that they will scrutinize the companies' behavior closely and hinted that they would raise prices if the companies try to circumvent the Doha decision by pocketing "wind-fall profits".

—Continue our efforts to intensify LDC pressures on OPEC by making them more conscious of the adverse impact of high oil prices on their development. Our embassies have been given a series of studies that provide guidance for discussions with LDC governments, which we will update regularly. We will also continue to push this issue in upcoming CIEC sessions.

—Request the World Bank to undertake for the first time a study on the impact of high oil prices on LDC development. The Bank has refused to single out the price issue in the past largely because of its need for OPEC funds. However, because its reliance on OPEC funding is reduced now and because of the wide international discussion of the adverse impact of oil price increases, the Bank may be prepared to undertake such a study at this time. If so, its results will reinforce the case that we have been making.

—Work with CIA to develop an analysis of the impact of another price increase on the industrialized and developing countries in preparation for major diplomatic démarches prior to the OPEC meeting in July.

—Use the Doha decision as the basis for mobilizing Congressional and public support for a firm commitment to new tough measures to reduce our import dependence and to support the reduced dependence exercise in the IEA. A strong commitment to new energy initiatives would jar the perceptions of the OPEC producers, many of whom believe they will be able to control oil prices with impunity in the fore-

seeable future. I will make a strong pitch in this direction in my January 5 testimony.

To force the eleven to lower prices, it is imperative that Saudi liftings be maximized. The price differential should be a powerful incentive to induce companies to purchase all the oil the Saudis will produce. But should this not be the case, some form of USG encouragement to our companies or to the Saudis might be called for. We will continue to monitor the situation closely over the next several weeks to determine what if any action might be needed.

116. Telegram From the Embassy in Kuwait to the Department of State¹

Kuwait, January 12, 1977, 0955Z.

210. For the Secretary and Asst. Sec. Atherton. Subject: Suggested Consideration of Policy Options and Actions To Support Saudi Arabia/UAE in OPEC Price Increase Dispute.

1. Summary: The uncertainty and confusion resulting from the two-tier oil pricing system which emerged from the Doha OPEC meeting² are being compounded by the prospect of reduced liftings by some oil companies from OPEC eleven countries. Despite the great wealth of many of the eleven, their industrial and development commitments continue to require a high level of financing supplied by oil sales. The Doha meeting produced a crack in the facade of OPEC solidarity which is possibly worthwhile exploiting now in order to counteract the irresponsible trend displayed in OPEC actions. The USG should study carefully and consider seriously what policy options are open to support Saudi Arabia's effort to hold the oil price increase to five percent and to persuade the OPEC eleven to settle for the same increase level by a variety of actions, including reduced liftings, increased non-OPEC production, drawdown of stocks and reserves, and conservation measures, as well as renewed diplomatic "jawboning." Failure of this Saudi/UAE bold action due to lack of support from consuming nations

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D770011–0988, Secret; Priority; Exdis. Repeated to Abu Dhabi, Caracas, Doha, Jakarta, Jidda, London, Tehran, Tokyo, Baghdad, USOECD Paris, USEC Brussels, and Dhahran.

² See Document 113.

could lead to eventual economic confrontation as well as damage to the political position of the West in the Middle East. End summary.

2. I have reviewed the spate of messages (including those from Kuwait) on post-Doha OPEC meeting developments and am prompted to offer the following observations and suggestions. Although most messages have stressed firm intention of OPEC eleven to hold firmly to their agreed oil price increase (at least the initial ten percent), with the expectation that Saudi Arabia (and the United Arab Emirates) would eventually fall into line, a current of uncertainty and confusion about the impact of the two-tier price system has been registered throughout. Another factor which emerges is the apparently serious determination of Saudi Arabia to maintain the lower five percent price increase by raising its oil production level.

3. Reduced Liftings: More recent developments have indicated that various oil companies, both small and large, have indicated to a number of producers among the OPEC eleven that they would be reducing or—in the case of a few smaller buyers—suspending their normal liftings in the first quarter of 1977. Here in Kuwait, two of the three major purchasers, Gulf and Shell, have reduced liftings; BP apparently will follow suit shortly. Oil Minister al-Kazemi has already announced publicly that Kuwait's crude production would be lowered because of such reduced liftings. Iran, too, has reported a one-third reduction in normal liftings and has threatened publicly to "blacklist" those oil companies involved. A wire service report indicated that Exxon was planning to supply some Saudi Arabian crude to its Aruba refinery, heretofore reportedly run on Venezuelan crude.

4. Production Requirements. While one might assume that Kuwait, with its surplus wealth, could manage quite well on a lower output, this is not necessarily so. Kuwait is dependent upon associated gas for the generation of power, the demand for which is increasing rapidly and hit its high point during summer. Moreover, Kuwait is constructing a billion dollar gas utilization plant for production of LPG which will require by 1978 at least a two million B/D crude production if it is to obtain the necessary associated gas to commence partial operation. I am not fully familiar with the situation in the other OPEC eleven countries, but I am aware that a number of them, such as Iran, have extensive development programs which will need a continued high level of financing. It is therefore clear that the combination of the high level of oil purchases during the last quarter of 1976 in anticipation of the price rise, and reduced liftings in the first quarter of 1977 will put a certain squeeze on some of the OPEC eleven producers.

5. OPEC Threat to World Economy. Simple analysis shows that the trend in OPEC, as demonstrated by the actions of the OPEC eleven, is one which points toward continued irresponsible behavior on the part

of the OPEC majority in respect to oil pricing. Continuation of such arbitrary price increases as have been levied by the cartel can only lead to eventual serious global economic consequences or even conflict. Repeated distortion of the world's economic structure as the result of continuing price increase jolts will have far-reaching repercussions of a political as well as economic nature. Efforts to improve the lot of the developing countries in the framework of the North-South dialogue will prove fruitless if deliberations are continually upset by the introduction of a new set of economic equations and political problems—both in the developed and developing countries—brought on by a senseless succession of OPEC price increases. Moreover, the disarray in the industrialized world will afford an unsurpassed opportunity for the Soviet Union to tilt the global balance in its favor.

6. Consideration of Policy Options and Actions. Although one cannot say that there has been an irrevocable split in OPEC, the results of the Doha meeting have certainly produced a crack in its facade. We should therefore take this opportunity to examine what policy options and actions this development offers the US and the other industrialized countries to counter the potentially unfavorable future impact of OPEC policies and actions.

7. Support for Saudi Arabia. In the first instance, it is clearly in our interest to support the Saudi/UAE effort to restrict the oil price increase to five percent. This support may be demonstrated in a number of ways. Some have been suggested by Yamani himself, i.e., movement toward a Middle East peace settlement and progress in the North-South dialogue. I have not viewed these as conditions—indeed such progress would support our own policy objectives in these fields. Other ways to support Saudi determination in the matter could take the form of favorable response to further requests for arms—provided these are reasonable and do not disturb the military balance in the Middle East which is already considerably weighted in Israel's favor.

8. Complexities of Situation. Although I assume consideration is already being given in the Dept. and elsewhere to possible steps the USG might take in this situation, I am not privy to any information in this regard. Nor is it easy to discern from this vantage point what actions, if any, may even be possible and effective. I am broadly aware of the complexities of the oil distribution and marketing system, and of the severe limitations placed on the flexibility of oil companies by their contractual purchase commitments and refinery supply requirements as well as of governments by domestic legislation and politico/economic pressures and demands in both the US and, especially, in Western Europe. I am also fully cognizant of the fact that the complexities of the situation will tend to dilute the effectiveness of any possible actions which may come in mind.

9. Possible Courses of Action. Nonetheless, with these caveats in mind, clearly I would like to outline below a few courses of action which could merit consideration:

A. USG might examine, in the context of the International Energy Agency (IEA), ways in which non-OPEC oil production could be rapidly maximized during this year, with emphasis on what measures might have some effect in the initial six months prior to the next OPEC meeting scheduled July 12. Emergency measures by the USG to increase our domestic production could also be considered: North Sea production, particularly Norway's, might be expanded, etc.

B. Temporary measures to restrict both purchases and consumption of OPEC eleven oil should be undertaken, e.g. stocks which are now at a high level should not be replenished as early as usual, reserves might be drawn down, etc. Above all, restraint should be exercised so that the buying spree which preceded the present price rise does not occur again before the next price increase scheduled for July 1. There are already indications of prospects that the additional five percent increase raising the total oil price by fifteen percent might be abandoned in the hope of attracting a by-that-time disillusioned Saudi Arabia back in order to restore OPEC unity.

C. IEA governments should seek to coordinate with their oil companies to ensure that the latter make every effort to limit their purchases of OPEC eleven oil to the greatest extent possible. Reduced purchasing pressure should be brought on those countries among the OPEC eleven which might be more vulnerable, such as Kuwait, which is already uneasy about its being at odds with Saudi Arabia over this issue, and whose oil is already more difficult to market because of its high sulfur content and its gravity. Indonesia, which has increased the price of its key Minas crude by only 5.9 percent, might be amenable to friendly pressure to bring the rest of its crudes down to the five percent level, if liftings of those were to be reduced. Conversely, the oil companies might try to increase their purchases from Iraq, which in the past has demonstrated its willingness to ignore OPEC price strictures by granting favorable discounts in order to increase its sales volume. In addition, assurances should be obtained that Saudi Arabia and UAE will give sympathetic consideration to requests for crude from those oil companies which are not regular customers.

D. In the diplomatic field, USG and its allies should be willing to undertake a much more vigorous diplomatic campaign of "jawboning" members of the OPEC eleven. For example, we should make a maximum effort to counsel restraint to our ally, Iran, which because of its importance as large oil producer, has probably been the most irresponsible of all the OPEC members in demanding higher and higher price increases over the years. (My Saudi Ambassadorial colleague has al-

ready wryly commented on the minimal pressure exerted by the USG on Iran in this question.) While I recognize our dependence on Iranian purchases of US products and services (including the military category) as well as on Iranian oil in certain instances, I believe the time has come for the USG to demonstrate its displeasure with Iranian actions in OPEC in a firmer and sharper manner. Irresponsible threats to blacklist American oil companies which choose to buy oil at the lower Saudi price should not be meekly accepted.

10. Extent of Impact. The actions outlined, if feasible, should be taken with least fanfare possible. I do not suggest that we seek to engage in direct economic confrontation with the OPEC eleven. I do believe, however, that the uncertainty and confusion prevailing among them can be utilized to shake the arrogance and self-confidence brought on by the headiness of their great wealth to a sufficient extent to enable us to profit from the responsible attitude displayed by Saudi Arabia and the UAE. Even if such measures as proposed are only partially effective, the cumulation of their impact, if it comes early enough, could possibly be enough to persuade the OPEC eleven to settle for a five percent increase—or at least not raise the increase to 15 percent.

11. Recommendation. After weighing all the complications that are easy to foresee as well as the difficulties of discreetly organizing such an effort, I still feel that this situation presents an opportunity which should not be missed. Indeed, the price-conscious oil companies have already shown the way by their initial reactions. They should be supported by their governments. So should Saudi Arabia and the UAE for their politically independent stand. If the Saudi/UAE effort fails for want of support from the nations their action would benefit, I fear for the future behavior of OPEC which might indeed lead to a future economic conflict that could only be damaging to the position of the West in the Middle East. I therefore urge that Washington study carefully and give rapid and serious consideration to what early actions might be taken to exploit this disarray in OPEC to the advantage of both the industrialized and developing nations and in the interest of protecting the political position of the US and the West in the Middle East.

Maestroni

Strategies To Cope With High Oil Prices, February 1977–January 1979

117. Briefing Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Katz) to the Under Secretary of State for Economic Affairs-Designate (Cooper)¹

Washington, February 19, 1977.

PRM #8—North/South Energy Issues

Issues: The attached paper frames North/South energy issues in the context of our overall energy policy.² The paper focuses on two key issues: 1) whether we should take new initiatives to ensure adequate quantities of energy at manageable prices until domestic and consumer-coordinated action can cause a shift in the global energy balance, and 2) whether some initiative on financing LDC energy development would be useful to our energy and North/South objectives and, if so, the nature of that initiative.

Summary of Paper's Analysis and Conclusions

—*Toward Saudi Arabia:* OPEC will continue to be the residual supplier for world energy demand for at least two decades. Saudi Arabia will remain the decisive force within the cartel on both production and pricing policies. With its massive oil reserves, Saudi Arabia has the potential to raise production substantially and ensure that sufficient supply is available for world needs without a major increase in real prices. Whether it will do so is problematic. Saudi Arabia can meet current revenue needs with production levels considerably lower than present ones. The paper assesses possible policy measures open to us to support our interest in Saudi Arabia (1) rebuilding an excess production capacity to maximize its influence within OPEC; and (2) continuing to produce at a level which constrains the ability of the revenue-hungry members of OPEC to raise prices.

In particular, the paper identifies Saudi concern over the status and value of its surplus assets as a potential constraint in Saudi production decisions. The paper recommends that we not get out in front on

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P850109–2221. Confidential. Drafted by Creekmore on February 18.

² Attached but not printed. PRM 8, "North-South Strategy," January 21, directed a study of U.S. policy options on relations between developed and developing nations. The Department of Energy was tasked with leadership on energy issues, the Department of State on relations with OPEC and other LDCs, and the Department of the Treasury on related financial issues. (Carter Library, National Security Affairs, Brzezinski Material)

this issue but that we be prepared to discuss it if the Saudis raise it. Our opening position would be to avoid appearing willing to give special treatment for these assets. But since future production levels might later depend on the assets issue, the paper examines the advantages and disadvantages of:

—Offering preferential treatment for OPEC (Saudi) assets in return for 1) a Saudi commitment to progressively increase production levels, to continue to moderate price decisions within OPEC, and to produce enough oil to prevent future tight market situations, or 2) a Saudi commitment to enforce within OPEC an oil price agreement that provides for small, gradual price increases over a limited time period (5–6 years).

—*Toward Mexico*: Mexico has enormous oil reserves. It plans to increase production and exports, though at a slower rate than is technically feasible. It is in our interest to encourage and facilitate the development of the Mexican oil industry because most of its exports would flow to us and because these additional supplies on the world market would reduce somewhat OPEC's pricing leverage. However, we must be sensitive to Mexico's suspicion about foreign involvement in its oil industry.

Our paper recommends that we periodically advise the Mexicans of our willingness to help if they want our aid; that we be prepared to respond promptly to facilitate Mexican access to US technology, expertise, and/or finance for energy development; and that we study within the USG the merits of a bilateral oil agreement in the event that such an arrangement would subsequently appear attractive to Mexico.

—*Toward the Energy Deficient Developing Countries*: Imported oil is a major source of energy for most EDDCs. Development of indigenous energy supply would enhance their development prospects and marginally affect the global energy balance.

IBRD studies show many EDDCs have economically recoverable energy resources. Large amounts of capital are required, most of which must come from the private sector. However, increased financial participation by the IBRD in LDC energy projects could catalyze development (not exploration) of proven energy resources. IBRD participation would reduce the political risk to private investment and improve the investment climate. The Bank might provide essential funds for projects of utility to the host country but without export potential.

Aside from a status-quo position, the paper examines two options:

—to seek CIEC endorsement for increasing the financing capability of the IBRD for LDC energy development, and

—without providing new funds, to seek a CIEC recommendation that the IBRD give greater priority to lending for energy development.

118. Briefing Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Katz) to the Under Secretary of State for Economic Affairs-Designate (Cooper)¹

Washington, February 24, 1977.

SUBJECT

Status of NSSM 237 on US International Energy Policy

The original NSSM request² called for a review of international energy policy in order to help develop measures to ensure a reliable supply of required energy imports at reasonable prices over the next five years. At a review by principals on July 14,³ it was decided to expand the NSSM's scope and economic analysis.

A revised draft⁴ was prepared and went through a round of inter-agency consultation, prior to the November election. A new draft was then completed but not circulated⁵ since it treated long-range issues not requiring immediate attention by the outgoing administration.

The NSSM draft comprehensively analyzes our supply and price vulnerability, our collective vulnerability with other major consuming countries, likely future supply/demand/price paths, internal OPEC dynamics, and the impact of the energy crisis on non-oil LDCs. It concludes that, in the absence of new energy measures domestically and by other major consuming countries, our shared vulnerability will increase over the next decade, and we will face substantial upside price risk. The NSSM evaluates numerous possible policy actions and singles out several areas for attention by principals: the essentiality of a strong domestic energy program to undergird our international energy policy; the need for US leadership in the IEA's reduced dependence exercise;⁶ the desirability of tactfully assisting Mexican oil development; the need to examine seriously the Saudi surplus asset question as well as the issue of an oil price agreement; the effect of energy technology assistance and political risk guarantees on LDC energy development; and specific energy issues related to CIEC. All of these issues are now being ad-

¹ Source: National Archives, RG 59, S/S Files: Lot 80D212, NSSM 237. Confidential. Drafted by Bullen and cleared by Bosworth, Creekmore, and Richard R. Martin (EB/ORF/FSE).

² Document 93.

³ See Document 99 and footnote 4 thereto.

⁴ See Document 104.

⁵ Not found.

⁶ See footnote 2, Document 100 and Document 105.

dressed in either the PRM on North/South issues or the one on the Economic Summit.

There was general interagency agreement on the analytical work in the NSSM but considerable divergence as to appropriate policy responses. These differences were particularly pronounced regarding aspects of the IEA reduced dependence exercise, the Saudi assistance, and the need for new domestic actions other than price decontrol. Some of these differences disappeared with the change of Administrations; others will, as mentioned, be resolved in the PRM context.

119. Letter From President Carter to French President Giscard d'Estaing¹

Washington, March 2, 1977.

Dear Mr. President:

Thank you for your letter of January 29, 1977,² which Vice President Mondale brought to me from Paris.³ He has reported to me on the frank and useful discussions he had with you during his visit. I am pleased at the beginning of my Administration to have your views on the full range of major world issues which both our countries face.

I believe that we are in full agreement on the urgency of the world energy problem. In the current market situation, it is in the interest of the oil-consuming countries to reinforce the decision of Saudi Arabia

¹ Source: Carter Library, White House Central Files, Subject File, Box TA-26, Trade. No classification marking.

² In his letter, Giscard recounted the details of a conversation that he had with King Khalid during his visit to Saudi Arabia. According to Giscard, Khalid had suggested that, for the industrialized countries to realize the benefit of his decision to limit a price increase for unrefined Saudi oil to 5 percent, they would have to "try to moderate their oil demands so as to avoid any pressure on the market." Giscard informed Carter that the French Government shared Khalid's analysis and had "decided, for itself, to implement measures that would favor some relaxation of the oil market." Giscard added: "It seems to me obvious that France's efforts, or even those of Europe, will be insufficient in reducing the world-wide oil demand, if your country, first importer and first consumer in the world, doesn't rapidly and firmly pursue the same policy." (Telegram 35698 to Paris; National Archives, RG 59, Central Foreign Policy Files, D770056-0767)

³ Mondale's visit to France was part of a 9-day trip that began on January 23 and included stops in Belgium, the United Kingdom, West Germany, Italy, France, and Japan. In a February 12 message to Giscard thanking him for his "hospitality to the Vice President," Carter wrote that he appreciated his letter "about the energy situation." (Telegram 36220 to Paris; *ibid.*, D770050-0593)

and the United Arab Emirates at the Qatar meeting of OPEC, to limit the increase in the price of their oil. It is therefore important that all oil available at the lower price be taken up through the international market.

As you suggest, we must also try to moderate overall demand for oil. In this regard, I applaud the decision by your Government to continue a ceiling on oil imports. In the United States, we are trying, in dealing with the effects of this unusually severe winter, to limit as much as possible the extent to which our increased need for fuel results in higher levels of oil imports.

I also agree that it is important for the major oil-consuming industrialized countries to adopt serious long-term programs to reduce our requirements for imported oil. As Vice President Mondale explained to you, I attach the highest priority to the prompt creation of an effective U.S. program to reduce our dependence on imported oil. By mid-April, my Administration will develop a comprehensive set of energy proposals, focusing both on conservation and on the faster development of domestic energy sources.

I recognize the special responsibility of the United States in reducing worldwide demand for OPEC oil. As you suggest, no one country—or even a group of countries such as those belonging to the European Community—can by itself bring about the major change in the world energy situation needed to safeguard our shared, long-term economic interests. Therefore, I believe we must proceed together, with each of us helping as much as possible to reach our common goal of reduced dependence on imported oil and a more stable world balance of energy supply and demand.

The United States and other members of the International Energy Agency have begun a program to review national energy programs, recommend ways to improve them, and establish medium-term objectives for reducing dependence on imported oil. The United States will explore new cooperative measures with our friends abroad, to reinforce national energy efforts through developing alternative fuel supplies and expanding cooperation on energy research.

I hope that through bilateral discussions, and through continuing consultations on energy between the United States and the European Community, we can all assure that our national programs and goals are in harmony. You and I will, of course, have a chance at the Summit meeting in May to discuss these matters, together with the other leaders who will attend, and to examine new possibilities for cooperation. Improvement in the energy outlook is essential to a healthy world economy, and expanded cooperation in energy must, therefore, be a

central element in our common effort to strengthen relations among industrialized countries.

Sincerely,

Jimmy Carter

120. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, March 28, 1977, 2224Z.

68642. Subject: CIEC; April 7 Vertical G–8 Meeting on Energy.

1) Please pass the following message from Energy Commission co-chairman Stephen W. Bosworth to host government officials responsible for work in the CIEC Energy Commission.

2) “As you know, the G–8 will hold a horizontal coordinating meeting on April 6. I would like to have a G–8 energy meeting the following day.

3) The purpose of our April 7 meeting would be to review the major issues and areas of agreement and disagreement between the two sides in the Energy Commission. I intend to use schematic paper² prepared by the US and discussed at the February 28 meeting of the Burrows group³ to facilitate our discussions. This schematic paper largely embraces the substance of the papers on supply, price and co-operation sent to us by the Swiss, Japanese, and EC.

4) I do not think it useful at this meeting to try to agree on specific language for the final CIEC document. Our past experience in CIEC suggests that the G–19 will regard any new document we put on the table as a new G–8 negotiating position and they will counter with a reiteration of their original positions of October and November. Moreover,

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D770106–0652. Limited Official Use; Priority. Drafted by Creekmore and William B. Milam (EB/ORF/FSE), cleared in FEA and the Commerce and Treasury Departments, and approved by Bosworth. Sent to Canberra, Ottawa, Tokyo, Madrid, Stockholm, Bern, London, Paris, Bonn, Rome, Dublin, Copenhagen, Brussels, The Hague, and Luxembourg. Repeated Priority to USOECD Paris and to USEC Brussels.

² See Document 122.

³ The IEA Ad Hoc Group on International Energy Relations was led by R.A. Burrows, Assistant Under Secretary in the British Foreign Office. No record of the February 28 meeting has been found.

we see little utility in trying to agree among ourselves on precise language since this language in the final communiqué will have to result from the negotiations between the two sides.

5) Consequently, I want to use the April 7 meeting to ensure that we have G-8 agreement on the substance of the issues. It is important that we single out areas where we believe a compromise can be reached with the G-19 and those where the gap between the two sides appears unbridgeable. It would be the task of the G-8 negotiators in the contact groups and/or the Energy Commission to ensure that the final negotiated language reflects an agreed substantive position. I think we should focus particularly on the issues cited below; other delegations may wish to raise additional points for discussion:

—The communiqué must recognize the importance of an adequate supply of energy to the growing world economy. What degree of specificity should we insist on regarding the responsibilities of the oil exporting countries to provide this supply?

—The transition period is an important concept in relation to a general undertaking to decrease reliance on oil and gas. Are we agreed that there should be some explicit reference to this transition period being smooth, orderly, and progressive (or similar language that conveys the same idea)?

—Can we accept more than general language on the timeframe relating to the depletable of oil and gas and the need to increase reliance on alternative sources of energy?

—What degree of emphasis do we want on the role of private capital in energy development in oil importing LDCs and the need for an improvement in their investment climate?

—Are we prepared to recommend increased public financing for LDC energy development? In what form?

—The issue in the supply section about future uncertainty in energy supply and demand and the need to cooperate to reduce the uncertainty was designed to flag a later recommendation for a continuing energy dialogue. Do we need the reference to uncertainty in Part I to support the dialogue idea? Conversely, should we introduce the idea of on-going consultation in this part?

—What is the best tactical means to seek G-19 acceptance of the on-going energy dialogue? Should it be removed from Part III and placed in a separate Part IV?

—On the price issue, should the impact of prices on the world economy and the need for this to be a factor in the considerations of future oil prices be a basic G-8 position? Are we prepared to go further than did the Japanese paper on prices on the issue of purchasing power? How far are we willing to go to meet the G-19 view that the

price of alternate energy sources should be the standard by which oil prices are determined? Would it be better to hold firm to all our positions on price (as put forward in the Japanese paper) and seek anodyne language on prices in the final communiqué?

—How hard should we push the IEI if OPEC countries continue to resist it? If non-oil LDCs support it?

—Should language on R&D cooperation in the communiqué be general or should we seek specific reference to the possibility of non-IEA members participating in IEA R&D projects?

6) We also need to discuss on April 7 tactics for the work in the contact groups. One key question is whether it would be preferable for the contact groups to resume work on their highly bracketed and unofficial texts of November or begin again on the basis of the earlier papers of the G-8 and G-19 that were discussed in the Energy Commission between September and November. Another is whether or not we should refuse to treat issues that are not primarily energy specific (e.g. BOP financing, industrialization issues, etc.) in the Energy Commission portion of the communiqué. A third is whether we should refuse to accept any reference to Law of the Sea issues in CIEC.

Christopher

121. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter¹

Washington, April 16, 1977.

SUBJECT

International Energy Issues for Your Energy Package

The 1973–74 oil embargo and the massive price increase which followed, caused major global economic disruption. They have also demonstrated the vulnerability of the industrialized world to disruptions of OPEC oil exports. To meet future embargoes and prevent disruptive competition for supplies, the industrialized democracies established an emergency oil-sharing plan. The International Energy Agency (IEA) was established to implement this plan.

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 8, Energy Department. Confidential. Carter initialed the memorandum.

The IEA has become the major vehicle for cooperation to reduce vulnerability through conservation, development of alternative sources and R&D. It recently launched a process to generate commitments by individual countries to the major energy policy measures necessary to achieve reduced dependence targets. Your energy program provides an opportunity to give major impetus to international energy cooperation and to stimulate other countries to take equivalent action to reduce imports.

Three areas could be stressed:

—The expansion of R&D cooperation with other industrialized countries—and in some cases with major OPEC and energy-deficient LDCs. This could include “cross investment” under the operational framework of the IEA, with US participating in R&D projects in other countries and in return opening some of our projects to participation by them. Opportunities include improved conservation, coal combustion and conversion techniques; nuclear waste management.

—Cooperation between oil importers and oil exporters to develop a better understanding of the contribution both can make to a better international energy equilibrium consistent with our interests in global prosperity.

—Helping energy-deficient developing countries to increase energy production, making use of the multilateral development institutions.

Proposed draft speech language is at Tab A.²

² Not found. On April 18, Carter addressed the nation for the first time on the energy issue from the Capitol’s House Chamber. The speech, broadcast live on radio and television, begins: “Tonight I want to have an unpleasant talk with you about a problem that is unprecedented in our history. With the exception of preventing war, this is the greatest challenge that our country will face during our lifetime. The energy crisis has not yet overwhelmed us, but it will if we do not act quickly. It’s a problem that we will not be able to solve in the next few years, and it’s likely to get progressively worse through the rest of this century.” Calling the crisis the “moral equivalent of war,” Carter outlined the specific goals of his plan to meet this challenge: reduction in the annual growth rate in U.S. energy demand to less than 2 percent, reduction by half of U.S. oil imports to 6 million barrels a day, establishment of a strategic petroleum reserve of 1 billion barrels, increased coal production, increased insulation in American homes and buildings, and the use of solar energy. For the full text of the speech, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, pp. 656–663. In his diary, Carter called the speech “one of the most important of my presidency.” (*White House Diary*, p. 41)

122. Telegram From the Mission to the Organization for Economic Cooperation and Development to the Department of State¹

Paris, April 25, 1977, 1745Z.

12097. For Assistant Secretary Katz from Bosworth. Pass EUR and NSC, Hormats. Subject: Revised Energy Paper for Summit.² Following is revised energy paper for Summit. Bergold has reviewed and approved it here.

Begin text

I. Purpose

Our basic energy objectives at the Summit are:

—Endorsement of the new U.S. energy proposals,³ especially our aim to cut oil imports, as a major contribution to our common goal of a better world energy balance;

—Commitment by the other industrialized energy consuming countries to make the maximum possible contribution to the creation of a stable balance of energy supply and demand by limiting the growth of their dependence on imported oil; and

—Commitments in principle to a major expansion of joint energy R&D programs (e.g., coal, nuclear, and conservation).

II. Attitudes of Other Summit Participants

The Summit brings together the major energy consuming countries—the six key members of the International Energy Agency (IEA)

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D770143–1161. Confidential; Immediate; Exdis.

² The G-7 London Economic Summit was held May 7–8. PRM 7, January 21, which “directed that the Policy Review Committee undertake an analysis of, and provide options concerning, the major policy issues to be addressed at an International Summit,” initiated the process of developing the energy paper. (Carter Library, National Security Affairs, Staff Material, Special Projects File, Box 26, Henry Owen, Summits) Documentation on the Summit is scheduled for publication in *Foreign Relations, 1977–1980*, volume III, Foreign Economic Policy.

³ Carter had outlined the specific elements of his national energy plan in a speech before a joint session of Congress on April 20. His conservation proposals consisted predominantly of taxes and tax credits to increase efficiency and eliminate waste in the use of energy for transportation and residences. To provide exploration incentives to gas and oil companies, Carter proposed the deregulation of newly-discovered gas “as market conditions permitted” and suggested that the price of newly-discovered oil be allowed to rise over a 3-year period to the 1977 world market price. He proposed taxes to promote the conversion from scarce fuels to coal in addition to government investment in research and development on coal and nuclear fuel. The development of “permanent and reliable new energy sources,” such as solar and geothermal energy, would also be encouraged by tax incentives. A combination of taxes, tax credits, and tax rebates would ensure that no one would “make an unfair sacrifice” or “reap an unfair benefit.” For the text of both speeches, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, pp. 656–662 and 663–672. A Fact Sheet on the National Energy Program is *ibid.*, pp. 672–689. The President transmitted legislation to Congress on April 29 to implement his program.

plus France. The other Summit countries have done marginally better than the U.S. over the last few years in strengthening their national energy programs. However, they all can and should do much better; none of them can match the scope and potential impact of the new U.S. program. With the exception of the UK and Canada, they are all even more heavily dependent on imported oil than the U.S. and thus more vulnerable to supply disruptions and price increases.

Germany: Schmidt is sensitive to the global political/economic dimensions of the energy crisis. He is concerned over growing political malaise in industrialized countries over the failure till now of governments to regain any control over national energy destinies. Germany's own energy program can be strengthened greatly through mandatory conservation and fuel-switching programs.

France: Under Giscard, the French Government, which previously tried to pursue a bilateral policy vis-à-vis key producers, is more favorably inclined toward industrialized country cooperation than was the case under Pompidou. But given Giscard's political difficulties he will be unwilling to expose himself to criticism from either the left or the Gaullists by associating France formally with the IEA. On the other hand, these grave political difficulties dictate that Giscard show some progress in coming to grips with the energy problems which have impacted so seriously on the French economy.

Italy: The country's profound economic reversals are attributable in very large part to increases in oil prices. The Christian Democrats have placed their political and economic hopes on the success of a massive nuclear program for which Italy is going to require major amounts of foreign technology and capital.

UK: North Sea oil and gas gives the UK the prospect of energy self-sufficiency and, with proper management, turn around in its balance of payments by 1980. Disputes between the UK and the rest of the EC over control of and access to North Sea resources are the principal obstacle to the formation of an effective Community energy policy.

Japan: The most dependent of all the industrialized countries on imported oil, the Japanese have become increasingly committed to consumer country cooperation and the IEA; the decision to join the IEA and adhere to the emergency oil sharing program represented a major political commitment by the Japanese Government. Japan continues to view its domestic energy policies as subordinate to overall economic policies. The current Japanese energy policy envisions virtually no reduction in the ratio of growth of energy consumption to the growth of GNP.

Canada: The Canadians are seeking to reverse the recent trend of rising dependence on imported oil. But their potential oil and gas resources tend to be high cost, and Canada's conservation program needs

strengthening. Canada is of course particularly sensitive about its relationship with the U.S., in energy as elsewhere.

III. Talking Points

—In the absence of greatly increased energy conservation, projected world demand for oil will approach productive capacity by the early 1980's and substantially exceed capacity by 1985; in these circumstances, prices will rise sharply to ration available supplies no matter what Saudi Arabia does.

—Although our forecast of oil demand broadly resembles other official and private forecasts we are more pessimistic about the implication; our pessimism is largely based on (A) the estimate that the USSR will change from an exporter to a substantial importer of oil, and (B) our examination of the actual supply capacity of OPEC (especially Saudi Arabia) and non-OPEC countries.

—The U.S. has just announced a new domestic energy program; highest priority is given to obtaining public and Congressional support for this program. The program as it is implemented will bring about a major reduction in U.S. oil imports over the next decade.

—Reduction of U.S. imports will not by itself bring about the more stable balance of world energy supply and demand we all seek. Other industrialized countries must take equivalent action on energy conservation and the development of new energy to limit their requirements for OPEC oil.

—Working among ourselves and with the producers, we should intensify our efforts multilaterally and bilaterally over the next several months to reinforce our national energy efforts and to ensure that the total of these efforts will be sufficient to bring about a structure of energy supply and demand compatible with our economic and political interests.

—We should also pursue a major increase in energy R&D cooperation focused on conservation, improved coal combustion and conversion technologies, and measures to ensure the safe expansion of nuclear energy. We are prepared to begin promptly work on the formulation of joint projects, including "cross investment" in each other's national R&D programs and in demonstration and commercialization of new technologies.

Annex

Background

The energy problems faced by most other nations are even more critical than the serious problems confronting the U.S. The political vitality and cohesion of the industrial democracies is threatened by excessive dependence on OPEC oil, vulnerability to supply disruption [disruption?] and unilateral OPEC price increases, persistent financial

imbalances, and a general weakening of their economies and investor confidence. The massive oil price increases since 1973 have impacted even more heavily on those developing countries that lack domestic oil supplies. Their scope for conservation is limited, and as increasing amounts of scarce foreign exchange must be spent for essential oil imports, other development needs suffer.

The medium-term world energy outlook, based on current trends of consumption and production, is alarming. Recent studies confirm that world demand for oil could significantly exceed available supplies by the early or mid 1980's, even assuming major increases in Saudi Arabian production. Such a market situation would almost certainly lead to another round of sharp price increases, serious declines in economic growth and rising unemployment. The political ramifications of such a deterioration are clear. There would be major strain on democratic institutions in the industrialized economies, erosion of Western security alliances, and threat of serious instability in the Third World.

We want to use the Summit to give high-level momentum to a global strategy to reverse these trends. This global approach should consist of three highly interrelated elements:

1. Industrialized Country Action. The industrialized countries, consumers of the great bulk of world energy, must bear primary responsibility for the creation of a more stable global balance of energy supply and demand by limiting, and in some cases—such as that of the U.S.—reducing, their dependence on OPEC oil.

2. Strengthened Bilateral and Multilateral Ties with Key OPEC Countries. We must smooth the integration of these newly important economic powers into the Western trading and financial systems. Working both through bilateral relationships and multilateral forums such as the Conference on International Economic Cooperation (CIEC), we want to increase the perception of Saudi Arabia, Iran, Venezuela, and others of their direct stake in the economic and political well-being of the industrialized countries and their need to take account of their new responsibilities for the well-being of the world economy in their oil pricing and production policies.

3. Assistance to Non-Oil Exporting Developing Countries. We are looking for effective ways to assist these countries in off-setting the impact of the world energy crisis. In the CIEC, we are exploring possible initiatives to facilitate their access to appropriate energy technology and planning and, through expansion of IBRD activity, to assist them in attracting the private and public capital needed to develop their indigenous energy resources.

New U.S. Energy Program:

The new U.S. energy program serves as an example to others and a basis for U.S. leadership in the overall reduced import dependence ef-

fort. The U.S. is the largest energy consumer, largest oil importer, and the largest energy producer among the industrialized countries. The U.S. can and will make a significant reduction in oil imports under the new energy plan. Most of the other industrial nations, so much more heavily dependent on oil imports, cannot reduce their imports from current levels, but they can make a major contribution by restraining the levels of import growth. The effectiveness of U.S. efforts to create a more stable world energy structure by reducing our oil imports will be undercut if the Europeans and Japanese allow their requirements for OPEC oil to continue to rise unchecked.

The new U.S. energy program, with its emphasis on conservation and increased coal utilization, puts us in a strong position to argue forcefully for similar stress in the energy programs of other Summit participants. In particular, we wish to encourage the Europeans and Japanese to shift from increasing dependence on oil toward greater use of coal and light water reactors for electricity generation, and for direct use in industry. There is considerable scope for increased coal utilization in industrialized countries. The substitution of coal for oil would be encouraged by cooperative R&D in the coal area (see below). The Summit communiqué should highlight fuel switching to provide a major alternative to oil.

The International Energy Agency (IEA) is currently establishing a political and technical framework for the creation of a more stable global energy supply and demand balance and the reduction of dependence on imported oil. We are working toward a Ministerial level meeting this fall at which the member governments will (1) fix a group objective for the reduction of dependence on imported oil, and (2) make political commitments to the national policy measures necessary to achieve this objective, including cooperative programs in R&D, coal utilization, etc. The new U.S. plan will constitute the U.S. contribution to this program. We will be working over the coming months to ensure that the Europeans and Japanese make a comparable contribution through policy measures to limit any increase in their import dependence. France will be included in the broader framework of this reduced dependence effort, bilaterally and through the EC.

Nuclear Energy:

In most Summit participant countries, nuclear power plays a key role in future energy strategy. This is particularly true for the FRG, Japan and Italy, which see themselves as energy resource poor and requiring a viable economic alternative to increased oil imports. Because of the overriding importance of non-proliferation concerns and in view

of your recent statements on nuclear policy,⁴ the Summit is an opportune time to obtain support for our comprehensive approach to nuclear questions. This cooperative framework would draw together the elements of our non-proliferation concerns and efforts to promote economic, but carefully safeguarded, use of nuclear energy. In particular, we want support for the international fuel cycle evaluation program. (See separate paper on nuclear issues for the Summit.)

Cooperation in Energy R&D: New energy technologies can reduce the need for oil imports in the medium term (1985–2000) and accelerate the shift to renewable energy resources in the longer term. All Summit participants have energy R&D programs, but the U.S. effort is significantly larger than the rest combined. We already have a number of joint R&D projects in operation in the IEA (e.g., coal-burning, solar power, nuclear safety, etc.). Such R&D cooperation has both political and substantive benefits.

There is an opportunity for a major expansion of our R&D cooperation with other industrialized countries—and in some cases—with major OPEC and non-oil exporting developing countries. The U.S. is prepared to consider possibilities for “cross investment” in key R&D projects. Using the operational framework of the IEA, we would participate in R&D projects in other countries and in return open some of our major projects to participation by them. (France could participate directly in IEA-centered projects or indirectly through the EC.) This cross investment concept could extend beyond the R&D stage into the demonstration and commercialization phases for new technologies.

The following are those areas in which we now see opportunities for a useful expansion of R&D cooperation and on which we are now prepared to begin intensive discussions to formulate specific joint projects.

- 1) Coal—improved combustion techniques and technologies for conversion to gas and liquid fuels;
- 2) Conservation—transportation, industrial process heat, building standards, etc.;
- 3) Nuclear—waste management and other R&D programs which emerge from the international fuel cycle evaluation program.

End text.

Turner

⁴ Carter addressed nuclear power policy on April 7 in remarks to reporters. See *ibid.*, pp. 581–587. In a news conference on April 22, he also commented: “There are other aspects of the energy question, though, that must be addressed. One is atomic energy, reprocessing of spent nuclear fuels, a move toward nonproliferation of atomic explosive capability. So, there will be a very complicated interrelationship involving trade.” The text of the news conference is *ibid.*, pp. 695–701.

123. Memorandum From Secretary of State Vance to President Carter¹

Washington, June 7, 1977.

SUBJECT

Summit Follow-up on Energy

The Summit Communiqué² includes three energy items which require follow up:

1. National and joint efforts to limit energy demand and increase and diversify energy supplies;
2. Exchange of technology and joint research and development in energy; and
3. The two-month nuclear study to develop terms of reference for the international fuel cycle evaluation, and the subsequent longer-term evaluation.

I. Limitation of Demand and Increase Supply

Our international efforts to limit energy demand and increase and diversify energy supplies will focus primarily on the Paris-based International Energy Agency (IEA) which was established in 1974, following the oil embargo and price rise. The 19 country IEA is the principal forum for energy cooperation among industrialized countries. Six of the seven Summit participants are IEA members. Although France is not a member, it has shown some willingness to associate itself with IEA activity through its membership in the European Community. We will work with France and its EC partners to increase the level of French participation.

The IEA member countries have agreed to reduce dependence on imported oil through national and joint efforts. The Summit communiqué and the prior announcement of the U.S. National Energy Program³

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P770118–1948. Confidential. The memorandum was sent under cover of a June 7 memorandum from Vance to Owen. (Ibid., P770118–1947) On May 20, Owen had sent a memorandum to the Secretary requesting an outline for the President of “plans for following up the Summit decisions about energy.” (Ibid., P770118–1953)

² The Joint Declaration issued on May 8 at the conclusion of London Economic Summit included sections on “World Economic Prospects,” “Balance of Payments Financing,” “Trade,” “Energy,” and “North/South Relations.” For the text, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, pp. 819–824.

³ See footnote 3, Document 122.

have given strong political impetus to this cooperative action. Member countries have tentatively agreed on a Ministerial meeting this fall. We plan to work for agreement on the following measures at that meeting:

—A joint commitment to hold total oil import demand by member countries to not more than 26 million barrels a day by 1985 (if no additional energy measures are enacted, member countries are projected to import 31 to 36 million barrels a day by 1985).

—Agreement on a set of general principles aimed at the elimination of wasteful use of energy, greater coal utilization, expansion of nuclear power with appropriate controls, and increased energy research and development.

—Agreement to review the group objective annually and the contribution of each country towards achieving it.

The National Energy Plan will be the U.S. contribution to this cooperative venture.

There are uncertainties surrounding future oil production levels of OPEC members, particularly Saudi Arabia. Saudi Arabia has accommodated to the demand of the industrialized world for oil over the last few years by substantially increasing production and it is essential that they continue to do so. Our ongoing bilateral contacts with Saudi Arabia including the recent visit by Prince Fahd indicate such energy policies will continue if the industrialized countries make serious efforts to conserve energy.

In the North-South dialogue we are attempting to convince oil producing countries of their responsibility to provide adequate and stable supplies of energy during the energy transition period and to increase their sense of interdependence with the industrialized countries and their economic viability.

If oil importing developing countries can develop their indigenous energy resources, this will add marginally to the world energy supply. To spur such development, we are working to enable the World Bank to expand its lending for energy development. This new bank lending would also induce greater flows of private capital for the same purpose.

II. Research and Development

Summit participants agreed on the need for more exchange of technology and joint research and development directed at more efficient energy use, improved recovery and use of coal and other conventional resources, and the development of new energy sources.

In the IEA, we have said we are ready to intensify cooperation with industrialized countries in conservation, coal combustion and conversion, and renewable sources, such as solar energy.

We now need to develop concrete research proposals for coordination at the fall IEA Ministerial. We are considering the possibility of investment in key energy research and development projects in other countries in return for agreement to make similar contributions to U.S. programs.

We also want to achieve intensified coordination of national energy research and development programs to enable countries to share the high cost of research and development and avoid needless overlap and duplication of efforts. Such cooperation will be difficult because our ability to influence private companies' decisions on access to their technology is severely limited. We will wish to maintain discretion regarding the transfer of government-owned technology, particularly relating to nuclear energy.

We want to try to involve OPEC countries and more advanced developing countries, such as Brazil and India, in expanded energy research and development cooperation with industrialized countries in the IEA. The new participants in IEA projects would be asked to share equitably in the costs and benefits of these projects.

To meet the needs of LDC's for technical assistance, the U.S. has proposed as part of the North-South dialogue the establishment of an International Energy Institute (IEI). The IEI would address the need for increased flows of energy technology to LDCs by providing up-to-date information on relevant technology and facilitating access to it. It would also provide needed technical assistance in assessing resource potential, developing energy strategies, training technicians and managers, and promoting and facilitating exploration.

A program proposal for the examination of non-nuclear alternatives of energy for developing countries has been submitted to you in support of the U.S. non-proliferation policy. This program has the elements of an energy research cooperation program plus a broader conventional energy resource definition element. This program would advance our non-proliferation goals, demonstrate concern about the quality of life in developing countries, and improve our knowledge of conventional energy resources.

[Omitted here is discussion of international fuel cycle evaluations.]

124. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, June 7, 1977, 0004Z.

130415. Subject: Fahd Visit and Oil Prices. Ref: Abu Dhabi 1623; State 124499.²

1. The following is for your background information and guidance in dealing with the oil price question. Fahd's visit provided an opportunity for highest level USG officials to express appreciation for the price and production policies being pursued by Saudi Arabia and to stress the importance of continued moderation. We and the Saudis agreed that energy price increases have a particularly damaging effect on poorer developing countries, on certain of the weaker economies among the industrialized countries, and on world economy generally. The Saudis affirmed their commitment to moderation and specifically assured us that they would not use price and production decisions to try to leverage the Middle East political process.

2. Our prime objective in bilateral dealings with Saudi Arabia and other producers remains that of discouraging future OPEC price increases. We gave no signal that we favor a price compromise within

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D770201–0952. Confidential; Priority. Drafted by Donald F. Hart, Officer-in-Charge of Producer Country Affairs (EB/ORF/FSE), cleared by Cooper, Sober, Bosworth, and in S/P, ARA, FEA, and the Treasury Department; and approved by Katz. Sent to Cairo, Caracas, Dhahran, Doha, Jakarta, Jidda, Kuwait, Lagos, Libreville, London, Manama, Paris, Quito, Tehran, Tripoli, Tokyo, Baghdad, Algiers, and Abu Dhabi.

² In telegram 1623 from Abu Dhabi, May 31, Ambassador Dickman asked the Department to "promptly" give him "something to tell the UAE authorities regarding Fahd visit, particularly as it relates to energy." (Ibid., D770193–0030) In telegram 124499 to Jidda, May 28, and repeated to other posts, the Department reported that Carter's May 24–25 meetings with Fahd in Washington not only focused on "the Middle East problem," but also on "a number of international and bilateral economic issues and matters affecting Saudi and regional security." (Ibid., D770191–1151) The memoranda of conversation of their meetings are scheduled for publication in *Foreign Relations, 1977–1980*, volume XVIII, Middle East Regional; Arabian Peninsula. Vance's May 24 luncheon with Fahd is described in telegram 122169 to Jidda, May 26. (National Archives, RG 59, Central Foreign Policy Files, D770189–0081) Schlesinger met with the Crown Prince on May 26 and expressed "his appreciation for the great contribution" that Saudi Arabia had made "to stabilizing the price of oil." (Memorandum of conversation, May 26; Library of Congress, Manuscript Division, Schlesinger Papers, Box 1, Saudi Arabia)

OPEC.³ Although the Saudis have been pressured by the upper tier producers to increase prices by five percent in July, they are holding their options open. We favor no price increase. If the Saudis raise their prices at all, we expect they would seek an understanding that would call for a period of stability in the prices of the upper tier producers beyond the end of 1977.

3. The President's proposals to Congress⁴ to move US domestic oil prices toward world levels through phased-in tax and price increases do not constitute a shift in US policy toward endorsement of OPEC price increases. The purpose of the President's plan is to promote conservation by charging oil and gas users more realistic prices, recognizing the reality though not the propriety of high world oil prices.

4. US acceptance of the need to conserve energy does not indicate a lessening of our concern about OPEC price decisions and their impact. On the contrary, the interests of industrialized countries, LDCs and the OPEC nations themselves, require world economic stability and thus stability in the price of oil.

Vance

³ On May 20, the Embassy in Jakarta reported that Indonesia and "at least nine members" of OPEC agreed to freeze oil prices for the remainder of 1977 instead of raising prices by 5 percent on July 1 as had been decided at the December 15–17, 1976, meeting in Doha. According to Indonesian Director of Oil and Gas Wijarso, a recent visit by Venezuelan President Pérez had been the "chief catalytic agent" for the agreement. Wijarso added that Carter's new energy policy persuaded some OPEC members to defer an additional price hike. (Telegram 6619 from Jakarta, May 20; National Archives, RG 59, Central Foreign Policy Files, D770180–0461) The Indonesian Minister of Mines, Mohammad Sadli, explained the rationale behind the price freeze as a "unilateral gesture by OPEC eleven to pave way for eventual price unity with Saudi Arabia." He said that a compromise was necessary to "preserve OPEC solidarity, maintain Third World unity, and eliminate differences prior to Paris CIEC meetings." (Telegram 6738 from Jakarta, May 24; *ibid.*, D770184–0677)

⁴ See footnote 3, Document 122.

125. Telegram From the Department of State to the Embassy in Switzerland¹

Washington, June 17, 1977, 1908Z.

141244. Subject: CIEC;² Energy Policy after CIEC; Continuing Energy Consultation. Ref: Bern 2578.³

1) When replying to Jolles' questions posed reftel re energy policy in wake of CIEC, you should make the following points.

2) The US is now reassessing, in the light of the recently concluded CIEC, the advisability of continuing to seek an on-going energy dialogue between producers and consumers. We intend to consult fully with other industrialized countries on this before deciding whether to continue to pursue an on-going energy dialogue, and if so, the tactical considerations of how and in what forum it should be pursued. (The June 27–28 meeting of the IEA Governing Board⁴ should provide an initial opportunity for such consultations.) We also believe that low-key consultations with some major oil-importing LDCs, and perhaps key producing countries, on these questions would be beneficial.

3) While it may or may not be advisable to continue seeking an on-going energy dialogue, industrialized countries should realize that

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D770218–1059. Confidential. Drafted by Milan; cleared in EUR/RPE, EB/ORF/FSE, the White House, Treasury Department, and FEA; and approved by Bosworth. Repeated to Ankara, Athens, Bonn, Brussels for the Embassy and USEEC, Canberra, Dublin, Copenhagen, Helsinki, Lisbon, London, Luxembourg, Madrid, Paris for the Embassy and USOECD, Oslo, Ottawa, Reykjavik, Rome, Stockholm, The Hague, Tokyo, Vienna, and Wellington.

² The final CIEC Ministerial meeting was held in Paris May 30–June 3. While the countries representing the Northern and Southern Hemispheres "reached agreement on a number of issues" regarding the CIEC's four areas—energy, raw materials, development, and financial affairs—a "lack of agreement on on-going energy consultation process" signified a "gap" in the overall package. (Telegram 16350 from Paris, June 3; *ibid.*, D770198–0487) Telegram 16351 from Paris, June 3, transmitted the CIEC's final communiqué. (*Ibid.*, D770206–0274) Telegram 17849 from Paris, June 16, contains an informal paper by the IEA Secretariat on the implications of the CIEC meeting's outcome for the Agency. (*Ibid.*, D770215–0780)

³ In telegram 2578 from Bern, June 8, Ambassador Davis reported that Swiss State Secretary for Foreign Economic Affairs Paul R. Jolles had expressed concern over the failure of the CIEC to achieve "any continuing dialogue on energy questions with the producing countries." Consequently, Davis requested information on how the United States envisioned the future role of the IEA and, more generally, on the future of U.S. foreign energy policy. (*Ibid.*, D770204–0022)

⁴ At the June 27–28 meeting, the Governing Board agreed to forward for Ministerial approval a draft decision "encompassing a group oil import objective for 1985 of 26 MMBD, endorsement of a set of 12 principles for energy policy, and strengthened national review procedures designed, *inter alia*, to monitor progress toward achievement of the group objective." The Governing Board's endorsement of the 12 principles represented a "firm political commitment" but was "not legally binding." (Telegram 19301 from Paris, July 1; *ibid.*, D770252–0903)

such a dialogue does not hold the key to reducing the strain on available oil supplies now forecast for early 1980's and the concomitant upward pressure on the oil price. The only effective solution to this problem lies in action by consuming countries to reduce dependence on imported oil. (In fact, action to reduce dependence is a key to a successful dialogue with producers.) For industrialized countries this entails conservation and to increase production of alternative conventional and non-conventional energy sources. For consuming developing countries it mainly entails efforts—assisted through the cooperation program outlined at CIEC—to increase exploration for and development of indigenous energy resources.

4) Our interest in and support of the IEA is undiminished. It remains, in our view, the principal vehicle for industrialized country energy cooperation. We believe the reduced dependence program now in final stages of preparation in the IEA to be a key step in our collective progress toward that goal.

Vance

126. Telegram From the Department of State to the Embassy in Saudi Arabia¹

Washington, June 18, 1977, 1828Z.

142372. Subject: Oil Prices: Message From the Secretary to Crown Prince Fahd.

1. Please deliver the following letter from the Secretary to Fahd:
2. *Begin text:*

Your Royal Highness, your recent visit here² did much to reaffirm and strengthen the relationship between our two countries. The President and the others of us who were privileged to meet with you benefitted greatly from your views and counsel on a wide variety of issues. We shall wish to keep in close touch with you on the broad range of matters affecting the common interests of our nations.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D770218–1164. Secret; Immediate. Drafted by Sober; cleared by Katz, Cooper, and in the NSC and White House; and approved by Vance.

² See Document 124 and footnote 2 thereto.

I would like to raise with you at this time one subject of very high and continuing importance to both of our countries and also to the global economy: the question of oil prices. When you were here, the President expressed our appreciation for the policy of your government on this subject, and we were extremely pleased to hear your reaffirmation of the determination of the Kingdom of Saudi Arabia to continue its course of moderation with regard to oil prices.

Following your visit, there have been some reports to the effect that your government intends to increase the price of Saudi oil by five percent within the coming month, in the context of the forthcoming OPEC meeting. These same reports state that the eleven members of OPEC which increased their prices by ten percent last January would forego any additional price increase until the end of 1977. We do not know whether these reports are correct.

From our point of view, it appears clear that the interests of the global economy would be best served by avoiding further increases in the price of oil. With regard to any possible price increases which your government might be planning for the remaining months of this year, we trust that you are also considering the desirability of achieving an understanding that would call for a period of stability in the prices of the other producers beyond the end of 1977.³

I would value greatly your sharing with me your thoughts at this time on the prospects for oil pricing in the months ahead.⁴ As we agreed during your visit here, continued cooperation between our two countries on energy matters will remain of the highest importance. For our part, the President is continuing to press his proposals for a United States energy program that places special emphasis on the need for maximum conservation, and we will wish to keep you informed of the progress of our efforts in this regard.

³ On June 29, OPEC announced: "In the interest of unity and solidarity of OPEC, the following member countries of the organization: Algeria, Ecuador, Gabon, Indonesia, Iran, Kuwait, Nigeria, Qatar and Venezuela have resolved to forego the application of the 5 percent increase in the price of oil as of 1 July 1977, a decision which was taken in Doha in December 1976." (Telegram 6143 from Vienna, June 29; National Archives, RG 59, Central Foreign Policy Files, D770232–0451)

⁴ On June 26, Fahd replied that Saudi Arabia was "following with concern the fluctuating oil prices in OPEC producing states." He continued: "Saudi Arabia believes that such fluctuations do not serve the common interests of the producing states themselves; that wisdom and moderation call for an end to this situation, and thence for an attempt to create a positive dialogue in the light of which a single formula for oil might be reached during the coming period." A unified price for oil, Fahd wrote, was "definitely in the interest of consumers," even if that entailed "an increase in the price of oil exported from Saudi Arabia and the United Arab Emirates" due to "the absence of an oil price hike" by the other OPEC members. However, Fahd concluded, "the prices—as Your Excellency is aware—are basically subject to the law of supply and demand." (Telegram 4503 from Jidda; *ibid.*, D770228–0548)

The President has asked me to convey to you, and through you to King Khalid, his warmest wishes and his hopes for your good health. I join in these wishes and hopes. Sincerely, Cyrus Vance *End text.*

Vance

127. Memorandum From the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, August 19, 1977.

MEMORANDUM FOR

The Secretary of State
The Secretary of Defense
The Secretary of the Treasury
The Secretary of Energy
The Director of Central Intelligence
The Director, Office of Management and Budget
Administrator, Federal Energy Administration
Chairman, Council of Economic Advisors

SUBJECT

Petroleum Supply Vulnerability Assessment

The President has directed that an assessment be made of the vulnerability of the United States to disruptions in world petroleum supply.² This memorandum confirms the interagency effort underway to accomplish this task and establishes the terms of reference for the assessment.

The assessment should be focused on the period between now and 1985.

¹ Source: Carter Library, National Security Affairs, Staff Material, Middle East File, Box 65, Subject File, Oil. Confidential. The Department of Energy was established on August 4 when Carter signed the Department of Energy Organization Act. The Cabinet-level agency officially began to operate on October 1.

² On July 11, Bert Lance, Director of the Office of Management and Budget, sent Brzezinski a memorandum informing him that Carter had asked for the petroleum supply vulnerability assessment at a June 21 budget planning session. Lance requested that the National Security Council lead the effort and attached a paper listing the objectives and specific issues to be addressed by the assessment. (Ibid.)

The assessment will be submitted for consideration by the Special Coordination Committee.³ In accordance with the attached terms of reference (Tab A), the Departments of State and Defense will chair working groups composed of members from the interested agencies. The Department of State will submit its report to the National Security Council by September 2, 1977; the Department of Defense by September 9, 1977.

Zbigniew Brzezinski

Tab A

PETROLEUM SUPPLY VULNERABILITY ASSESSMENT

Terms of Reference

Objectives

1. To identify and assess the vulnerability of the United States and its allies to petroleum supply interruptions and substantial price increases.

2. To identify the petroleum supply disruption and substantial price increase contingencies for which the United States should be prepared.

3. To identify and assess the policy options available to the United States to reduce its vulnerability to petroleum supply disruptions and substantial price increases and to cope with these contingencies should they occur.

Specific Issues to be Addressed

A. *International Energy Analysis* (Chaired by the Department of State)

—World petroleum market analysis by country to identify the range of supply and demand estimates and assess their validity with special emphasis on the dependence on foreign sources of the United States, the Soviet Union, and the advanced industrial economies.

—Analysis of the vulnerability of the world petroleum supply system to interdiction, including acts of terrorism, acts of nature, and premeditated political, economic, or military action.

—Analysis of possible supply disruption scenarios to include those that would be most stringent and those that are most probable; determination of the implications for supply disruptions of potential

³ The SCC met to consider the assessment in March 1978. See Documents 144 and 145.

political discontinuities such as sudden changes of regime or government in important OPEC/OAPEC countries.

- Analysis of the probability and impact of sudden substantial petroleum price increases precipitated by OPEC/OAPEC action, both in times of normal supply conditions and in times of a supply interruption.

- Analysis of options available to the United States acting alone, and the United States in conjunction with its allies, to deter supply interruptions and substantial price increases, and cope with and overcome them should deterrence fail; determination of the optimal size, crude oil and refined product mix, and date of completion of reserve petroleum stocks in the United States and its allies; assessment of the credibility and deterrent value of various levels of petroleum reserves.

B. Military Contingency Analysis (Chaired by the Department of Defense)

- Analysis of the adequacy of petroleum resources to meet military and civilian needs of the United States and its allies under the most stringent and the most probable wartime scenarios; assessment of scenarios short of war in which forces must be kept at high states of readiness due to increased threats.

- Analysis of the vulnerability of the world petroleum supply system to interdiction, including acts of terrorism, acts of nature, and premeditated political, economic, or military action.

- Identification of petroleum supply interruption scenarios which would significantly impair United States ability to execute existing military contingency plans.

- Analysis of United States military and related requirements for securing petroleum resources in each of the above scenarios; similar analysis with the addition of allied forces.

- Assessment of the existing and planned United States and allied military capabilities to meet requirements noted above.

- Identification and assessment of additional policies and options that would fulfill any requirements noted above which would be unmet due to inadequate existing or planned military capabilities.

C. Integrated Overview Report (National Security Council staff)

- Synthesis of the reports of the Departments of State and Defense into an integrated overview report to serve as the basis for review by the Special Coordination Committee.

- The integrated overview report should include:

- Identification of major issues.

- Identification of United States policy choices.

- Identification of topics requiring further analysis.

128. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter¹

Washington, August 31, 1977.

SUBJECT

Cooperation for Energy Development

In late June, President Perez quietly raised the issue of energy conservation with you.² His purpose was probably two-fold: to obtain some technological help for developing the Orinoco Tar Belt and to obtain our support for two regional organizations OLADE and SELA which Venezuela leads.

From our perspective, we have an interest in responding to his proposal, which he is likely to repeat, for three reasons:

1. We have an interest in encouraging Venezuelan leadership in this and in other areas in which other developing countries could benefit from new and appropriate technology.

2. We have a number of other important interests in U.S.-Venezuelan relations, and we want to be responsive when Venezuela raises certain issues.

3. We do want to help develop the Tar Belt, though most recent studies indicate that such development is not economically feasible now, and not likely to be for a number of years.

In addition, as State's paper points out, our interests in the field of energy cooperation are primarily global, and to this end, we have solicited support from other industrialized and OPEC countries and LDCs for the International Energy Institute. This would facilitate technical assistance and energy technology development for the LDCs. NSC supports State's recommendation that we continue to pursue this ap-

¹ Source: Carter Library, National Security Affairs, Staff Material, North/South File, Box 46, Pastor Country Files, Venezuela. Confidential. Sent for action. Under the subject line, Brzezinski wrote: "Mainly with President Perez."

² Carter met with Pérez on June 28 and 29. At their June 29 meeting, Carter said that "he was greatly concerned about increases in the price of oil," given that "such increases would contribute to worldwide inflation and serve no one's interest." Pérez "complimented President Carter for supporting OPEC by urging Americans to conserve on energy," and observed that "thanks to oil and OPEC," the world "realized the gravity of the energy crisis." Carter "expressed his eagerness to work with Venezuela and with other OPEC nations on scientific research on petroleum production and exploration—for example, on developing technology for the Orinoco tar belt." Pérez replied that "any agreement to develop technology for the tar belt must be within the context of an overall plan or agreement between the United States and Venezuela." (Ibid.) The memoranda of conversation of their meetings are scheduled for publication in *Foreign Relations, 1977–1980*, volume XXIV, South America; Latin America Regional.

proach, but I disagree with State's position that there is such a clear-cut choice between a regional and a global approach. *Both* are needed.³

Attachment

Paper Prepared in the Department of State

Washington, undated.

COOPERATION FOR ENERGY DEVELOPMENT AS A RESPONSE TO PRESIDENT PEREZ

Issue for Decision

The issue is whether we should continue to explore with the Venezuelans possibilities for bilateral cooperation in the development of new technology for energy production and/or indicate to the Venezuelans our interest in discussing with them a Latin American regional approach to cooperation in energy planning and technology.

Essential Factors

In June, Presidents Carter and Perez agreed that energy should be an area for continuing US-Venezuelan consultation and cooperation and that Schlesinger and Energy Minister Hernandez, who met during the visit, should meet again for this purpose. The meeting will take place later this year, after preparatory discussions in late September or early October. We hope that at the meeting we can reach agreement on a process for cooperation in energy technology.

We are not currently pursuing with the Venezuelans the suggestion for US-Venezuelan leadership in a hemispheric program for cooperation in energy technology and planning raised by Perez during the previous Administration. In the past he also raised the possibility of examining what role, if any, existing Latin American organizations might play, such as those for economic affairs (SELA), energy development (OLADE), and nuclear non-proliferation (OPANAL). The US is not a member of these organizations and we have had limited dealings with them thus far.

As part of our global approach to energy problems, we have proposed an International Energy Institute (IEI), to be backed by industrialized countries and leading oil exporters, to facilitate technical assistance and energy technology development for the benefit of LDCs. The development of such an institution (which is supported by UN

³ Brzezinski added by hand all the text after "pursue this approach."

Secretary-General Waldheim) could form part of an agreement to resume a multilateral energy dialogue if, after an initial cautious reception, it attracts sufficient support from LDCs. These issues will be played out over the next several months, with one possible outcome an IEI decentralized along regional lines.

Options

1. *Use the upcoming energy talks with Venezuela to revive the subject of regional energy cooperation.*⁴

This would be responsive to an earlier Venezuelan suggestion, and by raising it we could better evaluate whether the Venezuelans have specific ideas of potential mutual benefit. Raising a proposal not currently being pressed by the Venezuelans, however, could raise false expectations, as we are likely to shape our multilateral energy policy in response to interests that are broader and deeper than regional solidarity.

2. *Leave regional energy cooperation in abeyance pending the outcome of UN and other multilateral consideration of the future of the energy dialogue and the IEI.*

This would save the multilateral energy technology “carrot” for possible use in conjunction with some form of ongoing energy dialogue of benefit to all oil-importing countries. At the same time, it would not foreclose a regional approach as a complement to global energy cooperation. It would not, however, acknowledge special concern for the energy problems of the Latin American region.

Recommendation

That you approve Option 2.⁵

⁴ President Pérez visited Washington September 6–9 to attend the signing of the Panama Canal Treaty. He met with President Carter on September 7. The memorandum of conversation is scheduled for publication in *Foreign Relations, 1977–1980*, volume XXIV, South America; Latin America Regional.

⁵ Carter checked the Approve option and initialed.

129. Editorial Note

The International Energy Agency held a Ministerial meeting in Paris October 5–6, 1977, which Secretary of Energy James Schlesinger and Under Secretary of State for Economic Affairs Richard Cooper at-

tended. At the meeting, the Ministers expressed “deep concern” over medium-term energy supply/demand prospects and the implications for the overall economic, social, and political objectives of their countries. They also “unanimously voiced” their determination to seek national and cooperative measures to reduce dependence on imported oil and assure adequate energy supplies for future economic development. As a result, they adopted: 1) a “reduced dependence package” with a group import target of no more than 26 million barrels of oil per day; 2) twelve principles for energy policy; and 3) strengthened review procedures designed to monitor progress toward the group target. Finally, the Ministers signed seven new cooperative research and development agreements within the IEA framework. (Telegram 29526 from Paris, October 7; National Archives, RG 59, Central Foreign Policy Files, D770366–1121)

During the meeting, Schlesinger delivered an address in which he recognized the “major role” that the United States would have to play in the common effort of IEA members to reduce dependence on imported oil. He also emphasized the Carter administration’s determination to adopt measures that would limit imports to a previously stated goal of 5.8 million barrels per day by 1985. The administration received “strong support” for its energy plan, accomplishing one of the objectives it had established for the meeting, but the other countries represented expressed “deep concern for its fate in Congress.” (Ibid.) The statement that the United States submitted for the record at the meeting is in telegram 237279 to Paris, October 1. (National Archives, RG 59, Central Foreign Policy Files, D770359–0493) A copy of Schlesinger’s speech is in the Carter Library, Staff Office Files, Council of Economic Advisers File, Box 25, Energy (2). The text of the communiqué is printed in Scott, *The History of the International Energy Agency*, volume III, pages 353–357. The Ministerial Decision on Group Objectives and Principles for Energy Policy is *ibid.*, pages 59–80.

130. Briefing Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Hormats) to Secretary of State Vance¹

Washington, October 17, 1977.

Implementation of Strategy on Oil Prices

The Problem

There are strong pressures within OPEC from revenue-short members like Venezuela and Algeria for a further price increase for 1978. In July, Saudi Arabia publicly supported a price freeze and Iran, atypically, did not rule one out. Each has kept ample room to maneuver, however, and we believe it possible that they might in the end agree to a price increase of as much as 10 percent in the name of OPEC unity. At the same time, there is no OPEC consensus as yet, and we have an important opportunity to encourage the key members to support a price freeze and to discourage others from pushing for an increase.

US Strategy

We have developed a strategy consisting of the following principal elements:

- high level approaches by the President and Secretaries Vance, Blumenthal, and Schlesinger in all their meetings with OPEC member leaders this fall so that our opposition to a price increase is clearly understood. Such meetings are our best opportunities to convey our seriousness and make clear the importance we attach to a price freeze. We must be careful, however, to avoid giving weak signals through omission or lack of clarity;

- possibly a letter from President Carter to King Khalid to indicate appreciation for the Saudi position in favor of a price freeze and pointing out that we are assisting the Saudi effort. The point of departure would be whatever line Prince Saud indicates the Saudis are currently prepared to pursue on prices;

- démarches by our ambassadors in the OPEC capitals. These will ensure that we touch all bases and get firmly on record in OPEC capitals;

- appropriate contacts with selected LDC's and IEA countries to provide arguments for a price freeze and encourage, directly or indirectly, approaches to OPEC members. Although our own efforts will be central to the outcome of our campaign, we want to build additional pressure at the margin and ensure consistency on the part of other major oil-importing countries.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P770173–1821. Confidential. Drafted by Hart and cleared by Sober.

The US Case

Our strongest economic arguments against a price increase are that it would imperil the fragile global economic recovery and is not justified by the current market supply and demand balance for oil. We must also be prepared to counter OPEC claims that continued world inflation and currency exchange fluctuations justify a compensating oil price increase. Secretary Blumenthal is best-suited to make these global economic arguments authoritatively. In addition, we want to call in some of the chips that the Administration has earned by its expenditure of political capital on bilateral and regional initiatives of great importance to such countries as Saudi Arabia, Iran, Venezuela, and Nigeria, while pointing out that an oil price rise would be likely to arouse a strong negative reaction in Congress and among the American people, complicating the pursuit of these initiatives. The President and you can make these political arguments with best effect.

The basic arguments in our approaches to the OPEC countries will be:

—An oil price increase will be *harmful to the world economic recovery* and will seriously threaten progress in reducing inflation and unemployment; it would place particular burdens on the oil-importing developing countries. These outcomes would not serve the OPEC countries' own interests in trade, investments, and development.

OPEC appreciation of the impact of oil prices on the world economy has increased since 1974, but there is a strong belief in OPEC that we exaggerate the danger of "moderate" increases on the order of 10 percent. We must make clear that the marginal impact of any increase at this time could set off a downward spiral in the world economy from whose effects OPEC would not be immune.

The US and world economic recovery are at a critical juncture. Particularly worrisome is the uneven sharing of the world deficit which matches the oil producers current account surplus, with the United States carrying the lion's share. This is already placing the international trading and financial system under significant strain, encouraging protectionism and creating international financial uncertainty. A price increase of 10 percent would raise the global bill for oil imports by more than \$15 billion and the initial impact would be to aggravate the problem of the unevenly shared international deficit. This would in turn heighten investor uncertainty and tighten the constraint on public expansionary policies. Thus, the impact of a marginal increase in the OPEC price could set in motion an unravelling of the faltering world economic recovery.

Key OPEC countries must be made to understand the magnified repercussions another price increase could have. At the same time, we must be careful not to implant doubts about the ultimate strength of the

dollar in the minds of OPEC leaders, particularly of those countries with large dollar-denominated holdings.

—*Market conditions do not justify* any price increase. The oil market has slumped since early this year, and this condition will continue for some time.

The impact of new oil supplies from the North Sea, Alaska, and Mexico began to be felt in the oil market in the second half of this year. The addition of 3 million b/d of new supply from these sources between mid-77 and mid-79 will meet most of the increased need for oil in this period, assuming moderate economic growth. Current supply and demand lend no market justification for an OPEC price rise at this time.

—Oil prices are at this point a sensitive issue among the American people. A hike now would generate a *negative reaction among Americans* toward countries supporting the increase.

The Administration believes and is trying to put across to the public that the energy problem is a global one requiring a longterm transition to other energy sources than oil and gas and that this can only be achieved successfully through the cooperation of oil producing and consuming countries during the difficult transition period. Under present circumstances, a price increase would be viewed as irresponsible and this will increase the difficulties of building support for bilateral and regional initiatives of high interest to individual oil producing countries.

—Oil price decisions must be made on *broader considerations than OPEC perceptions of world inflation* and currency exchange fluctuations. However, even accounting for such factors, our analysis is that the terms of trade of the OPEC countries are still better than they were in 1974, itself a very favorable year for oil exporters.

World inflation has slowed markedly since January 1, 1974, and the oil producers have taken actions to increase government per-barrel oil take by one-third since that date. Although we have been careful not to concede that there is economic justification for basing oil price increases on world inflation rates, we have had to track this issue to be able to counter OPEC claims of substantial erosion of oil purchasing power. CIA's conclusion is that the terms of trade, denominated in dollars, between OPEC and the leading industrialized countries place OPEC ahead by about 5 percent over 1974. It would not be useful to state that precise figure with OPEC but we can make the general point and emphasize that a further price rise would be self-defeating as it would contribute to world inflation and currency problems. The requirement now is for a period of stability in oil prices.

Implementation

We want to approach all the OPEC countries bilaterally and involve other oil importing countries to the extent this is not counterpro-

ductive. Our bilateral efforts should be concentrated on the three key players: Saudi Arabia, Iran and Venezuela.

Saudi Arabia—The visits of Prince Saud to Washington and Secretary Blumenthal to Riyadh provide our best opportunities to:

- verify that the Saudis are still willing to press for a freeze, since without their cooperation our campaign cannot succeed;
- impress upon them that economic and political considerations require a freeze; and
- reassure them that we are trying to help them persuade the other producers.

We understand that the President and Crown Prince Fahd talked in terms of a 1978 price freeze during the successful state visit in May.² For Prince Saud's visit, we have prepared talking points for the President to flag the importance of a price freeze and to elicit Saud's response. Saud was personally uncomfortable with the decision of Prince Fahd and Abdullah to split with OPEC last year,³ but we trust he will reflect current official Saudi views during his visit to Washington. We recommend that you and Secretary Schlesinger follow up with Saud as necessary after he and the President meet.⁴

After these talks, we plan to consider the desirability of recommending that the President send a letter to King Khalid. The content would depend upon what we learn from Saud.

Meanwhile, Secretary Blumenthal will have spoken for the Administration with the key oil price decision-makers in Saudi Arabia (suggested talking points attached).⁵ If all goes well in the Washington and Riyadh meetings, we and the Saudis will be on the same wave length and no further high level representations to them will be needed.

Iran—Secretary Blumenthal has a rare opportunity to influence Iran because, for once, Iran has not locked itself into a public position favoring another price increase. If the Shah, who will decide the Iranian position, has made up his mind, he has not revealed it. Moreover, the Iranians now acknowledge for the first time since 1974 that the state of the global economy and world-wide unemployment are factors to be taken into account in price decisions. At the same time, the Iranians assert that world inflation and currency exchange fluctuations should be factors in oil pricing. Secretary Blumenthal can be helpful in guiding

² See Document 124.

³ See Document 113.

⁴ See footnote 4, Document 136.

⁵ Talking points for Blumenthal's meetings in Saudi Arabia, Iran, and Kuwait are attached but not printed.

the Shah as he weighs the respective merits of these various considerations (suggested talking points attached).

As noted, Tehran's silence on the upcoming OPEC meeting is unusual, and we do not know whether its position will be open when the Shah arrives here for his state visit.⁶ It is possible that the visit is a factor in the Shah's silence on oil prices, and we are preparing talking points for the President's use. We do not believe that generalized talking points on the world economy will be as effective as hard-hitting points on the state of the dollar and U.S. world strength. (We should be aware, however, that the Iranians have in earlier periods of dollar weakness favored the denomination of oil prices according to a basket of currencies or in SDR's and that they could revive such proposals within OPEC.) We have not recommended a letter to the Shah because previous formal communications on the subject of oil prices have appeared to bring out the Shah at his most extreme for the record. An exchange now could reduce the chance to influence his decision.

Venezuela—The President has already raised the oil price question with President Perez twice—in June and September.⁷ But Venezuela is still in the forefront seeking to build an OPEC consensus around a price increase at the December 20 meeting in Caracas. We intend to raise the issue during our November 10–11 bilateral working level meeting in Washington with GOV energy policy advisors. It is possible that Secretary Schlesinger and the Venezuelan Energy Minister will also meet before the OPEC meeting. However, it would be desirable for the President to make one more major effort during his November 22 visit to Venezuela to present our case to President Perez,⁸ with whom he has established a close rapport on regional and other political issues.

Other Approaches

Secretary Blumenthal will have an opportunity to talk about oil prices on his trip to Kuwait (suggested talking points attached). The President has already raised the price issue with Nigerian President Obasanjo⁹ and will be advised to do so again in Lagos. We have also made our views known to visiting high Indonesian officials. We are expecting at the end of this week CIA's detailed analysis of the potential impact on the world economy of an oil price rise in 1978. This, along with Treasury analyses, will form the basis for:

⁶ November 15–16. See Document 139. The OPEC meeting was held December 20. See Document 136.

⁷ See footnotes 2 and 4, Document 128.

⁸ Carter did not travel to Venezuela, but see footnote 7, Document 138.

⁹ President Obasanjo visited the United States October 10–13. Documentation is scheduled for publication in *Foreign Relations, 1977–1980*, volume XVII, Africa.

- démarches by our ambassadors to the OPEC governments with which high-level meetings are not in prospect;
- instructions to embassies in key LDC capitals to present our views to appropriate officials on the consequences of a price increase;
- guidance to embassies in IEA capitals to encourage host governments to approach OPEC members and to use mutually consistent arguments for an oil price freeze.

In addition, we are preparing talking points for the President's use in the oil-importing LDCs and industrialized countries he will visit in November (Brazil, India, Belgium and France). Under Secretary Cooper will have an opportunity to raise the price issue with Jamaica in his bilateral on North/South issues. We cannot count on oil-importing LDCs to make approaches to OPEC; but Brazil, India and Jamaica are among the most suitable targets for efforts to encourage involvement.

131. Memorandum From Timothy Deal of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, October 18, 1977.

SUBJECT

Oil Price Strategy

You are meeting today with Vance and Blumenthal to discuss oil price strategy before Blumenthal leaves on his Middle East trip on October 21.

State has prepared a sound strategy paper (Tab A)² which Vance will use in the meeting. This is a vast improvement over earlier State drafts; Bob Hormats' hand is in evidence. In brief, this paper points out that:

—There is some flexibility in OPEC's position on oil prices. Saudi Arabia, Iran and Venezuela are the key players and should be the focus of our efforts to induce OPEC to take a moderate stance. Representations by the President, Vance, Blumenthal and Schlesinger both here and in Riyadh and Tehran will help to underscore our deep concern

¹ Source: Carter Library, National Security Affairs, Staff Material, Middle East File, Box 65, Subject File, Oil. Confidential. Sent for information.

² Attached but not printed.

about the price issue. Presidential involvement will be particularly necessary in Venezuela.

—Contacts with selected LDC's and IEA members may also help to build counterpressures against OPEC.

—The economic arguments for a price freeze are convincing in view of the slow pace of world economic recovery, unsettled conditions in exchange markets, protectionist tendencies in trade, and a temporary imbalance between supply and demand because of increased oil production in the North Sea, Alaska, and Mexico.

Clearly, economic arguments should be the primary focus of Blumenthal's presentations with Middle East Finance Ministers. Yet, there is an important political element missing in the State strategy paper. Political consideration must not be overlooked in our efforts to avert a further round of price increases.

In that regard, the talking points for Saudi Arabia³ should make specific reference to the special US-Saudi relationship and stress: (1) our deep involvement in achieving a lasting Middle East settlement; (2) the real danger to political stability in Spain, Portugal, Turkey, Italy and several key developing countries if economic conditions deteriorate further; (3) our assistance to the Saudis on the security front, in particular, efforts to help them modernize their armed forces. Domestic support for these efforts would be jeopardized by a price increase.

The State talking points for Iran are adequate. The Shah has not in the past been convinced by arguments about the effect of oil price increases on the world economy. But we may be able to appeal to him by referring to the effects of such increases on the strength of the dollar and US world power. In any event, to be effective we must make our arguments forcefully and not simply "for the record," as has been the case so often.

Finally, before agreeing to high profile Presidential involvement in the oil price issue, we must weigh the political costs of failure. That is, how will the President's image as a world leader be affected if he makes a strong presentation on oil prices during his trip and then one month later OPEC turns around and announces a major price increase?

These are some of the issues that we will need to explore in greater depth in the days ahead. I know that Treasury shares our concern that many of these political considerations are inadequately covered in the State strategy paper.

³ Talking points for Saudi Arabia and Iran are attached but not printed.

One other tactical point. Dick Cooper mentioned in last week's PRC meeting on the Middle East⁴ that Blumenthal might "play the Heavy" on this trip by speaking out forcefully on the price issue. The President could then follow up by stating that he fully supports those views without his having to engage in an argumentative discussion on oil prices. You might wish to encourage Blumenthal to play this role, recognizing his reluctance to do so in his first meeting with many Middle East officials.

Gary Sick and Guy Erb concur.

⁴ The minutes of the October 13 Policy Review Committee meeting are in Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 32, Middle East, 9–12/77.

132. Memorandum for the Record¹

Washington, October 18, 1977, 2:30 p.m.

SUBJECT

Meeting on Oil Price Strategy

PARTICIPANTS

State

Secretary Vance
Richard Cooper
Robert Hormats
Stephen Bosworth

Treasury

Secretary Blumenthal
Anthony Solomon
Fred Bergsten

NSC

Dr. Brzezinski
David Aaron
Timothy Deal

Blumenthal said he had asked for the meeting to consider several questions: (1) Was the oil price issue a priority item in our relations

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil. Secret. The meeting was held in Brzezinski's office.

with the Middle Eastern countries? (2) To what extent should the President become involved in our efforts to avert a price hike? And (3) should we attempt to handle the matter bilaterally or multilaterally?

Vance affirmed that the oil price issue should be near the top of the agenda. On the other hand, if, for example, we would have to approve the sale of F-15s to induce the Saudis to be moderate on oil prices, we would have to give greater weight to political considerations since such sales could affect overall Arab-Israeli relations.

Cooper stressed that political concerns were key in the Middle East. In the case of Venezuela, the President has twice raised the oil price issue with Perez.² We should push harder with Venezuela.

Brzezinski said that oil would be an important item on the President's trip. We intend to stress the oil issue in Venezuela, but put less emphasis on it in Nigeria, because of our ongoing initiatives in Africa, and in Saudi Arabia, because of Arab-Israeli concerns. It would be an important issue with the Shah.

Blumenthal asked for practical suggestions. Reportedly, many OPEC members favor a 10–15% price hike. The Saudis, for tactical purposes, may propose a price freeze but in the end support a moderate (5%) increase. He said that, if we make only a low-key approach to OPEC, the likely outcome will be a 6–8% increase. Would that be bad? Or should we do more now? In his view, the outcome would be serious. The US trade deficit would probably increase by \$3–4 billion. Thus, we might face a trade deficit of \$40 billion in 1978. That would have serious economic as well as political ramifications. Consequently, we may have to exert greater pressure to prevent even a “moderate” price increase.

Solomon said that [*less than 1 line not declassified*] indicate that the Saudis cannot increase production over the short-term. Iran, Venezuela, and possibly Kuwait were thus the real movers at this time. If we emphasize oil in our dealings with these countries and present our case in terms of a special political relationship, we might have some success in holding the line on prices.

Brzezinski said these suggestions fit well into the overall scheme.

Blumenthal pointed out that we need a series of talking points tailored to each country. In some cases, we might want to emphasize bilateral issues; in others, multilateral topics. He asked whether in view of former Secretary Simon's past difficulties with the Shah he should be tough in Tehran.

Vance said Blumenthal should certainly raise the issue but not press it.

² See footnotes 2 and 4, Document 128.

Brzezinski said a low-key approach would be odd considering the importance of the issue to the US. A sotto voce presentation would have little value. Blumenthal should base our argument against a price rise on economic grounds. The President could then weave together the political and economic considerations when he meets with foreign leaders on his trip. Blumenthal's meetings should lay the groundwork for the President's trip.

Blumenthal again reiterated that we needed an orchestrated approach to the OPEC countries.

Solomon said that the talking points proposed by State were inadequate and must be strengthened.³

Vance said he would discuss oil prices with Saudi Foreign Minister Saud and follow up later with Crown Prince Fahd.

Brzezinski noted that, in any event, the President should not "play the heavy". He should assume a statesman-like role pulling together a compromise after some softening up by Blumenthal, Vance and others. The President may, however, have to weigh in with Venezuela.

Vance added that Venezuela was the villain on oil.

Solomon said that our arguments will carry little weight if we only talk in terms of price moderation. As he pointed out in a recent speech, OPEC's terms of trade have improved since 1974. The world monetary system and the US dollar are under strain; our national interests are at stake. Thus, the President cannot talk with OPEC leaders about *moderation*; on the contrary, we must stress the importance of a *freeze* on prices. He then reviewed the positions of individual OPEC members on the price issue.

Vance said the Iranians might propose some sort of barter arrangement involving arms for oil.

Solomon said we should not reject that proposal out of hand. We might be able to build up our petroleum reserve in this manner.

Vance noted that a barter arrangement with Iran would cause problems with Saudi Arabia.

Blumenthal added that barter deals can lead to trouble. In any case, they were phony arrangements.

Brzezinski asked what are our realistic objectives with respect to prices? Do we want to hold the line or are we prepared to accept a moderate increase? Is a freeze attainable?

Cooper said he thought a freeze was definitely in order in view of weak oil demand. Of course, the Saudis must maintain current production levels.

³ See Document 131 and footnote 3 thereto.

Solomon said that technically this may be difficult because of reduced pressure in the oil fields. In any event, considering the demand/supply picture and the present world economic situation, there was really no valid reason for a price hike.

Blumenthal underscored the political effects in Italy and France of another round of price increases.

Bergsten noted that in July the Saudis came out publicly for a freeze; their position now was not clear.

Solomon stressed that we have moved towards the Arabs on a number of issues, more so than in the case of Israel. Some effort on their part was necessary. Perhaps we should try to link these issues more explicitly.

Vance asked about Mexican oil production possibilities. Solomon said they were limited; the prospects for natural gas are better.

Brzezinski said he had not focused on oil strategy previously but agreed now that this issue was a crucial element in our Middle Eastern relations.

Vance said we must get moving. We should let the Shah know that we are serious about oil. He asked if we had given thought to an approach to non-oil producers. Perhaps, Mexico could take a leading role. Jamaica, as head of the G-77, was also a candidate. We need a strategy here.

Bosworth questioned whether these countries could take the lead on price issues. In any event, we do intend to approach India, other key consumers, IEA members, etc.

The group agreed that we should move now to get the message across that the US favors a price freeze. A message from Vance to his counterparts in IEA capitals should be sent. State will draft it.⁴ We could also try to work with third countries (e.g., Italy) to approach the more radical OPEC states (e.g., Libya). In the meantime, Treasury would rewrite the economic talking points on oil strategy; State would supply political/security talking points.

⁴ Not found.

133. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to Henry Owen and Samuel Huntington of the National Security Council Staff¹

Washington, October 19, 1977.

SUBJECT

Oil Price Strategy

The President desires that very serious thought be given on an urgent basis to an orchestrated strategy, designed to strengthen the support of other key nations, both developed and under-developed, for an effort to hold OPEC prices down. It is the view of Mike Blumenthal and others that any price increase right now, and certainly any above three or so percent, would be potentially most damaging to a variety of our national interests. We intend to use the trip² in part to exercise our leverage against such a price hike, but much more needs to be done. Could you please consult, develop some initial thoughts, and—if necessary—form a highly confidential group to develop the needed response.³

Please consider this matter as urgent, although I am not setting a particular deadline.

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil. Secret. Printed from a copy that indicates Brzezinski initialed the original.

² Blumenthal's trip to the Middle East; see Document 134.

³ On October 26, Huntington received a memorandum from Robert Bowie, Director of the National Foreign Assessment Center, Central Intelligence Agency, informing him that he would "produce an intelligence evaluation of the impact of an oil price increase on industrial and underdeveloped countries and of the attitudes of these countries toward such an increase." Bowie attached a paper, prepared earlier at Cooper's request, on the impact of a 10 percent OPEC price rise and added that the new paper would provide "a more pessimistic scenario" for the impact of such an increase. He also hoped to include an evaluation of the views and attitudes of the OPEC countries with regard to a price increase. (Carter Library, National Security Affairs, Staff Material, Middle East File, Box 65, Subject File, Oil) Neither paper has been found.

134. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to the Cabinet¹

Washington, October 27, 1977.

SUBJECT

Energy Policy

Secretary Blumenthal has reported to the President that, in his conversations with Middle East leaders,² it has become clear to him that the willingness of the oil exporting countries to cooperate with the U.S. in their oil pricing policies will depend to an important degree on their seeing evidence of our resolve to face up to this situation, specifically by putting in place adequate energy legislation.

The President asked me to report the above to you. He further asked that you make this point in your statements and speeches regarding our energy policy.

Zbigniew Brzezinski

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 8, Energy Department, 5/77–5/78. Secret.

² Blumenthal's Middle East trip began on October 22 in Egypt and included visits to Kuwait, Iran, and Saudi Arabia. He met on October 27 with the Shah, who "volunteered that it had been decided that Iran should not take a strong position in OPEC at this time" because, as the Shah phrased it, "We don't want to be known as hawks." (Telegram 9505 from Tehran, October 27; National Archives, RG 59, Central Foreign Policy Files, P850106–2279) In an October 28 meeting with Fahd, the Crown Prince confirmed that it was "Saudi policy to try to convince other OPEC members to freeze prices—say for another year." (Telegram 1286 from Dhahran, October 30; *ibid.*, P840081–1893) Blumenthal's October 26 meeting with Kuwaiti Emir Sabah was reported in telegram 6086 from Kuwait, October 27. (*Ibid.*, D770394–1088) His October 28 meeting with King Khalid was reported in telegram 1285 from Dhahran, October 29. (*Ibid.*, D770399–0384)

135. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter¹

Washington, November 1, 1977.

SUBJECT

Oil Price Strategy

In response to your question about what we are doing to recruit consumer nations to help us hold down oil prices, here is a brief recap of our current oil strategy efforts:

1. State has prepared cables to OPEC nations not visited by Mike Blumenthal,² to major industrialized states, and to a long list of selected consumer nations. In each case, the US Ambassador will make a *démarche* to the Foreign Minister, the Finance Minister or both, making the same case which Blumenthal made so effectively during his visits.

2. In the case of consumers, we will inform them of the efforts we are making with OPEC states, give them the economic arguments, and solicit their assistance, using their own judgment of how they can be most effective. We are not asking them to make *démarches* to the OPEC states, since to do so would risk giving the appearance of a heavy-handed operation coordinated by Washington. In view of Saudi and Iranian moderation, we need to avoid arousing resentment among our friends in addition to persuading the price "hawks."

3. We will, however, ask the Italians to approach the Libyans, since they are the only Western nation with sufficient access and credibility to make an effective approach.

4. State is also considering the possibility of calling in each of the ambassadors of key consuming states to give them the same message, though this should probably await initial reactions to our *démarche* in each of their capitals.

5. In addition, the NSC staff is working with State on a consolidated strategy for your trip, for the public remarks in advance of the trip, and the approach to be taken with consumers and producers along the way.³

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil. Secret. Sent for information.

² See footnote 2, Document 134. For the cable, see Document 136.

³ In the course of his trip to Europe, India, and the Middle East December 29–January 6, Carter visited Tehran where he met with the Shah and King Hussein and Saudi Arabia where he met with King Khalid and Crown Prince Fahd.

136. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, November 4, 1977, 0134Z.

264256. Subject: US Démarche on Oil Price Question; OPEC Meeting December 20 in Caracas.

1. From now until a decision is made by OPEC, the highest objective of American international economic policy must be to obtain a freeze on oil prices at least through 1978. In June, President Carter stated his hope, shared by Crown Prince Fahd, that the end of the two-tier system would be followed by such a price freeze.² Subsequent economic and political developments have made price stability even more critical. The world and the US economy would be damaged by even a seemingly modest price increase such as 5 percent.

2. For the next two months, the primary concern in our relationship with all OPEC countries, especially Venezuela and Iran, will be their behavior on oil prices. (With Saudi Arabia, this concern will be secondary only to the achievement of a durable Mideast peace.) We will not hesitate to point out that the action OPEC members take on prices affects their overall relationships with Congress and the American public as well as the executive branch. Secretary Blumenthal has raised the oil price issue during his Middle East trip.³ It was discussed with Prince Saud in Washington on October 25.⁴ The Shah's visit to the US in November⁵ and the President's visit to key OPEC countries later in the month will provide additional opportunities to make our views known. We are also informing key industrialized countries and LDCs of our analysis of the impact of an oil price increase next year in an effort to encourage them to make approaches of their own to those OPEC members with which they have especially close relationships.⁶

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D770406–0164. Secret; Immediate; Limdis. Drafted by Milam, Hart, and Rosen; cleared by Katz and Bosworth and in NEA, EA, ARA, AF, and the Treasury and Energy Departments; and approved by Cooper. Sent to Abu Dhabi, Baghdad, Doha, Jakarta, Libreville, Quito, Tripoli, Kuwait, Algiers, Caracas, Jidda, Tehran, Vienna, Lagos, and USUN.

² Fahd's visit was in May. See footnote 2, Document 124.

³ See Document 134.

⁴ Excerpts of the minutes of the meetings with Prince Saud are in telegram 258396 to Dhahran, October 28. (National Archives, RG 59, Central Foreign Policy Files, [no film number])

⁵ See Document 139.

⁶ The message to the LDCs, to be conveyed by Chiefs of Mission to the "highest appropriate level as soon as possible," is in telegram 264258 to Buenos Aires and other posts, November 4. (National Archives, RG 59, Central Foreign Policy Files, D770406–0390) Vance sent a letter directly to the Foreign Ministers of the industrialized countries

3. Chiefs of Mission of action addressees should, unless they inform the Department that it would be counterproductive, present the US case against an oil price increase at the highest appropriate level as soon as possible, drawing on the following paragraphs. Our estimates of the effects of a 5 percent increase in oil prices in 1978 are included primarily for your information. If in the course of discussion it should appear appropriate to cite them, you should make clear that 5 percent was chosen for analytical purposes only. We would not find any price increase appropriate or acceptable.

4. The US would consider any oil price increase at the December meeting as unwarranted by market conditions and harmful to the world economy.

5. The world economy is fragile. While efforts to reduce them are beginning to pay off, inflation rates remain unacceptably high at over 8.0 percent for the OECD as a whole and 6.5 percent in the US. Unemployment in the OECD is now at 15 million and the prospect is dim for any significant reduction soon. US growth, which was running at 5.5 percent earlier this year, has fallen to under 4 percent. In addition, we are experiencing a very large current account deficit which restricts our ability to engage in stimulative action.

6. Under these conditions, any oil price increase in 1978—however small in percentage terms—would have a large adverse effect on the growth of both the US and world economies and on world financial stability.

7. An oil price increase would fuel inflation, increase unemployment, and add significantly to our balance of payments difficulties. These effects would be magnified for the other OECD countries and would severely constrain both the growth prospects of the developing countries and our ability to assist them (FYI: We estimate that a 5 percent increase in oil prices in 1978 would raise the collective trade deficit of the seven major industrial countries by over \$3.5 billion, add over one-third of 1 percent to their average rate of inflation, and in the absence of offsetting fiscal and/or monetary policies, reduce their collective GNP by over \$10 billion. By 1985 the cumulative GNP loss of this one-time price rise would be almost \$150 billion. Certain developed and developing countries would bear a disproportionate share of these effects. For the LDCs as a group, a 5 percent oil price rise would result in a \$1.2 billion increase in import costs in 1978.)

on November 9 outlining the major arguments in favor of freezing oil prices, most of which are contained in this telegram, that the United States would make to the OPEC countries before the December 20 meeting in Caracas. (Telegram 267884 to London and other posts; *ibid.*, D770413–0990)

8. The US has accepted a large deterioration on trade and current account, to which past oil price increases have heavily contributed. This has significantly eased strains on the international payments mechanism. However, the increased deficit resulting from an oil price increase would make it considerably more difficult for the US and other countries to resist public pressures for protectionist trade measures, and could prejudice the stability of the international financial system.

9. If US ability to continue to lead world economic recovery and financial stability is severely hampered by an oil price increase, there is no other country capable of assuming this role.

10. The stake OPEC countries generally have in a stable world economy is clear; increasing balance of payments imbalances and inflationary pressures would threaten the future profitability of their cumulated assets and reduce longer term demand for non-oil exports.

11. (If the argument is made that an oil price increase is justified by world inflation rates and currency fluctuations, you should respond along the following lines.) Arbitrary linkage of the prices of different goods and services only serves to increase inflationary pressures and misallocation of resources. Moreover, given the strong influence of oil price increases on world economic health, it is clear that oil price decisions must be made on much broader considerations than OPEC perceptions of the current world inflation rate and recent currency fluctuations. Even on narrow grounds, however, a price increase is not justified. Our analysis indicates that the terms of trade of OPEC countries as a group have not deteriorated from the levels resulting from the 1974 oil price increases. Between the beginning of 1974 and mid-1977 export prices for US goods imported by OPEC countries rose by 22 percent while the export price of OPEC oil, as measured by Saudi benchmark crude, rose by 27 percent, not counting the 5 percent increase last July.

12. For Abu Dhabi: We assume you will wish to preface any comments to UAE leaders with acknowledgment of their responsible stand on oil prices. You should also stress that in preparation for Caracas, the US is making strong representations for a price freeze in other OPEC capitals.

13. For Jakarta (and Lagos pending receipt of further instructions): Some key OPEC countries seem open to possibility of a freeze and aware of the effect of a price rise on world economic recovery and thus on their own well-being as well as that of the developing world. We should make the case to these middle size OPEC producers that they can exercise an independent and effective influence for restraint in OPEC councils, and that we hope they will use this opportunity to act in the common interest by supporting a freeze for 1978.

14. For Caracas, Jidda, Tehran, Lagos and Algiers: No action should be taken at this time. Instructions will follow when status of Presidential visit clarified and, in case of Algeria, decision made on possible approaches in Washington.

Vance

137. Telegram From the Department of State to the Embassy in Saudi Arabia¹

Washington, November 5, 1977, 2242Z.

265882. Subject: President's Energy Speech and Oil Price Freeze.

1. The President will make a nationwide address on energy on Tuesday, November 8.² After you receive text, you should convey to King Khalid a copy of the speech and make the oral presentation below. We leave it to you whether this can best be done in audience with King or conveyed, for example, through Prince Fahd.

2. *Begin oral presentation.* The President has asked me to deliver to you a copy of his recent speech on energy, as well as to express once again his regret that he was unable to visit the Kingdom as planned because of the need to complete passage of the energy legislation. Secretary Blumenthal has told the President of the detailed and useful nature of the talks on energy and other subjects which the Secretary had with Your Majesty, Crown Prince Fahd and others in the Kingdom.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P840072–1958. Secret; Immediate; Nodis. Drafted by Leonard Ross, Cooper's Special Assistant; cleared by Blumenthal, Owen, Atherton, and Katz; and approved by Cooper. The telegram was repeated to the White House for Brzezinski on November 6. (Ibid.)

² In his speech, Carter announced that Congressional conference committees were in the process of resolving the differences between the House and Senate energy bills, which were based on the administration's National Energy Plan (see footnote 2, Document 122). He stated that "we simply use too much and waste too much energy" and that "unless we act quickly, imports will continue to go up" and existing problems would "grow even worse." The purpose of the energy legislation, he said, was to "cut back on consumption," "shift away from oil and gas to other sources of energy," and "encourage production of energy here in the United States." He also said: "We must face an unpleasant fact about energy prices. They are going up, whether we pass an energy program or not, as fuel becomes more scarce and more expensive to produce." For the full text of the speech, delivered on nationwide television and radio, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, pp. 1981–1987.

3. The President is especially grateful for the reception given to Secretary Blumenthal, who told the President of the extraordinary hospitality accorded him.

4. The President is greatly encouraged at the common view shared by the USG and SAG on energy problems. He had looked forward to discussing these questions, among others, personally with His Majesty and with Crown Prince Fahd during his visit to the Kingdom. Since that opportunity has unfortunately been delayed, the President has asked Ambassador West to convey the views he would have conveyed personally.

5. The President strongly agrees that energy conservation is the first order of business for the industrialized world, especially the United States. He is telling Congress and the American people that the energy question is a two-way street. The United States must take tough measures to curb its consumption if it is to expect a freeze on oil prices. And oil producers should, as the SAG has so clearly indicated, act on prices and production with an understanding of the interrelationship between the prosperity of the developed world, the non-oil developing world, and that of the producers themselves.

6. On the forthcoming OPEC price decision, the President appreciates the Saudi commitment, as expressed to Secretary Blumenthal, to work for a price freeze through 1978 and is confident that this goal can be obtained. He believes that the Iranians share our understanding of the fragile nature of the world economic recovery and that they, with the encouragement of other consuming nations as well as the USG and the SAG, could support a freeze. He would appreciate the SAG's assistance and advice on the best way to accomplish this goal.

7. The President suggested the importance of stating our shared objective of a 1978 price freeze explicitly and publicly to avoid confusion arising from the numerous newspaper reports on the forthcoming price decision. *End oral presentation.*³

Christopher

³ West delivered the text of Carter's speech and made the oral presentation to Prince Saud on November 9. Repeating an argument previously used by Yamani, Saud said that a "rational economic basis" for a price freeze was "difficult to justify, especially to those countries having little interest in political aspects of decision." In his report to the Department, West commented: "Any indication of support for price freeze from other countries should be passed on to Saudis without delay to strengthen their resolve. Impression now loud and clear is that Saudi opposition to a price increase is not sufficiently strong to hold the line against pressures from other OPEC members and Saudis are not prepared to break ranks again with other OPEC member states. An increase of five to seven percent would be minimum we would expect barring new developments between now and Caracas meeting." (Telegram 7733 from Jidda, November 9; National Archives, RG 59, Central Foreign Policy Files, P840072–1969)

138. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter¹

Washington, November 12, 1977.

SUBJECT

Oil Price Strategy

I wrote you earlier about our strategy to avert an oil price increase in 1978.² Below is an update on our efforts:

1. Cy Vance sent messages to Foreign Ministers in key consuming countries outlining the economic arguments *against* any price increase and urging those governments to make representations to OPEC members on their own behalf.³ We have also suggested that the French and Italians consider making a special approach to Iraq and Libya, respectively.

2. State instructed our Ambassadors in nine OPEC capitals and in selected developing countries to make similar *démarches*.⁴

3. Cy Vance presented our case personally to Algerian Foreign Minister Bouteflika.⁵

Foreign Responses—The developing countries contacted have expressed sympathy and support for our position but appear unwilling to approach OPEC states, citing political factors as their reason. Still, they are likely to provide some support in the form of press statements, corridor contacts in the UN, etc.; these are unlikely to influence OPEC decision-makers.

We have received no formal replies from the key industrial countries, but when Vance's letter was delivered in Bonn, Paris, and Tokyo, officials there expressed agreement with our position and noted that they planned similar approaches.

Responses in OPEC capitals have been mixed. The Indonesians said that inflation justified a moderate increase in prices, whereas United Arab Emirates' (UAE) representatives said they would continue to pursue a policy of price moderation and would, in any event, coordi-

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil. Secret. Sent for information. Carter initialed the memorandum.

² See Document 135.

³ See footnote 6, Document 136.

⁴ See Document 136.

⁵ Vance urged Bouteflika "as strongly as possible" that "there be no price increases agreed upon at Caracas meeting." A summary of the discussion is in telegram 270642 to Algiers, November 11. (National Archives, RG 59, Central Foreign Policy Files, D770418–0040) The telegram is scheduled for publication in *Foreign Relations, 1977–1980*, volume XVII, Africa.

nate their position with Saudi Arabia. Indonesia and Kuwait noted a seeming lack of concern on the part of other developed countries. In addition, a number of OPEC states believe Iran will seek a price increase, although we have no information that the Shah has changed his position since his meeting with Mike Blumenthal.⁶

OPEC countries have not yet reached a consensus on oil prices; and urgent consultations are currently underway. Saudi Petroleum Minister Yamani made quick trips this past week to the UAE and Qatar. Venezuelan Minister Hernandez is visiting three OPEC capitals. Reportedly, the Saudis are arguing for a price freeze, but there is no sign that they have won any converts. In the meantime, industry sources and intelligence reports indicate that a price increase of 5–7% is likely.

Next Steps—We are confident that the Saudis will do what they can within OPEC to lobby for a price freeze. But in the end they will possibly support a modest increase if the alternative is a two-tiered price structure as in early 1977. As we draw closer to the Caracas meeting, we may recommend that you communicate directly with King Khalid of Saudi Arabia to emphasize our position on prices.

We are less certain about Iran and Venezuela. The Shah has given us his commitment not to *push* for a price increase. But, that may not be enough, particularly since other OPEC states allege that Iran is still a price hawk. Consequently, it would be useful if the Shah would agree to support actively a price freeze in the next round. Your discussion with him next week will be crucial in that regard.

Venezuela will be a problem. Perez will listen to you, but perhaps to no one else. Venezuela's role on the price issue is critical. If the Venezuelans take a hard line at the Caracas meeting, there is almost no chance for a freeze. Consequently, we may recommend dispatching a special emissary to Venezuela who would carry a personal message from you outlining our position. Cy Vance will be traveling to Argentina later this month and would thus be one logical candidate.⁷ We will forward our recommendations to you shortly.

⁶ See footnote 2, Document 134.

⁷ Vance met with Pérez on November 23 and delivered a letter from Carter on the subject of an oil price freeze. The Secretary said that the United States was worried about the impact of an increase in oil prices not only on the industrial world but also on the LDCs. He added that "any increase at all" would worsen inflation and unemployment and decrease investor confidence, thereby jeopardizing growth and affecting OPEC in the long run. Finally, Vance said that the United States had conveyed the same concerns to Iran, Saudi Arabia, Nigeria, Algeria, and Indonesia. A summary of the meeting is in telegram 11456 from Caracas, November 25. (National Archives, RG 59, Central Foreign Policy Files, D770438–0145) A copy of Carter's letter to Pérez is in Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File. See also footnote 1, Document 141.

139. Memorandum of Conversation¹

Washington, November 16, 1977, 10:30–11:35 a.m.

SUBJECT

President's Meeting with The Shah of Iran, November 16, 1977, 10:30 a.m. to 11:35 a.m., The Cabinet Room

PARTICIPANTS

The President
The Vice President
The Secretary of State
Ambassador William Sullivan
Alfred L. Atherton, Jr.
Zbigniew Brzezinski
Gary Sick
Jody Powell
Hamilton Jordan

His Imperial Majesty Mohammad Reza Pahlavi Aryamehr, The Shahanshah of Iran

His Excellency Abbas Ali Khalatbari, Iranian Minister of Foreign Affairs
His Excellency Ardeshir Zahedi, Iranian Ambassador to the United States

[Omitted here is discussion unrelated to oil.]

The President then turned to the price of oil. He was encouraged by statements by Saudi Arabia and by the statement of the Shah the day before that he would not press for an increase in the price of oil at the upcoming conference in Caracas. The President said he hoped Iran would do whatever was possible to hold down the price of oil. Our country was strong enough to absorb some increase, although we will have a \$30–35 billion deficit this year, largely as the result of our purchase of imported oil. He noted that according to our assessment, since 1974 there has been a 20 percent increase in the price of goods going into OPEC whereas there has been a 27 percent increase in the price of oil. This price increase has worked a great hardship on other nations as well. Some of our friends, such as the Germans, French and others, are rather timid on this issue and are unwilling to take a tough stand. They don't want to antagonize their friends in the oil-producing nations. And the President understood this, since they needed the resources. The President noted that the weakening of the dollar hurts Iran and the other oil-producing countries as well. The President understood that

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 36, Memoranda of Conversation, 11–12/77. Top Secret; Sensitive. The Shah visited Washington November 15–16. This memorandum of conversation and others with the Shah during his visit are scheduled to be printed in full in *Foreign Relations, 1977–1980*, volume X, Iran: Revolution, January 1977–November 1979.

Iran needs the oil revenues but there have been substantial increases since 1973. In our contacts with Saudi Arabia, they have progressed from not proposing an increase to actively opposing an increase at the next OPEC meeting. We are working directly with a number of nations—Tunisia (as heard), Kuwait, and others. Venezuela is the most eager for a price increase. We have absorbed approximately a \$30 billion deficit. We are strong enough to do that. But this weakens the structure of the economy and we would like to ask for your help if you can.

The Shah replied that since the last increase a year ago, which was 10 percent, with Saudi Arabia setting its own level of five percent for six months, the average increase has obviously been between five and 10 percent. According to Iran's figures, world inflation during that period has been rather high. The Shah said that he can notice that the cost of items which he has been buying since 1973 and the present have sometimes gone up as much as five times in price. He was giving these figures simply for the sake of speaking about facts. However, as far as Iran's policy is concerned he knows that the Western economies are not in such good shape, especially in Europe, and if they were brought under more pressure they might not be able to solve their problem of unemployment. This could in turn affect the situation in France, Italy and other countries. Iran would feel it very badly if something happened in Europe. Therefore, Iran's attitude was to be silent and, if necessary, to tell them what we think, i.e. "let's give the Western nations a break," and even to work for a freeze. But we have to realize that the same problem is going to be in front of us next year and the next year and the next year. The Shah mentioned that he had talked to Dr. Schlesinger on this very issue. Why not form an energy bond which could be sold to some people who don't know what to do with all of their money? This investment could be repaid with interest, but in the meantime we could use the hundreds of billions of dollars of funds for the development of new energy sources. The only way we can find new sources of energy is to develop an equilibrium between the price of new sources of energy and the price of oil. If the price of oil remains so much cheaper, then people are not going to go for new sources. As far as the effect of lower prices on the oil companies, the Shah said that he didn't mind. The oil in his country was completely controlled by the government, and he thought that perhaps it would be better if all oil deals were made on a government-to-government basis. But if the oil companies make distribution arrangements in private, it is nevertheless necessary that governments must be certain that they are not the losers in this process. "But we shall really be the people who will have this (a price freeze) in mind in Caracas. The Saudis will probably come along with exactly the same point of view."

The President noted that if the world knew that a price freeze was based on a long-term arrangement with you, then others might be more interested in going along with such an arrangement and that would be welcomed. It would remove the constant threat which the consumer nations feel in not knowing what to expect next. If we could plan two, four, or even six years ahead on our individual problems it would be helpful. At the present time the business community is unwilling to commit itself to new plant construction because of uncertainty over energy. Part of this is our own problem since we have lacked an energy policy. We hope to take care of that problem in the near future. Of course, we are oil producers as well and in fact produce more oil than Iran. As a result, this gives us greater problems on energy policy than leaders such as Giscard or Schmidt. The President wondered if the Shah had gone beyond simply outlining the program on bonds. Did he have any more specific proposals?

The Shah replied that if the United States is interested (the President indicated yes, we are interested), he will brief Minister of Finance Ansari or Dr. Reza Fallah to come over to the United States and discuss this proposal with the United States.

President Carter said he welcomed this and that we would participate as oil producers.

The Shah noted that if in fact there is going to be a freeze in prices for 1978 there must be something concrete done or something concrete to show for this. At this point he referred to an AP item quoting Qadhafi as criticizing the Shah, saying that the Shah was the tool of the United States and that he only wanted his money to pay for U.S. advisers. He also quoted another item indicating that an Iraqi envoy to Tehran had indicated that they wanted a 23 percent increase in oil prices.

The President responded that he was sure that Iran could control Libya and Iraq.

[Omitted here is discussion unrelated to oil.]

140. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter¹

Washington, November 29, 1977.

SUBJECT

Letter from Ambassador West

Attached is a letter from Ambassador West.² Unfortunately, due to the long transmission time by pouch from Saudi Arabia, his report on talks with the Saudis about Geneva and oil prices has largely been overtaken by events.

Both Saudi Arabia and Iran have continued to honor their commitment to a price freeze at the OPEC meeting on December 20, and this has had the effect of forcing Venezuela and others to lower their sights somewhat. The price "hawks" are now talking only of a price increase between five and ten percent, as compared to estimates which ranged upward from ten percent. Nevertheless, some hard bargaining is now going on among the OPEC states, and as Ambassador West observes, there is little support for any continuation of the two-tier price system which emerged at Doha a year ago. Both Saudi Arabia and Iran have made it clear that they will insist on a consensus position at Caracas; and if the Saudis are unwilling to use their production leverage, as Ambassador West indicates, then the chances are great that the final outcome will be a compromise involving at least some price increase.

Our démarches on oil prices to industrialized and LDC states³ have generally been received with total agreement, but there is little evidence that any of these states are willing to jeopardize their relations with the oil producers by making strong representations in the OPEC capitals. Instead, they seem to be content to let the United States do the talking, while they applaud quietly from the sidelines. For our part, the range of further initiatives available to us at this stage is very limited; our views are well known, and if we overdo it in the remaining three weeks before Caracas we could undercut the solid achievements we have made thus far. One exception is Ambassador Vaky's suggestion that you call President Perez prior to the OPEC meeting. We will be sending you a recommendation for the timing and substance of such a call in the near future.

¹ Source: Carter Library, White House Central Files, Subject File, Box TA-26, Trade. Confidential. Sent for information. The President initialed the memorandum.

² Attached but not printed.

³ See footnote 6, Document 136.

141. Letter From President Carter to Indonesian President Suharto¹

Washington, December 14, 1977.

Dear Mr. President,

I am writing to express my hope that you will support a freeze on oil prices at the forthcoming meeting of the Organization of Petroleum Exporting Countries, and to explain why I believe this is necessary in order to sustain world economic security.

I have become increasingly concerned in recent months over the outlook for the global economy. Many nations, in both the developed and developing worlds, suffer from persistent unemployment, massive trade deficits, large external debt, and low rates of growth. Pressures for protectionism are rising. International lending institutions are becoming more cautious.

If these conditions continue, the world economy could suffer lasting damage. Over the last thirty years, the nations of the world have cooperated to reduce trade barriers and to expand resources for development. They have created an environment which offers developing countries improving prospects for long-term growth. These gains could be eroded by economic stagnation and protectionism.

All our countries must work closely together in the critical months ahead to avert these setbacks. Our energy policies will be the key to the outcome. In my energy program, I have recognized the responsibility of the United States to reduce the growth of its demand for fossil fuels, and thus help prevent future shortages. At the Caracas meeting, the most effective contribution which your government and the other member governments could make to world economic recovery would be to freeze the price of oil, at least through 1978. I believe that a freeze would serve the long-run economic interest of all countries, producers as well as consumers. At this critical juncture, any increase in the price of oil in 1978 would strain the system of trade and finance on which we all depend.

Because this question of an oil price freeze is crucial to world economy recovery, it is at the center of my concerns in respect to both

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 9, Indonesia: President Suharto, 12/77–1/80. No classification marking. A similar letter to Pérez was personally delivered by Vance on November 23; see footnote 7, Document 138. On December 13, the President also sent similar letters to Sheikhs Sabah, Khalifa, and Zayed, which are in telegram 296833 to Kuwait, telegram 296835 to Doha, and telegram 296836 to Abu Dhabi, respectively. (National Archives, RG 59, Central Foreign Policy Files, D770474–0828, D770463–1041, D770463–1037)

domestic and foreign policy, and I am grateful for the opportunity to share my views with you about it.

I am pleased that under your leadership Indonesia and the United States have intensified their collaboration on political and social, as well as economic, issues. I look forward to continued close cooperation for the well-being and security of both our peoples.

Sincerely,

Jimmy Carter

Best personal wishes to you—

J.C.²

² President Carter added the initialed postscript by hand.

142. Telegram From the Department of State to the Embassies in the United Arab Emirates, Kuwait, and Qatar¹

Washington, December 23, 1977, 2252Z.

306595. Subject: Expression of Appreciation re OPEC Decision.

1. Action addressee Ambassadors should, at earliest opportunity, express at appropriately high level satisfaction of USG that oil prices were not raised at Caracas OPEC meeting² and USG appreciation for the efforts of those OPEC governments which worked to prevent the price increase. You may wish to draw on Dept's December 22 statement

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D770480–0553. Confidential; Immediate. Drafted by Twinam, cleared by Bosworth, and approved by Sober. Repeated Priority to Tehran and Jidda.

² The second OPEC summit conference was held December 20–21. On the second day, the Embassy in Caracas reported: "The Caracas OPEC conference concluded with a freeze on oil prices for at least six months, but little else. The price issue was discussed, and while the members could not agree on an increase, there was no open split as had occurred a year ago. Pres Perez's proposal to increase assistance to the third world apparently fell on deaf ears, in part possibly due to his over enthusiastic efforts to promote it among the assembled OPEC Ministers." (Telegram 12394 from Caracas, December 22; *ibid.*, D770479–0764) Previous reports on the conference are in telegrams 12330, 12331, and 12367 from Caracas, December 21. (All *ibid.*, D770475–1016, D770475–1252, D770476–0675)

on this subject (State 305543)³ noting our mutual conviction that any price increase would have been damaging to international financial markets and the world economy and would have aggravated the already difficult economic situation of many developing countries. You may wish to note that position of those Gulf countries opposing an increase appears to us to underscore the strong common interest between the Gulf countries and the industrial world, including the US, as well as that cooperation among Gulf states which US policy has long welcomed. You should stress that the OPEC decision will help our efforts to sustain economic expansion and reduce inflation and that we particularly welcome indications that leaders of a number of oil producing countries oppose any price increase through at least the full year 1978. Over coming months we will want to continue our dialogue with the Gulf governments about the international economic situation and the effect of oil prices on it. You should also note that for our part the US recognizes the need to press ahead with the enactment of a strong domestic energy program.

2. FYI: Separate messages are being conveyed to Jidda and Tehran.⁴ End FYI.

Vance

³ Telegram 305543 to all diplomatic posts, December 22. (Ibid., D770478–0800)

⁴ Carter sent a personal message to Khalid on December 23 expressing his “sincere appreciation” for Saudi Arabia’s “successful efforts to prevent an increase in oil prices.” He added that he was “heartened by press reports” of a statement by Yamani that “there would not be any increase in oil prices throughout the year 1978” and concluded that he intended to “push ahead with the enactment and implementation of a meaningful domestic program of energy development and conservation.” (Telegram 306484 to Jidda; *ibid.*, D770480–0341) He also sent a message to the Shah on December 23. (Telegram 306483 to Tehran; *ibid.*, D770480–0340)

143. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter¹

Washington, January 24, 1978.

SUBJECT

Secretary Schlesinger's Talk with Fahd and Yamani

Jim Schlesinger talked at length with Crown Prince Fahd and Zaki Yamani last week.² Much of the conversation simply rehearsed well known Saudi and U.S. positions. The following points are of interest:

—Fahd expressed concern that major increases in Saudi production would damage the oil fields. Schlesinger stated this was a technical problem that required more study.

—Yamani said that predictions of Saudi production levels of 18 mbd or even 16 mbd were not realistic. He felt there could be an increase to 12 mbd by 1983. Schlesinger told Fahd he believed 14 mbd was the outer limit for production by Saudi Arabia, and “feasible reality” was between 12–14 mbd.

—Both Fahd and Yamani wondered if the Caracas price freeze³ may not have been a mistake. They felt that a series of small increases might be easier for the West to absorb than a single, huge price increase when demand catches up with supply. At that point no one will be able to prevent a major price increase. Yamani believed that there could be an increase of as much as 40 percent in the price of oil by 1980.⁴

—Yamani thought the current oil price freeze will last through 1978. He also felt the soft market for oil would last at least through the coming year.

—Yamani noted the critical role Iraq will play in the future in determining oil prices. He thinks they have the capability to increase their production from 1.7 mbd at present to 2.2 mbd.

—Yamani complained that tax problems, particularly the taxation of individual Americans, make it difficult for Saudi Arabia to structure

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 8, Energy Department, 5/77–5/78. Secret. Outside System. Sent for information. A stamped notation on the first page reads: “The President has seen.”

² A Department of State record of the January 14 and 15 discussions is in telegrams 453 and 454 from Jidda, January 19. (National Archives, RG 59, Central Foreign Policy Files, P850033–0080, P850071–2617) Memoranda of conversation prepared in the Department of Energy are in the Library of Congress, Manuscript Division, Schlesinger Papers, Box 1, Saudi Arabia.

³ See footnote 2, Document 142.

⁴ The words “40 percent” and “oil by 1980” are underscored and an exclamation point was written in the margin, presumably by Carter.

joint ventures with U.S. firms. He felt that some restructuring of the Joint Commission could improve cooperation in technology transfer.⁵

—Fahd stressed the necessity of including Palestinians outside the West Bank and Gaza in any future plebiscite, citing the Palestinians in Kuwait as an example of the “terrible events” which could occur if they feel they are being ignored.⁶

⁵ The Joint Economic Commission was one of the joint commissions established by the United States and Saudi Arabia in 1974 to develop and broaden economic and military cooperation. Documentation on the creation of the U.S.-Saudi joint commissions is scheduled for publication in *Foreign Relations*, 1969–1976, volume E–9, Documents on Middle East Region; Arabian Peninsula; North Africa, 1973–1976.

⁶ On January 25, Stansfield Turner sent Schlesinger a memorandum informing him that the Saudi officials with whom Schlesinger had met on January 14 and 15 “were impressed by the reasonableness of the Secretary’s position and his understanding of the constraints with which the Saudi Government is faced in its oil policies.” They were also “pleased with the Secretary’s position on moderate increases in the price of crude oil.” (Library of Congress, Manuscript Division, Schlesinger Papers, Box 1, Saudi Arabia)

144. Paper Prepared by the National Security Council Staff¹

Washington, undated.

Agenda Paper for SCC Meeting on the
Petroleum Supply Vulnerability Assessment
Friday, March 24, 1978
10:30–12:00, Situation Room

The purpose of this SCC meeting is to discuss the principal issues and conclusions arising from those portions of the interagency assessment of petroleum supply vulnerabilities which do not depend on estimates of future supply and demand. Supply and demand-related issues will be addressed at a second SCC meeting² once analysis of recently acquired information on technical problems in many OPEC oil fields is completed.

More specifically, the aims of this meeting are:

¹ Source: Carter Library, National Security Affairs, Staff Material, Office File, Box 8, Meeting File, SCC Meeting: #67, Held 3/24/78. Secret. The paper is attached to a March 21 covering memorandum from Staff Secretary Christine Dodson to Vance, Blumenthal, Harold Brown, Schlesinger, Turner, McIntyre, Schultze, and General George S. Brown.

² See Document 152.

1. to discuss the progress and general direction of US programs to reduce and to cope with petroleum supply vulnerabilities; and
2. to consider possible new policies further to reduce those vulnerabilities.

The following are the four principal topics for discussion:

A. *Supply interruption contingencies for which the U.S. should be prepared.* The seriousness of supply interruptions depends upon their probability of occurrence and the degree of damage they are likely to cause. The paper at Tab A³ provides a cross section of scenarios which, although not exhaustive, could plausibly cause interruptions, ranging from loss of a small percentage of the normal Persian Gulf oil flow to a total cutoff. Issues for discussion are: With what types of interruptions should the U.S. be prepared to cope? What types of contingencies should the U.S. plan to deter? What priorities should be assigned to particular contingencies?

B. *Military options for preventing oil supply disruptions.* At Tab B is a paper⁴ describing the DOD analysis of military options for dealing with various oil supply interruption scenarios. Some preliminary analysis is embodied in the Persian Gulf section of DOD's Consolidated Guidance document, and a comprehensive study is underway. Issues for discussion are: What are the primary defense-related national security implications of an oil supply interruption? What progress has been made in the DOD analysis, and what will be done in the future? Are the goals of the DOD study effort consistent with and supportive of the overall oil vulnerability assessment objectives? Should the scope of the study be expanded (or contracted)?

C. *Measures for coping with oil supply interruptions.* The Strategic Petroleum Reserve, the International Energy Agency, and oil conservation and rationing contingency plans are the three primary vehicles being developed to ease the effects of any oil supply interruption. Progress with respect to them is described in the paper at Tab C.⁵ Issues for discussion are: How adequate are existing measures to deal with supply interruptions? What types of contingencies can these measures deal with? What additional measures might be pursued?

D. *Measures to strengthen the security of Saudi Arabian and Iranian oil facilities against terrorism.* At Tab D⁶ is a synopsis of two proposals developed by the Department of State, in cooperation with DOD, CIA, and DOE, which details a set of specific initiatives for augmenting the

³ Attached but not printed.

⁴ Not attached, but a copy is in Carter Library, National Security Council, Institutional Files, Box 93, SCC 67: Oil Supply—Vulnerability Assessment, 3/24/78.

⁵ Not found.

⁶ Attached but not printed.

current anti-terrorist programs in Saudi Arabia and Iran. Issues for discussion are: What are the feasibility and desirability of offering such improvements to Saudi Arabia? To Iran? Should the programs offered be equivalent, or are each country's needs basically different? What is the most logical way to approach each of the governments? Should others (Kuwait, UAE) be included?

145. Summary of Conclusions of Special Coordination Committee Meeting¹

Washington, March 24, 1978, 10:30–11:45 a.m.

SUBJECT

Petroleum Supply Vulnerability Assessment

PARTICIPANTS

State

Richard Cooper
Under Secretary for
Economic Affairs

Defense

David McGiffert
Assistant Secretary for
International Security Affairs

JCS

Lt. Gen. William Y. Smith
Assistant to the Chairman

CIA

Hans Heymann
National Intelligence Officer
for Political Economy

Treasury

Helen Junz
Deputy Assistant Secretary for
Commodities and Natural Resources

Energy

Dale Meyers
Under Secretary for Energy
Cecil Thompson
Special Assistant to Assistant
Secretary for International Affairs

OMB

Bowman Cutter
Executive Associate Director
for Budget

Randy Jayne

Associate Director for
National Security
and International Affairs

CEA

Lyle Gramley
Acting Chairman

Robert Litan

Senior Staff Economist

White House

Zbigniew Brzezinski
David Aaron

NSC

Samuel P. Huntington
Sam Westbrook, III

¹ Source: Carter Library, National Security Affairs, Staff Material, Office File, Box 8, Meeting File, SCC Meeting: #67, Held 3/24/78. Secret. The meeting was held in the White House Situation Room.

SUMMARY OF CONCLUSIONS

The United States must be prepared to deter or to cope with a number of plausible oil supply interruption contingencies, including those resulting from actions by producing governments and from physical destruction or seizure of oil facilities. The most probable interruptions will result from accidents or terrorist or guerrilla action, but these will usually cause only a minor disruption in the oil flow over a short period of time. While the political situation in the Middle East might at some point produce a voluntary production cutback and embargo by OAPEC, the second most probable cause of interruption would be Saudi decisions to cut back their production or not to increase their productive capacity because of technical problems, the \$4 billion investment needed for expansion, and/or the feeling the oil was worth more in the ground. Any Saudi Arabian decision to limit production would be especially critical. Some felt, however, that Saudi interest in maintaining their leadership position in OPEC would induce them to make the capital investment necessary to increase production capacity to about 13 mmbd. A detailed CIA report on technical problems in OPEC oil fields, with a special section on Saudi Arabia, should be completed in about three weeks.²

For the near term, the U.S. faces major vulnerability to petroleum supply interruptions, even with the International Energy Plan,³ and would have to absorb this shortfall and distribute the imports primarily through crude and product allocation regulations. By the end of 1980, the U.S. will have greater protection and flexibility—primarily due to a 500 mmb Strategic Petroleum Reserve (SPR). The management of the SPR has been strengthened and short term goals brought more in line with expected results (the December 1978 estimate has been lowered from 150 to 100 mmb). All agreed it was probably desirable to accelerate SPR purchases so as to more quickly reduce vulnerability and take advantage of current low prices. DOE was directed to analyze ways to accomplish this, including acquisition of temporary storage facilities in the U.S., overseas, or afloat (in oil tankers), and to be prepared to address the subject at an SCC meeting in late April 1978.

DOD has underway an analysis of the requirements for US military forces to protect Persian Gulf oil facilities and SLOCs against hostile military action.⁴ The point was made that this analysis should consider the impact of a permanent US airbase and naval base in the region. In addition, DOD was tasked to produce contingency plans for

² Not found.

³ See footnote 6, Document 9.

⁴ See Document 144 and footnote 4 thereto.

the use of currently available forces to deal with the most probable Soviet and Cuban military threats (particularly by forces based in South Yemen) as well as by hostile local governments. A report on these contingency plans should also be ready for the April SCC meeting.

It was generally agreed that Saudi oil facilities were highly vulnerable to terrorist attacks and a State-Department-developed six-point program of action⁵ was approved subject to further study of the problems it might raise concerning technology transfer and of the ways in which it could be presented to the Saudis. The fragmentation of security planning responsibilities among a number of Saudi ministers and ARAMCO creates complex bureaucratic rivalries which will make gaining Saudi acceptance of an effective oil field security program particularly difficult. Ambassador West will be asked to recommend the best way of approaching the Saudis on this sensitive subject, and State will talk with ARAMCO officials in Washington to seek advice and support. The desirability of proposing a similar program for Iranian facilities will also be studied. The proposals on how to approach the Saudis and recommendations on an Iranian program will also be discussed at the SCC meeting at the end of April.

⁵ See Document 144 and footnote 6 thereto.

146. Memorandum of Conversation¹

Caracas, March 29, 1978, 9:15–10 a.m.

SUBJECT

North-South Dialogue, Energy, the Caribbean and Law of the Sea

PARTICIPANTS

President Jimmy Carter
Secretary of State Cyrus R. Vance
Dr. Zbigniew Brzezinski, Assistant to the President for National Security Affairs
Terence A. Todman, Assistant Secretary of State for Inter-American Affairs
W. Anthony Lake, Director, Policy Planning Staff
Robert A. Pastor, NSC Staff Member
Ambassador Viron P. Vaky
Guy F. Erb, NSC Staff Member

Venezuela

Carlos Andres Perez, President
Simon Bottaro Consalvi, Minister of Foreign Affairs
Manuel Perez Guerrero, Minister of State for International Economic Affairs
Valentin Acosta Hernandez, Minister of Energy and Mines
Carmelo Lesseur Lauria, Minister, Secretariat of the Presidency
Hector Hurtado, Minister of State, President of the Investment Fund
Ambassador Ignacio Iribarren
Dr. Reinaldo Figuerido, Director of Foreign Trade Institute

[Omitted here is discussion unrelated to energy.]

Energy

Perez said that the recent talks in Washington between Secretary Schlesinger and Minister Hernandez were useful, significant, and very positive.² We should now like to push ahead on concrete cooperation more rapidly. We were worried, Perez said, because our productive oil

¹ Source: Carter Library, National Security Affairs, Staff Material, North/South File, Box 47, Pastor Country Files, Venezuela, 3–4/78. Confidential. The meeting was held at the Miraflores Palace. The President visited Caracas March 28–29 and then Brasilia and Rio de Janeiro March 29–31.

² At the March 6 meeting with Minister of Energy and Mines Hernández, Schlesinger outlined the status of U.S. energy legislation and its “likely impact on the future” of the U.S. market. He stressed the “importance of both price and security” of the oil supply and that “private companies rather than governments would remain the major contributors to energy R&D and development of new technologies.” Hernández “sought assurance of a long-term market for Venezuelan residual fuel oil,” proposed that the U.S. Government assist with development of the Orinoco Tar Belt, and promised “additional information on how this assistance could work.” Schlesinger and Hernández agreed on “regular informational exchanges, normally at the technical level but with the possibility of future Ministerial sessions,” and agreed to “establish a bilateral program of energy cooperation.” (Telegram 60227 to Caracas, March 9; National Archives, RG 59, Central Foreign Policy Files, D780105–0913)

capacity is declining. Production limits were in the neighborhood of 2.5 million BPD. Thus, Venezuela's capacity to help in an emergency, such as the 1973 embargo, was limited, and it could not do now what it did then.

Venezuela has reserves, Perez went on. The tar belt was one of the world's largest reserves of non-conventional oil. The nation's capacity to expand exploration and productive capacity is limited because its access to technology and capital is limited. Perez said he hoped that the USG could cooperate in helping Venezuela advance its productive capacity for the future, since such capacity would be strategically important to the U.S. as a safe source of future hydrocarbons.

Perez explained that the Japanese had made a proposal to invest a billion dollars in a pilot project for developing the tar belt. The GOV accepted it in principle. It would like to consider similar cooperation with Europeans and the U.S. This may be possible with the Europeans. Unfortunately, there is no U.S. state entity, and it was politically impossible to deal with the private companies.

One thought that has occurred to us, Perez said, was a possible joint venture with the U.S. and Canada. Petrocan, as a state entity, could be the channel for funneling technology and capital. U.S. capital through private companies could associate with Petrocan. Trudeau, Perez said, would be willing to cooperate.

Venezuela was also worried, Perez continued, about plans to increase domestic refining capacity and to reduce imports of refined products. (This referred to the Haskell Amendment.)³ This would present a serious problem to Venezuelan exports of residuals. There was also concern about imposition of tariffs on imports.

Director of Foreign Trade Figueredo, at Perez' request, explained a situation in which the U.S. may have violated the U.S.-Venezuelan commercial agreement on tariffs on oil. He provided an Aide-Mémoire⁴ on this item.

Minister Hernandez elaborated on Perez' remarks and covered the same ground asking in effect how can the U.S. and Venezuela cooperate to develop reserves and obtain technology and financial help, bearing in mind the political problem of being unable to deal directly with the TNC's.

³ The Haskell amendment to the Trade Expansion Act of 1962 aimed to protect U.S. refiners. The amendment's language encouraged the President to impose or adjust import fees specifically on petroleum products, if product imports threatened "the economic welfare of the domestic refining industry." (Paper attached to a May 17 memorandum from Schlesinger to Brzezinski; Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 85, Venezuela, 1/77–12/78)

⁴ Not found.

Hernandez also pointed out that while Venezuelan crude makes up only about 10 percent of U.S. crude imports, Venezuelan fuel oil makes up about 40 percent of imports of that product. Therefore, Venezuelan residuals were important to the U.S. He asked whether it would not be possible for the USG to purchase fuel oil for its strategic reserve. He also asked: "Can we count on a stable market?" He suggested that some long-term arrangements might be in order to guarantee a stable market in return for a secure and assured supply, perhaps some sort of Western Hemisphere preference.

Perez said that the strategic reserves of the U.S. were important to Venezuela as well, and he wondered if the U.S. and Venezuela cannot cooperate now, then it might be even more difficult in the future. After the Presidential elections in December, Perez said that he planned to raise prices of gasoline. It would be very unpopular to do now, but Venezuela's problem is that it is consuming so much gasoline that it has too little to export while having too much residuals.

Hernandez said that Venezuela's refineries were built to fit the needs of the U.S. East Coast, but Venezuela's principal goal is to have a mechanism which will permit greater stability for supplying petroleum and residuals.

Perez said that the Dutch Antilles would soon be independent. There are two refineries on those islands, one owned by Exxon, the other by Shell. The GOV intends to "associate" itself with these refineries making arrangements to guarantee crude supplies. Because an independent Antilles will need this industry, this complex will have political importance for the Caribbean. The U.S. should therefore consider giving some assurance of a market for these refineries.

President Carter said that the U.S. had to pass an energy program first. As far as the U.S. is concerned, the only major investment for the Orinoco would have to come from the U.S. companies. These companies would be eager to invest if they could have some stability for their contracts. They are disturbed about the nationalizations and outstanding law suits. Right now, the oil companies were busy lobbying the Congress, but perhaps after the energy bill passed, they may have time to invest in Venezuela.

President Carter said that he welcomed the development of the Orinoco by Japan, Canada and others. The U.S. is not competing against them. They have national oil companies, and Japan has a lot of capital to invest. He said that he was not aware of any effort in the Congress to restrict refineries in the U.S., but that if it were introduced, he doesn't think it would pass. Jim Schlesinger would know, and he'll find out.

President Carter said that he was aware that Venezuela wanted a long-term agreement, and he thinks it's a good idea. The President said that he would take this proposal up with Secretary Schlesinger aggres-

sively when he returned. Meanwhile, he suggested to Perez that he might want to send Minister Hernandez to the U.S. to talk with the companies about research and development on oil shale and tar sands.

[Omitted here is discussion unrelated to energy.]

147. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to Secretary of Energy Schlesinger¹

Washington, April 14, 1978.

SUBJECT

The President's Conversation With Venezuelan President Perez: Follow-up

In the President's second conversation with Venezuelan President Carlos Andres Perez on March 29,² the President said he thought Perez' idea for a long-term supply arrangement was a good one, and that he would aggressively pursue it when he returned. Perez also explained the mutual interest of both countries in developing the Orinoco, but said that it was politically impossible for Venezuela to deal directly with the U.S. oil companies. He suggested an interesting proposal whereby the U.S. companies and government could work with the Canadian government's oil company to finance and develop technology for the Orinoco. The President said that the energy program had highest priority, and that Venezuela should try to improve its investment climate so that the oil companies would be less reluctant to invest.

The President was also asked to respond to two specific concerns: Congressional plans to increase domestic refining capacity and the possible violation of a U.S.-Venezuelan commercial agreement on tariffs and oil.

Could you please coordinate with State and prepare a short paper for the NSC dealing with the following issues:

- possibilities for a long-term supply agreement with Venezuela;
- Congressional plans to increase the domestic refining capacity and its implications for Venezuela;

¹ Source: Carter Library, National Security Affairs, Staff Material, North/South File, Box 47, Pastor Country Files, Venezuela, 3–4/78. Confidential. A copy was sent to Vance.

² See Document 146.

—the possible violation of a 1972 U.S.-Venezuelan commercial agreement on tariffs and oil (ref: Caracas 3048);³

—whether the USG would purchase Venezuelan residual oil for our strategic reserve;

—and, whether there is anything that we can do as a government to encourage U.S. participation in the research and development of the Tarbelt, either official or private.

Please provide this report to the NSC by May 1, 1978.⁴

Zbigniew Brzezinski

³ Not printed. (National Archives, RG 59, Central Foreign Policy Files)

⁴ Schlesinger forwarded the paper, “Energy Issues Raised During The President’s Trip to Venezuela,” to Brzezinski on May 17. The issues covered included: 1) The Question of a Long Term Supply Agreement, 2) Congressional Actions to Protect U.S. Refiners, 3) Alleged U.S. Violation of a 1972 U.S.-Venezuelan Exchange of Notes, 4) Residual Fuel Oil for the Strategic Reserve, 5) Possible USG Actions to Aid in Research and Development of the Orinoco Tarbelt, 6) Public Sector Cooperation, 7) Examination of Arrangements Involving Private Sector Participation, and 8) Next Steps. (Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 85, Venezuela, 1/77–12/78)

148. Memorandum From the President’s Assistant for National Security Affairs (Brzezinski) and Henry Owen of the National Security Council Staff to President Carter¹

Washington, April 15, 1978.

SUBJECT

Saudi Oil Production

1. *Introduction.* Jim Schlesinger’s memo concerning Saudi oil production (Tab A)² raises two issues with broad policy implications: oil prices, and Saudi investment plans in the energy sector.

2. *Oil Prices.* Jim correctly points out that we may have to reconsider our strategy toward OPEC. We managed to avert a price hike last December, but a freeze may be difficult to maintain beyond 1978 in

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 67, Saudi Arabia, 1–5/78. Secret. Sent for information. At the top of the page, Carter wrote: “Zbig—Send cc memo back.”

² Undated; attached but not printed. Carter wrote a note on this memorandum asking Brzezinski for “brief comment” on it.

view of the dollar's weakness in exchange markets, continued high inflation in the industrialized world, and strong pressures on Saudi Arabia and Iran within OPEC. Furthermore, a freeze might not be in our best interest, if it were followed by a sudden and substantial price rise which could have a disruptive effect on the world economy. The next decision point will come shortly before the December OPEC meeting, if not earlier. Thus, a review of our strategy toward OPEC pricing is both timely and appropriate. We will arrange to have this strategy considered in an inter-agency framework, so that recommendations can be prepared for your consideration.

3. *Saudi Investment Plans.* Jim suggests that we acquiesce in a modest (5–10%) price increase in 1979³ if the Saudis will agree to earmark additional revenues for investment in new production capacity. We strongly doubt that acceptance of a price hike would give the US any leverage over Saudi investment plans. The US should, however, take every opportunity to urge Saudi Arabia to step up capital outlays in production facilities without linking investment to any increased revenues resulting from higher prices, since the Saudis must invest more if we are to avoid a potentially serious shortfall in oil supplies during the early or mid-1980s. If you agree, Zbig will send the attached memo to Jim Schlesinger to underscore this point. (Tab B)⁴

³ Owen wrote a note on an April 15 covering memorandum to Brzezinski: "ZB—I strongly disagree with the idea of *accepting* a 10% price increase in 79. You should not endorse that and instead refer it to Schultze, etc." (Carter Library, National Security Affairs, Staff Material, Special Projects File, Box 5, Henry Owen, Chron: 4/16–30/78)

⁴ Not attached, but a copy is *ibid*. In this undated and unsigned memorandum, Brzezinski wrote that Carter agreed that the United States "should take every opportunity to urge the Saudis to step up capital outlays in new production facilities, regardless of near-term price developments." He also wrote: "As we strengthen our overall relations with Saudi Arabia on both the political and economic front, we should intensify energy cooperation to assure that there is adequate installed production capacity in Saudi Arabia to meet anticipated needs for oil in the 1980s. Meanwhile, price strategy should be studied in an appropriate inter-agency forum, and I will be in touch with you shortly with specific proposals." According to a note from Rich Hutcheson to Brzezinski, April 17, the memorandum was forwarded to Schlesinger. (*Ibid*.)

149. Memorandum From Henry Owen of the National Security Council Staff to President Carter¹

Washington, May 11, 1978.

SUBJECT

Energy and the Summit

1. Attached is a memo to you from Mike Blumenthal suggesting that you call in key members of the Congress to stress the need for US action to limit oil imports before the Summit, and to indicate that you will be compelled to take administrative action if a COET has not been enacted by the time you go to Bonn. (Tab A)²

2. I endorse Mike's recommendation from the standpoint of foreign policy; I'm not competent to judge the domestic implications.

If we are to get the economic concessions from other countries needed for a successful Summit—notably higher German and Japanese growth, and British and French trade liberalization—we will have to contribute something to the package. The contribution that our partners want and expect is effective US action on energy. Schmidt implied to me at Bonn that “German stimulus measures would hinge on a favorable international economic environment—i.e., the US vigorously attacking its inflation and energy problems”, in order to strengthen the dollar. He was more direct at London: According to a report received yesterday from Prime Minister Callaghan, Schmidt “told the Prime Minister explicitly that if President Carter would act on inflation and energy, then he would act (notwithstanding his lack of intellectual conviction) on stimulating the FRG economy”. So the outcome of the Summit hinges, to some extent, on what we do about energy.

I realize that other parts of the energy legislation are important; nonetheless, our Summit partners have made clear their belief that the

¹ Source: Carter Library, National Security Affairs, Staff Material, Special Projects File, Box 5, Henry Owen, Chron: 5/9–15/78. Secret. Sent for information.

² Reference is to the G-7 Bonn Economic Summit scheduled for July. Blumenthal's May 8 memorandum is attached but not printed. In a May 11 memorandum to Carter, Schultze wrote: “I agree with the Secretary [Blumenthal] that it is very important to have some concrete results in the energy area for the Summit. It would strengthen your leadership role, and would be a major bargaining chip with the Germans and Japanese for action on their part. (Ibid., Box 25, Henry Owen, Summit: Bonn, 5/78) In a May 11 memorandum to the President, Director of the OMB McIntyre explained that, while he agreed with Blumenthal “on the pressing need for an energy policy that over the longer term eliminates subsidies for domestic oil and, more realistically, prices oil at world market replacement cost,” he questioned whether the July Summit should drive the President's “overall approach to Congress on energy.” (Ibid., Box 30, Henry Owen, Summit: Preparatory Group Meeting, 5/27–29/78 in Washington, 3–6/78)

test of whether the US will reduce oil imports is whether COET is passed or administrative action is taken in its place.

The most effective way of convincing Schmidt and others that you will act to limit oil imports would thus be for Congress to have passed COET or for you to have taken administrative action before the Summit. If a pre-Summit action is not feasible for domestic reasons, you could announce publicly at the Summit that you would take administrative action by a fixed and specified date, if COET had not passed by then. This would have far less impact on our allies' attitudes than pre-Summit action.

150. Memorandum From the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, May 12, 1978.

MEMORANDUM FOR

The Secretary of State
The Secretary of the Treasury
The Secretary of Defense
The Secretary of Energy
The Director, Office of Management and Budget
The Chairman, Council of Economic Advisers
The Assistant to the President for Domestic Affairs and Policy
The Director of Central Intelligence

SUBJECT

Long-term National Security Strategy on Oil Prices

1. The President needs a paper on long-term policy (including 1979) on imported oil prices for PRC consideration.
2. The paper should be prepared by an inter-agency task force, and should address the question at Tab I, among others.
3. In preparing this paper, the task force should take into account the contingency planning being done as to what action the Executive Branch should take on domestic oil prices if the crude oil equalization tax is not passed by Congress.

¹ Source: Carter Library, National Security Council, Institutional Files, Box 72, PRC 80: Oil Pricing, 12–1–78. Secret.

4. The task force should be chaired by the Secretary of Energy and composed of the Departments of State, Treasury, Defense, OMB, CEA, DPS and NSC.

5. A preliminary report should be made by June 30, for consideration at a meeting of the Policy Review Committee.

Zbigniew Brzezinski

Tab I

Terms of Reference for the Inter-Agency Task Force on
Long-term Strategy on Imported Oil Prices

1. What is the best estimate of the extent to which the prices of imported oil are likely to increase over the next ten years?

2. What problems will major countries have in adjusting over this period to the estimated price increases (a) if these are arrived at gradually, whether in regular preannounced steps or otherwise; (b) if they are arrived at suddenly in one or two large leaps?

3. In light of the above and of the implications for national security, what are the advantages and disadvantages of different strategies with regard to the rate of increase of imported oil prices? Among the strategies to be considered are:

—Trying to persuade the OPEC countries to keep any oil price increases as small and as infrequent as possible. (In appraising this alternative, the task force should assess the risk of large, abrupt price increases following several years of no or small increases.)

—Attempting to get OPEC agreement to publish a ten-year schedule of small, annual price increases. (In studying this possibility, the task force should consider the merits and feasibility of getting a firm ten-year supply commitment.)

4. In evaluating these strategies, account should be taken of the probable reaction of OPEC and other countries to the possible imposition of import fees or quotas on imported oil, and the national security implications of these reactions.

151. Memorandum of Conversation¹

Washington, May 18, 1978, 1 p.m.

SUBJECT

Secretary's Meeting with Saudi Foreign Minister Prince Saud: Luncheon Session

PARTICIPANTS

Saudi Arabia

His Royal Highness Prince Saud al-Faisal bin Abd al-Aziz, Minister of Foreign Affairs of Saudi Arabia

Ali Abdallah Alireza, Ambassador of Saudi Arabia

Sheikh Abdallah Alireza, Deputy Minister for Economic and Cultural Affairs, Ministry of Foreign Affairs of Saudi Arabia

Dr. Nizar O. Madani, First Secretary, Embassy of Saudi Arabia

United States

The Secretary

Andrew J. Young, Permanent Representative of the United States to the United Nations

Alfred L. Atherton, Jr., Ambassador at Large

Richard N. Cooper, Under Secretary for Economic Affairs

Lucy Wilson Benson, Under Secretary of State for Security Assistance, Science and Technology

Richard M. Moose, Jr., Assistant Secretary of State for African Affairs

Harold Saunders, Assistant Secretary of State for Near Eastern and South Asian Affairs

John C. West, American Ambassador to Saudi Arabia

William B. Quandt, National Security Council

William R. Crawford, Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs

Joseph W. Twinam, Director, Office of Arabian Peninsula Affairs, Bureau of Near Eastern and South Asian Affairs (Notetaker)

[Omitted here is discussion unrelated to energy.]

Turning to the U.S. energy picture, Mr. Cooper noted that the President's energy program has been before the Congress a year, that three of the five key sections of the package have been agreed to,² and that the fourth, natural gas price controls, appeared to be within 48 hours of agreement. The final section is the very controversial proposal of a domestic crude oil tax designed to raise domestic oil prices to the world

¹ Source: National Archives, RG 59, Central Foreign Policy Files. Secret; Nodis. Drafted by Twinam. The meeting was held in the James Madison Room at the Department of State. The full text of this memorandum of conversation is scheduled for publication in *Foreign Relations, 1977–1980*, volume XVIII, Middle East Regional; Arabian Peninsula.

² These included measures dealing with public utility and regulatory policies, conservation policy, and power plant and industrial fuel use.

price level in order to encourage conservation.³ This may be worked out in the Congress in four to six weeks but we must think about alternatives if it does not pass. One alternative would be to impose an import fee on crude oil at a level which would raise the average weighted price for all crude consumed within the United States to that price which would have prevailed had the domestic crude oil tax been passed. Mr. Cooper noted that Saudi Oil Minister Yamani had publicly expressed reservations about U.S. imposition of an import fee and he stressed that this is only a second-best alternative to the crude oil tax and that it is being considered at the technical level with no Presidential decision having been taken.

Prince Saud said that Yamani obviously had been referring to the OPEC precedent that whenever industrial countries raised tariffs on oil, OPEC always increased oil prices. He cautioned that imposition of a U.S. tariff on oil to solve a domestic problem would be misinterpreted and misused abroad, that rather than solving domestic problems it would create other problems internationally. After Mr. Cooper had stressed that a U.S. import fee would not affect world price, in response to Ambassador Atherton's question whether the imposition of a tariff by only one country would cause OPEC to raise the world price, Prince Saud said it would if that country were the United States.

The Secretary noted the importance to the international economy of our cutting down on oil consumption and the consequent need for the United States to raise the price of oil consumed in this country one way or another. Mr. Cooper noted that we are also looking at other alternatives and will want to consult closely with Saudi Arabia, recognizing that the OPEC reaction is very important.

Ambassador Young stressed that it is not certain how the President will finally act but that in an open society there is a need to discuss all options publicly.

Mr. Cooper added that there is of course a link between our problem of increased oil imports and turbulence in international financial markets.

Prince Saud noted that the Europeans are very anxious about what the United States is doing about its economic situation. Minister Alireza noted European concern about the dollar. Prince Saud asked if the Economic Summit can't do something to deal with these problems.

The Secretary noted the importance of the Economic Summit, stressing that each of the industrialized countries must contribute in its own way to the improvement of the overall international economy. In so far as the United States contribution is concerned, the key issues are

³ Reference is to the Crude Oil Equalization Tax.

whether we can conserve energy and control inflation. We need to do both as our share in contribution to overall world economic progress.

[Omitted here is discussion unrelated to energy.]

152. Summary of Conclusions of Special Coordination Committee Meeting¹

Washington, June 6, 1978, 4–5:15 p.m.

SUBJECT

Petroleum Supply Vulnerability Assessment

PARTICIPANTS

<i>State</i>	<i>Energy</i>
Richard Cooper	Dale Meyers
Under Secretary for Economic Affairs	Under Secretary for Energy
William Crawford	OMB
Ambassador at Large	Eliot Cutler
<i>Defense</i>	Associate Director for Natural
Lynn Davis	Resources, Energy, and
Deputy Assistant Secretary/ISA	Science
<i>JCS</i>	<i>CEA</i>
Lt. Gen. William Y. Smith	William D. Nordhaus
Assistant to the Chairman	Member, CEA
<i>CIA</i>	<i>NSC</i>
Robert Bowie	Samuel P. Huntington
Director, National Foreign	Sam Westbrook
Intelligence Assessment Center	Gary Sick
Hans Heymann	<i>White House</i>
National Intelligence Officer	David Aaron
for Political and Economic Resources	
<i>Treasury</i>	
Helen Junz	
Deputy Assistant Secretary for	
Commodities and Natural Resources	

¹ Source: Carter Library, National Security Council, Institutional Files, Box 95, SCC 83: Oil Supply-Vulnerability Assessment, 6/6/78. Secret. The meeting was held in the White House Situation Room.

SUMMARY OF CONCLUSIONS

Following the instructions he received after the 24 March, 1978, SCC meeting on the Petroleum Supply Vulnerability Assessment,² Ambassador West discussed with Crown Prince Fahd the idea of U.S. assistance in strengthening the security of Saudi Arabian oil facilities against terrorism.³ Fahd said the Saudis shared U.S. concerns about these problems. There is an overlapping of not fewer than five Saudi ministries' areas of responsibility in security arrangements, however, and it is a most sensitive internal political issue. The Prince thanked Ambassador West for the USG's offer and insisted the Saudis would not hesitate to ask for assistance if they felt they needed it. Ambassador Sullivan (Tehran) felt the Iranians would consider a U.S. offer of assistance very self-serving and would probably seek some quid in return for Iranian acceptance of aid. Both Ambassadors counseled against pressing the assistance initiatives further at this time.

The arms transfer decisions⁴ have created a more favorable environment in which to approach the Saudis again, but this should not be done for six months. Ambassador West will monitor the situation. An offer to Iran would be reconsidered if the Saudis were to accept USG assistance at some future date. In the meantime, the interagency PSVA working group will de-sensitize the Saudi Arabian anti-terrorist initiatives package, and State will offer the USG views on Saudi oil field vulnerability to ARAMCO for their information and use should the opportunity arise. (ARAMCO has expressed concern about oil field security in Saudi Arabia but is no longer in a position to control outlays for security measures. They could conceivably be asked their views on the matter, however, and it was felt that the background material thus might help get US views aired informally.)

The Department of Energy is considering ways to increase temporarily over the next year the amount of oil that would be available through the Strategic Petroleum Reserve (SPR) to offset an oil supply

² See Document 145.

³ West reported the details of this discussion in telegram 3124 from Jidda, April 25. (National Archives, RG 59, Central Foreign Policy Files, P850033-0113) Brzezinski received a summary of the conversation from the Department of State on May 16. (Carter Library, National Security Council, Institutional Files, Box 95, SCC 83: Oil Supply-Vulnerability Assessment, 6/6/78)

⁴ On May 1, Carter sent a message to King Khalid informing him that he had submitted to Congress for review a contract to provide 60 F-15 aircraft to Saudi Arabia. (Telegram 110151 to Jidda; National Archives, RG 59, Central Foreign Policy Files, P850071-2556) On May 15, the Senate voted against a move to block the sale. On June 4, West reported on the "initial euphoric reaction" to the contract's approval. (Telegram 4138 from Jidda; *ibid.*, D780233-0995)

interruption.⁵ Floating storage (using idled or laid-up tankers) and above ground storage in Rotterdam, the Netherlands, could each add about 30 million barrels (mmb) of oil to the reserves at a time when the permanent storage facilities had 100–125 mmb in place. The cost of temporary storage is estimated to average about \$1 per barrel (Rotterdam is less, tankers more).

The main arguments *for* temporary storage are: (1) the additional oil would increase by at least 50% US capability to deal with oil supply interruptions in the short term; and (2) if current storage cost estimates prove correct, a 10% oil price increase in 1979—which some predict—would make an early buy attractive from an economic standpoint. Arguments *against* temporary storage include: (1) adding management of the temporary storage program to an already overloaded SPR staff could delay the regular program even further; (2) the amount of oil in temporary storage would not add a significant amount of protection in case of an interruption (about 12 days with a total supply interruption and the International Energy Plan for sharing in effect); (3) Environmental Impact Statement requirements and other delays could preclude timely acquisition of temporary storage; (4) costs of storage and predictions of oil price increases are very uncertain and could change the economic analysis drastically; and (5) there might be problems getting the 30 mmb out of Europe despite informal Dutch assurances on this matter. DOE is going to continue their analysis, get firmer cost data, and report back to the SCC by 1 July, 1978.

The JCS provided a status report⁶ on the analysis it has done on two topics: (1) the capability of current U.S. military forces to deal with oil-related contingencies in the Persian Gulf; and (2) an assessment of the utility of air and naval bases in the Persian Gulf, Middle East, and Horn of Africa from which U.S. forces might have to operate. The first study outlined deployment times, composition, etc. for small, medium, and large force packages which could be sent to the area. This analysis will be subsumed in the larger PD-18⁷ follow-on contingency requirements study underway in DOD. The second analysis stressed the large distances involved in moving from one area in the Middle East to an-

⁵ On May 23, the Assistant Secretary of Energy for Resource Applications prepared for Schlesinger a draft action memorandum asking whether the Department of Energy should "contract for significant quantities of temporary aboveground and/or floating storage as a means of obtaining additional protection and flexibility for the Strategic Petroleum Reserve?" He recommended option 3: "Decide now to store up to 30 million barrels of crude in aboveground conventional storage both in the U.S. and overseas for a period of up to one year" and charter four VLCCs to transport oil, "with an option for their use as floating storage." (Carter Library, National Security Council, Institutional Files, Box 95, SCC 83, Oil Supply-Vulnerability Assessment, 6/6/78)

⁶ Not found.

⁷ PD 18, August 24, 1977, is entitled "U.S. National Strategy."

other and the difficulty of trying to support operations in one region from a base located in another. This initial technical study will be used by a small working group developing a broader politico-military assessment of this set of issues.

153. Memorandum From Secretary of State Vance, Secretary of the Treasury Blumenthal, the President's Assistant for National Security Affairs (Brzezinski), and Henry Owen of the National Security Council Staff to President Carter¹

Washington, June 7, 1978.

SUBJECT

Action on Energy at the Summit

We are seriously concerned that the forthcoming *Summit*² will be branded as a *failure unless you are in a position to demonstrate forceful action on energy*. Such a failure would erode your position of world leadership and damage your image at home—and would increase the risk of a serious attack on the dollar.

The ingredients for a successful Summit form a “concerted action” program:

- German and Japanese actions to promote faster growth;*
- U.S. action on energy and inflation; and*
- Others to refrain from protectionist measures and, where appropriate, stimulate more growth.*

It is clear from the preparatory meetings that *if we and the Germans deliver, the others are likely to fall into line*. Moreover, while there is some encouragement that *Schmidt* may agree to seek Parliamentary approval for major stimulus measures, his decision *will be influenced heavily by what you can say on energy and inflation*. There is little more to say on inflation at this point. On energy, *Schmidt and the others will expect a pledge of action by a specific date*.

¹ Source: Carter Library, National Security Council, Institutional Files, Box 69, PRC 61: Economic Summit, Energy, 6/9/78. Secret. The memorandum is typed on Secretary of the Treasury stationery.

² The G-7 Bonn Economic Summit was scheduled for July 16–17.

To meet these expectations and put maximum pressure on Schmidt, *we believe you need to be prepared to:*

—Express *confidence that Congress will approve the four bills* which have been agreed upon by the conference committee.³

—Express *hope that the Congress will approve COET.*

—Offer your *assurance that if Congress has not approved COET by a certain date (not later than December 31, 1978), you will, after consultation with Congressional leaders, take administrative actions so phased as to raise domestic oil prices to the world level by 1980.*

It is *not essential to specify* at the Summit exactly what actions you would take. The *options* of fees and/or quotas, and/or exercising your authority under the Energy Policy and Conservation Act (and the questions of their *mix and phasing*) *would be open* for determination after the Summit. *This may not be as strong as Schmidt would like.* But it *should be sufficient* to give him the “quid pro quo” he feels he needs to obtain domestic acceptance of a German stimulus package. *Anything less* would give him the opportunity to assert that the U.S. is not fulfilling its responsibilities and that for that reason *no agreement* on “concerted action” is possible.

If we cannot promise action on energy and the Germans and others then hold back on growth, our balance of payments prospects will deteriorate and there is likely to be a resurgence of heavy pressure on the dollar. *Our Summit partners* are, at this point, prepared to *accept U.S. action on energy and inflation—the “fundamentals”—as the right U.S. contribution to greater stability* in international currency markets. *If we cannot deliver on energy, this understanding will almost certainly come unglued.*

If basic agreements can be reached in the MTN⁴ prior to the Summit meeting, a *Summit endorsement* would provide a badly needed contribution to the total package. The *British and French* are *not likely to have much to offer* at the Summit beyond generalities on protectionism. *But if we and the Germans fail to deliver, they are likely to expand their protectionist measures.*

We recognize that the course of action recommended above has implications for the energy legislation on the Hill and we have informed Jim Schlesinger of our proposal. Congressional consultation will be needed, and a separate memorandum will be sent to you on this point. In view of the importance of this issue we recommend that you

³ See footnote 2, Document 151. The fourth dealt with the creation of a national market for natural gas.

⁴ Reference is to the Tokyo Round of GATT negotiations.

meet with us and Jim prior to our leaving on Tuesday for the OECD meetings,⁵ in order to arrive at a decision.⁶

⁵ The OECD Ministerial meeting was held June 13–15 in Paris.

⁶ The President did not indicate whether or not he approved the meeting, but a Presidential Review Committee meeting was held on June 8 in the White House Situation Room from 2 to 3 p.m. “The dangers posed by the decline in the dollar, and the need for effective action on the energy front in order to arrest that decline, were discussed,” and “It was agreed to propose to the President that he meet with Congressional leaders to discuss the handling of energy at the Summit.” (Carter Library, National Security Council, Institutional Files, Box 69, PRC 61: Economic Summit, Energy, 6/9/78)

154. Memorandum to President Carter¹

Washington, June 14, 1978.

FROM

Cyrus Vance
W. Michael Blumenthal
James Schlesinger
Charlie Schultze
Stu Eizenstat
Frank Moore
Zbigniew Brzezinski
Henry Owen

SUBJECT

Congressional Consultation About Summit Energy Policy

1. This memorandum recommends that you consult with key Congressional leaders about the handling of US energy policy at the Summit.

2. Schmidt, Callaghan, and Fukuda have made clear that what we say on this issue will clearly determine whether we can get other countries' growth and trade pledges at the Summit. The fundamental com-

¹ Source: Carter Library, National Security Council, Institutional Files, Box 69, PRC 61: Economic Summit, Energy, 6/9/78. Confidential. Sent for action. Handwritten notes indicate that Vance and Blumenthal approved the memorandum before leaving to attend the OECD meeting. The memorandum was sent to Carter under a covering memorandum from Owen, who wrote: “Stu and I hope that you will, before leaving for Panama, approve the recommendation in the attached joint memo authorizing Frank Moore to set up the meeting with Congressional leaders. Stu just phoned to say that if we don't do this right away, our prospects for success on the energy front will slip.”

mitment they want from us is that we will take bold action to limit oil imports.

3. We believe allied concerns would be met if you said at the Summit that:

—it is your objective to raise the average US oil price paid by the users to the world level by 1980;

—to achieve this objective you are pressing for legislation, which would be the most desirable outcome;

—if legislation has not been enacted by the end of 1978 you will use the administrative powers at your disposal to achieve this same constraining effect on US oil imports, in ways consistent with your other relevant goals.

Such a pledge would leave you free to choose among the different forms of administrative action open to you.

4. If you are to make such a statement at the Summit, you will wish to consult Congressional leaders beforehand. It would be useful to consult as soon as possible, so that the results can be taken into account in pre-Summit planning. The best time for such consultation would be next week, when Cy Vance and Mike Blumenthal will have returned from the OECD Ministerial Meeting, and can report first hand on relevant foreign attitudes. We will supply talking points before the meeting.

The members to be consulted would be Senators Baker, Bellmon, Bentsen, Byrd, Jackson, and Long;² and Congressmen Anderson, Ashley, Dingell, O'Neill, Staggers, and Ullman.³

Recommendation

That you authorize Frank Moore to invite the members listed above to a meeting with you next week.⁴

² Senators Howard Baker (R-TN), Henry Bellmon (R-OK), Lloyd Bentsen (D-TX), Robert Byrd (D-WV), Henry Jackson (D-WA), and Russell Long (D-LA).

³ Congressmen Glenn Anderson (D-CA), Thomas Ashley (D-OH), John Dingell (D-MI), Thomas "Tip" O'Neill (D-MA), Harley Staggers (D-WV), and Albert Ullman (D-OR).

⁴ According to the President's Daily Diary, he met with selected members of Congress on June 22 to discuss his statement on energy at the upcoming Summit. (Carter Library, Staff Office Files)

155. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter¹

Washington, July 6, 1978.

SUBJECT

Energy Issues Raised by Venezuelan President Perez

DOE and State have prepared reports on the energy issues raised by Venezuelan President Perez on your visit to Caracas.² Below is a brief summary of their findings:

Long-Term Supply Agreement

DOE notes that Venezuela has frequently expressed interest in a long-term supply agreement with us. The Venezuelans see a preferential arrangement with the US as a way of obtaining a more secure market and, if possible, higher prices than would otherwise be available. In March, Jim Schlesinger told Venezuelan Energy Minister Hernandez that the US was unable to separate security of supply and price, that American oil importers would shift sources of supply in response to price differences, and that the USG itself was sensitive on the price issue.³ In DOE's view, a long-term supply agreement would only be in our interest if it resulted in *lower* prices.

State underscores the US interest in assuring access to foreign oil but stresses that we must weigh the costs as well as the benefits from special bilateral arrangements. On balance, State concludes that, since Venezuelan oil will flow to the US market as long as it is competitively priced, there are probably more disadvantages than advantages in a preferential access scheme.

Despite these negative assessments, both DOE and State believe we should continue bilateral discussions with Venezuela on both supply and price issues. We believe this is a wise approach because of the overall importance of our relations with Venezuela.

Orinoco Tarbelt

With respect to development of the Orinoco Tarbelt, DOE is generally skeptical about energy cooperation with Venezuela beyond a government-to-government technical exchange program. DOE ques-

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 85, Venezuela, 1/77–12/78. Confidential. Sent for information.

² See Document 146. An NSC summary condensing the two reports is attached but not printed.

³ See footnote 2, Document 146.

tions the desirability of supporting the development of expensive, high-risk sources outside the US or of subsidizing private sector investment in such projects if no interest exists on commercial grounds. Our private sector would not be interested in developing the Tarbelt into a commercial resource unless Venezuela offered substantial new incentives. However, there is still considerable hostility within Venezuela to permitting foreign firms to develop the country's energy resources, and so the Venezuelans have asked the USG to play an intermediary role.

DOE is prepared to explore cooperative arrangements with Venezuela which might range from a USG–GOV umbrella agreement to facilitate or encourage private sector participation in the development of the Tarbelt, to a trilateral arrangement with Canada under which US affiliates could participate in such a scheme through PetroCan, an official Canadian entity.

Other Issues

The DOE report also addresses a number of specific issues raised by Perez. It provides an update on pending energy legislation, comments on the alleged violation of our bilateral commercial agreement, and assesses the possibility of storing residual fuel oil as part of our strategic petroleum reserve.

Next Steps

We plan to respond to Perez through our Embassy in Caracas. In the meantime, DOE will proceed with early consultations on specific areas for government-to-government technical cooperation in the Orinoco project.

I recognize and understand DOE and State's reservations about development of the Orinoco and a long-term supply agreement for crude oil. At the same time, we cannot afford to antagonize Perez, who has been a useful supporter of American policy in non-energy areas. It would be a serious mistake to break off our dialogue on energy cooperation prematurely. In this instance, the tone of our response may be more important than its substance. We will, therefore, urge DOE and State to continue their discussions with the Venezuelans in the hope that we will eventually find some areas for fruitful and mutually beneficial cooperation.⁴

⁴ Carter wrote "I agree" and initialed below this paragraph and drew an arrow pointing to the last sentence. On July 12, Brzezinski sent a memorandum to Vance and Schlesinger informing them that the President wanted them to continue their discussion with the Venezuelan Government in a "positive manner with the purpose of trying to find areas for fruitful and mutually beneficial cooperation." (Carter Library, National Security Affairs, Staff Material, North/South File, Box 47, Pastor Country Files, Venezuela, 7–12/78)

156. Memorandum to President Carter¹

Washington, July 7, 1978.

FROM

Cyrus R. Vance
W. Michael Blumenthal
Charlie Schultze
Zbigniew Brzezinski
Henry Owen

SUBJECT

Energy and the Summit

1. All the heads of government at Bonn will want to know whether US oil imports will go down. They don't care whether this happens by legislative actions, or administrative action, or by using your existing authority to allow domestic prices to increase gradually to world price levels (which is probably their preferred course of action). You will remember that when Callaghan came in March and Fukuda in May,² both stressed their concerns on this issue; you said to Callaghan that you would respond to these concerns at the Summit.

All believe that large US oil imports increase the US external deficit, weaken the dollar, and thus damage their economies. Schmidt has said that any German expansion would only make sense if he could be sure that it would not be offset by the currency disorders that he believes would attend US failure to limit oil imports more drastically. He and the others also fear that continuing large US oil imports will drive up the world price. They, their peoples, and the foreign exchange markets have not digested the progress that has already been made by the US; they exaggerate, moreover, the significance of COET or equivalent administrative action, relative to the rest of the energy bill, in reducing oil imports.

2. Our tactical situation at the Summit is made easier by the fact that other heads of government are being asked to take action in other areas: All want Germany and Japan to grow faster, and all want Britain and France to be as forthcoming in MTN as the rest of us. Some of the countries being asked to take these actions have linked them to US action on energy. But this linkage works both ways. Other heads of government face the same kinds of political constraints—the Germans and

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 14, President: Germany, 7/13–17/78. Confidential. Sent for information. Solomon initialed for Blumenthal. The memorandum is typed on White House stationery.

² Callaghan was in Washington March 23, Fukuda May 1–3.

Japanese on growth, and the British and French on trade—that you do on energy. There is no reason why you should be more forthcoming or specific in talking about energy than they are prepared to be on growth and trade.

3. At your Friday meeting with Schmidt,³ you will be able to sound out his intentions about growth—which is the key to triggering other Summit countries' actions. As of this date, we only know what Schmidt said to Callaghan and in a recent *Business Week* interview: that he would be willing to take expansion measures as part of a package deal. He evidently implied the same thing at the recent Bremen EC meeting.⁴ In Bonn last week, German officials were talking of a 12 billion DM package (1% of GNP), which seemed to include some water, i.e., measures that would have been taken in any event.

A July 6 telegram just in from Embassy Bonn⁵ indicates that “the poor May economic data as well as the internal debate on tax reductions have increased the chances of a German 1979 program of fiscal stimulus going beyond the one percent of GNP or DM 12 billion recently mentioned by German officials. A larger rather than a smaller package of tax reductions and expenditure increases may in some ways actually be more easy to put together politically. But it is as yet far from a sure thing, as aversion to higher public deficits remains a significant counterbalance throughout the political spectrum.” The matter will be decided at a German cabinet meeting twelve days after the Summit; any resulting proposals would be put to Parliament in September.

4. One can envisage three alternative positions that Schmidt might take in your meeting with him:

a. He may be willing to make a statement that, however general, would clearly envisage a substantial growth package in the 1979 budget—on the order of 1% GNP. In this case, we would recommend, if this proves necessary, a US statement on energy (Tab A)⁶ that, while less specific than the one you discussed recently with members of the Congress and therefore less welcome to allies and more troubling to foreign exchange markets, might still be sufficiently forthcoming to meet Schmidt's concerns and thus elicit his firm growth pledge, without being unnecessarily offensive to the Congress. This statement would also describe the progress that we have achieved to date in strong terms.

³ According to the President's Daily Diary, he met with Schmidt on Friday, July 14, in Bonn. (Carter Library, Staff Office Files)

⁴ The EC Council met in Bremen July 6–7.

⁵ Telegram 12298 from Bonn, July 6. (National Archives, RG 59, Central Foreign Policy Files, D780277–0155)

⁶ Tabs A–C are attached but not printed.

b. Alternatively, he may be willing to make a statement that would pledge action in the 1979 budget but would not make clear the *amount* of new growth action we could expect. In this case, we would recommend that you fall back to the weaker statement at Tab B. This statement, by referring explicitly to “working with Congress” and to the possibility of “legislative action”, is weaker in its commitment to administrative action than your April statement to the American Society of Newspaper Editors⁷ (Tab C). This evident difference would probably trigger adverse comment and renewed pressure on the dollar.

c. He may be willing to make only a general policy statement on growth, which pledges nothing. In this unlikely case we will have to decide what to say on energy in light of other factors.

7. In choosing among options, the situation at home is relevant:

a. *Political*: The stronger your statement the greater the likelihood that the Dole amendment⁸ will be passed by a large majority. Stu Eizenstat attaches a memo on these dangers. (Annex I)⁹ (We wonder whether the outcome would be affected by whether you brought back an evident success, including important growth and trade pledges, from the Summit?)

b. *Economic*: A question has been raised as to whether it would be in the US interest in 1979 to take administrative action to restrain oil imports, in view of current economic prospects. Charlie Schultze attaches a memo indicating the pluses and minuses, and concluding that it would still be in our interest to do so, if we can get something substantial in return. (Annex II)¹⁰

8. *Tactics*: In your conversation with Schmidt, you may want to:

a. find out what he has in mind saying and doing about growth, in as specific terms as possible;

b. repeat your determination to act vigorously to restrain oil imports; underline the difficulties you face in trying to define that determination in specific terms, if contraproductive Congressional reactions

⁷ Carter spoke on April 11 to the American Society of Newspaper Editors on his anti-inflation policies. He stated explicitly: “If Congress does not act, then oil imports will have to be limited by administrative action under present law.” For the full text of his remarks, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, pp. 721–726.

⁸ In response to threats by Carter to impose “massive” oil import fees if the Senate did not agree to his proposed tax on domestic crude oil, Senator Robert Dole (R-KS) proposed an amendment to the energy bill in conference committee that would revoke administrative authority to impose fees on oil imports. (*The New York Times*, June 28, 1978, p. D15)

⁹ Entitled “Energy and the Summit,” dated July 7; attached but not printed.

¹⁰ Entitled “Economic Effects of Alternative Outcomes at the Summit;” attached but not printed.

are to be avoided; and explore how weak a statement on energy would be sufficient to elicit his expansion decision.

After hearing Schmidt out, you may want to say that you will decide what to say on energy in light of this conversation, and that your advisers will communicate the specific language to his staff later in the day. (He will want to know what you intend to say before the Summit opens, since it will affect what he says on growth.)

This procedure would provide an opportunity for us to give you a careful assessment of what he had said about his growth intentions (assuming he was willing to make some sort of pledge), before you made your decision, choosing between the stronger and weaker statements at Tabs A and B. We believe that a weaker statement, such as Stu Eizenstat is proposing, which would do no more than defend our energy record to date and promise to continue trying, would likely be insufficient, and would be perceived, at home and abroad, as such a sharp back-down from your April statement and such evidence of weakness as almost surely to be followed by a sharp fall-off in the dollar.

It would be understood that use of both your statement on energy and Schmidt's statement on growth would depend on what you found out in the Summit about Japanese, British, and French intentions.

157. Minutes of the Bonn Economic Summit Meeting¹

Bonn, July 16, 1978.

[Omitted here are a list of participants and the minutes of Session 1, which began at 10:10 a.m. on July 16.]

BONN SUMMIT

Session 2

[Omitted here is discussion unrelated to energy.]

¹ Source: National Archives, RG 59, Executive Secretariat Files: Lot 84D241, Vance Nodis Memcons 1978, Box 9. Secret. Drafted by Hormats. According to the President's Daily Diary, Session 2 of the Summit began at 3 p.m. and ended at 6 p.m. (Carter Library, Staff Office Files) The minutes of all four sessions of the Summit are scheduled for publication in *Foreign Relations, 1977–1980*, volume III, Foreign Economic Policy.

Schmidt: Let's go now to energy. The brackets there are taken care of by what Carter has hinted at in his initial statement.² The US will give us a text on energy before 6:00 p.m.³ We should now move to the substance of the energy issue.

Trudeau: We should be more specific on paragraphs 13 and 14 of the energy chapter.⁴ Our assistance to LDCs benefits them and the world economy. We should make sure that part of our aid is directed at renewable energy resources in LDCs and encourage the World Bank to advance money for development and exploration of hydrocarbons. We should help to find new hydrocarbons and more renewable energy resources. Quite frankly, my earlier wording on this was rejected by the Preparatory Group.⁵

Schmidt: But this is a new look at the problem.

Trudeau: I'll provide the wording.

² The participants are discussing a draft of the final joint declaration of the Summit. In his statement during Session 1, Carter said: "Energy imports are up only 1% in 1977. During the first five months of this year, oil imports are down by about 1 million barrels a day. I have introduced a five-part program on energy. Three are in little dispute. A conference committee has agreed on the fourth part, on natural gas. A few oil pricing elements are also agreed. As far as oil is concerned, the sum total of these agreed efforts will reduce oil consumption by 2.3 million barrels per day by 1985. I will attempt to raise the price of US oil to world market prices by 1980. I will check back home on these things so I am not doing what is politically unfeasible." Later he added: "I have a political problem concerning oil. Previous Congresses were heavily influenced by oil producers. Now there is an equal interest and influence by oil consumers. The big problem is to change thinking domestically."

³ The U.S. contribution to the energy section of the joint declaration (paragraph 7) reads: "Recognizing its particular responsibility in the energy field, the United States will reduce its dependence on imported oil. The U.S. will have in place by the end of the year a comprehensive policy framework within which this effort can be urgently carried forward. By year end, measures will be in effect that will result in oil import savings of approximately 2.5 million barrels per day by 1985. In order to achieve these goals, the U.S. will establish a strategic oil reserve of 1 billion barrels; it will increase coal production by two-thirds; it will maintain the ratio between growth in gross national product and growth in energy demand at or below 0.8; and its oil consumption will grow more slowly than energy consumption." The United States also agreed to raise the domestic price of oil to the world level by 1980 to reduce consumption. The full text of the final joint declaration issued on July 17 is printed in *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, pp. 1310–1315. The section on energy comprises paragraphs 4–16.

⁴ The section on energy and LDCs became paragraphs 15 and 16. Paragraph 15 reads: "To help developing countries, we will intensify our national development assistance programs in the energy field and we will develop a co-ordinated effort to bring into use renewable energy technologies and to elaborate the details within one year. We suggest that the OECD will provide the medium for co-operation with other countries." Paragraph 16 reads: "We stress the need for improvement and co-ordination of assistance for developing countries in the energy field. We suggest that the World Bank explore ways in which its activities in this field can be made increasingly responsive to the needs of the developing countries, and to examine whether new approaches, particularly to financing hydrocarbon exploration, would be useful."

⁵ The Preparatory Group met in Bonn the first week of April.

Andreotti: We should add a point to indicate that we are only recommending conservation for non-productive uses. It is not wise to conserve if it reduces productivity. And paragraph 12⁶ is too weak. We should say something to the effect that we will “safeguard with the greatest care . . .” not just say we will take into account.

Callaghan: According to our analysis, OPEC supplies are going down steadily. We are coming soon to the point, perhaps 1985, when the market takes over from OPEC. We feel that it is undesirable to have prices increased over the next 12 months. But in the longer run it looks as if the Saudis will be short of money in the 1980's and Iran before them. They will press for substantial increases. Should we hold prices down and then face a big increase at that time or seek a gradual increase in the price of oil in the next 3–4 years? In the future OPEC will have a case for price increases because absorptive capacity will exceed revenues.

Schmidt: I recently discussed this with Fahd. He was concerned with possible economic consequences of increased oil prices, which he foresees next year. The Saudis are rather sophisticated in their understanding of the mechanisms of the world economy. They are aware that the world economy will be adversely affected, depending on when and to what degree oil prices will be increased next time. They also feel the responsibility for managing their surpluses.

The Saudis are aware that their absorptive capacity will not in the very near future enable them to buy as much as their export revenues. They will have a surplus for a long time to come because of the large gap between revenues and absorption. But they are worried that other colleagues in the OPEC will force them to raise the price of crude earlier and higher than they desire because of the dollar's decline.

Fahd also strongly pointed out that the Saudis interpret Soviet Union activity in the Horn and South Yemen as a strategic operation with a double target. First, the Soviet Union wants to expand influence in Africa and from there regain a foothold in the Middle East imports [*region?*]. For that reason, they want great political influence in the region.

With respect to German interests, if war were to break out in the Middle East, and given present attitudes in Jerusalem there is reason for concern, countries around this table would be in a chaotic situation. Oil would be used to press Israel through Western allies. Next time oil will be used more massively. This concern causes a certain measure of irritation by those countries without energy, e.g. France and Italy. This

⁶ Paragraph 12 became paragraph 14, which reads: “In energy development, the environment and human safety of the population must be safeguarded with greatest care.”

concern is more acute because other sources of energy, e.g. nuclear, have been increasingly constrained by emotional reactions and public opinion. The communiqué should emphasize the strong need to protect the environment and population, but we need nuclear if we are not to be at the mercy of foreign pressures. We were eager to hear what Carter and Trudeau had to say on the nuclear issue at London.⁷ There we put in place the INFCE study. Yet I must say there was irritation aroused by the US non-proliferation measures and particular comments by various people. Is what was said at London still valid, or should we consider that there will be difficulties in the future? If the latter, this will pose considerable economic and strategic problems. As far as enrichment is concerned, I do not want to be dependent on the Soviets. I can imagine that for others the situation is very much the same. Germany places strong emphasis on its rights under Article IV of the NPT⁸ and will insist on the defense of those rights.

Fukuda: I wholly support Chancellor Schmidt's views on nuclear energy. As petroleum supplies diminish, we must make provisions for a new situation. The only way to do this is development of nuclear energy. The non-proliferation issue and peaceful pursuit of nuclear energy are separate. They should be dealt with separately.

We are in an age of uncertainty. There is no clear outlook about our energy future. We do not know what will happen to the energy situation. We would not like the Soviet Union to have a monopoly on the peaceful uses of nuclear energy. We need a clear outlook for the post-petroleum era. For instance, countries reluctant to produce oil today may produce more if they have a clearer picture of the post-petroleum era. We should study these matters. Let us do research in unison—not individually—and pool our wisdom and resources together.

I believe Carter supports my view of the importance of R&D for future energy. This can help make the future into an age of certainty. Coming up with alternative energy resources will help in dealing with the rest of the world, especially OPEC.

Giscard: The prospects of nuclear fuel production are less than in 1974. In 1985 we will only have one-half of the capacity envisioned for OECD countries in 1974. France decided last month to build new power stations for 10,000 megawatts. In 1985 our nuclear production will be second only to the U.S. Public opinion has accepted our nuclear pro-

⁷ The G-7 Economic Summit held in London May 7–8, 1977. See Document 122.

⁸ Article IV of the Nuclear Non-Proliferation Treaty safeguards the rights of all parties to the treaty to develop research, production, and use of nuclear energy for peaceful purposes without discrimination and pledges all parties to facilitate the exchange of material and information.

gram. We still have a reserve on unused sites. We have succeeded because public opinion agrees that there should be a national source of energy. Cooperation among us might help to bring about a better understanding of this need among all of our peoples. We might get good results if we better explain the need for nuclear. We must all proceed in common. I am pleased that agreement has been reached between the U.S. and Europe on Euratom supplies. Could you confirm that supplies will continue?

Also, we should include OPEC in energy talks, particularly those on nuclear energy.

Carter: The U.S. economy is strong and growing rapidly. We are the world's largest energy consumer, but we have made progress in conservation. We have dropped from 1.46 barrels of oil per \$1,000 GNP to 1.38 barrels. We are trying to achieve a .8 ratio of energy consumption to GNP growth by 1982. From 1976–77 we had an increase in oil imports because of GNP growth and sharp drop in domestic oil production. Since 1972 we have had a 34% increase in consumption and a one-third increase in GNP. We have a specific problem with gasoline, because autos are so widely used. To cut gasoline consumption we have instituted mandatory fuel emission standards for autos, increased the price of gas substantially and instituted a 55 mile per hour mandatory speed limit.

By 1985 we expect to save 2.5 million barrels per day of oil imports. A substantial portion of this will be realized by the non-controversial elements in the energy bill I have submitted. We want to control demand at 2% per year and are working toward a two-thirds increase in coal production. We also want to hold the ratio of growth in energy use to less than .8%. We expect imports in 1978 and '79 to be below 1977 in volume terms.

Let me also add a point on the Saudis. We will use our influence with them constructively and hope you will join. We do not believe there will be a price increase until 1979 and only one in that year. We hope that it will not be more than inflation. The Saudis and Iranians have much investment in the U.S. The Saudis recognize that their interests are intimately tied in with all of us, and particularly the U.S. I am sending Mike Blumenthal to Saudi Arabia in the fall. We are working closely with Venezuela and Mexico, and the PRC, to encourage additional energy production. My guess is that Helmut is correct regarding the Soviet Union. According to our information, Soviet oil supplies have been overestimated in the past. Soviet oil supply is less than anticipated. Lately they have encouraged their friends to buy oil not from the Soviet Union but from other sources.

On nuclear power, our position is the same as at London. All of us will face problems unless we take action to eliminate nuclear prolifera-

tion. Nuclear power ought to be expanded for peaceful purposes, but all of us ought to comply with rigid international safeguards. The U.S. initiated the move to nuclear power. Thus, we feel we need to be conscientious about proliferation. We and Canada helped India to develop nuclear power. If France and the FRG say they will not cooperate because it infringes on their sovereignty, it will be difficult for us. I struggled to see that the Act did not hurt the countries involved. But there are major domestic pressures on non-proliferation. A number of nations want to reprocess spent nuclear fuel and convert it into explosives. I can understand that other countries want to shift to nuclear power, but we want to ensure that international safeguards are rigidly applied. Our new legislation can give us a predictable policy. One purpose of our legislation was to let our policy be better understood.

We have no objections if nations seek to reduce their energy dependence including the use of the breeder reactor. But non-proliferation must be respected. We have two years to continue supplies under our legislation as long as negotiations are going on on non-proliferation. There will be no cutoff during INFCE. We have supplies and technology to provide and want to provide them where possible. It is in the national interest to do so because we see the need for conservation and prudent use of fuels. We agree with the need for stability of supplies of nuclear power and we realize that that did not exist a few years ago. We will be glad to provide information if you have questions. Jerry Smith is now devoting full time to the issue of nuclear fuel supplies and proliferation,⁹ and he can be helpful.

Schmidt: In paragraph 9 of the communiqué¹⁰ could we get a statement that the U.S. will prevent any interruption of fuel supplies during INFCE and a point that existing agreements are to be respected. Could we also have something about reprocessing?

Carter: We could put this language in. It is possible to export under our legislation. For instance, I ruled recently that we could sell fuel to India. We could indicate that the U.S. will avoid supply interruption during the period of the INFCE study and will respect existing agreements.

⁹ Gerard C. Smith was the President's special representative for non-proliferation issues.

¹⁰ Paragraph 9 became paragraph 11. The part under discussion here reads: "The President of the United States and the Prime Minister of Canada have expressed their firm intention to continue as reliable suppliers of nuclear fuel within the framework of effective safeguards. The President intends to use the full powers of his office to prevent any interruption of enriched uranium supply and to ensure that existing agreements will be respected. The Prime Minister intends that there shall be no interruption of Canadian uranium supply on the basis of effective safeguards."

Trudeau: I can give you the same assurances Carter gave you. I said at London we would ship while safeguards were respected. With Japan, we are prepared to accept the safeguards provided. We will guarantee their shipments of technology and nuclear fuel provided safeguards are respected. Even if the study proved breeder technology would be necessary and useful we will also have to agree on safeguards for the by-products of plants. If we all agree that proliferation is a danger, we could reach agreement on safeguards. Countries can get it from other countries, of course, and we can't prevent that; but we can prevent our material from being used for war. There are a lot of non-nuclear countries. We should not be fatalistic and assume that they will cross the threshold. We share Carter's worry. In fact, our safeguard system anticipated the U.S.

Giscard: With respect to the communiqué, President Carter's text seems to be very satisfactory. However, I wonder if we can say that for 1979 and '80 something more than we "hope". Can it be stronger?

Carter: Expected?

Schmidt: EC should include a paragraph of our own taken from the Bremen communiqué: "The EC stated the following objectives for 1985 ..."¹¹

Regarding the question of Andreotti as to whether we should indicate the importance of conservation of oil for non-productive purposes, I believe there are ways of reducing energy use in industrial production as well. We should not narrow the declaration down to eliminate this possibility.

Callaghan: I agree. We give grants to factories to help in conservation through better insulation.

Schmidt: Regarding paragraph 9, Carter, Trudeau, Giscard and others spoke at length to this issue. We should amend the declaration in two directions; adherence to existing commitments and the need for rigid international safeguards.

I also want to point out that we subsidize our coal industry by about fifty marks, or \$25 a ton. These are huge subsidies, but necessary given the oil situation and the fact that our coal is 1,000 meters below the surface. This is a very heavy burden on our budget, and I hope no one here will criticize me for such subsidies.

Regarding Andreotti's point that the language in paragraph 12 is too weak. Can we agree to use the language "safeguards with the greatest care".

¹¹ The communiqué issued at the end of the EC Council meeting on July 7 listed as objectives the reduction of EC dependence on imported energy, the limitation of oil imports into the EC, and the reduction to 0.8 of the ratio between the rate of increase in energy consumption and the rate of increase in Gross Domestic Product.

Regarding paragraph 13, I am in favor of strong bilateral assistance programs to help LDCs produce energy. And I think we should develop a coordinated effort to bring into use new energy technology. We should coordinate over the next 6 months and get a report after 6 months.

Giscard: With respect to paragraph 14 the World Bank is not the only body which can carry out a coordinated function. I suggest that we indicate that “we stress the need for the competent international organizations and financial institutions to provide aid to LDCs in the energy field. We further support the World Bank’s efforts . . . ” and then use language already in the draft. We should say that we also want to assist development and exploration of hydrocarbons. We should ask the experts to see if they can include exploration as well.

Carter: They should report back progress to the next Summit.

Jenkins: You will report to whom?

Trudeau: Officials in our aid agencies would meet to see if we can devote a greater part of our aid to renewable energy development and also include training in LDCs.

Carter: I agree that there is a shortage of technology in the LDCs.

Trudeau: I agree.

Schmidt: Couldn’t we ask DAC to do a report?

Carter: My experts say that OECD is better since it can call on the DAC and OECD energy experts. We should ask OECD to study this and provide a report.

[Omitted here are discussion unrelated to energy and the minutes of Sessions 3 and 4, which were held on July 17.]

158. Memorandum From Director of Central Intelligence Turner to Secretary of Energy Schlesinger¹

Washington, August 14, 1978.

Dear Jim,

Attached is a very short report on the role intelligence might best play in supporting U.S. energy policy and planning. This was prepared by my Science and Technology Advisory Panel. After you have an op-

¹ Source: Library of Congress, Manuscript Division, Schlesinger Papers, Box 1, CIA Documents, File Four. Confidential.

portunity to read it, I would like very much to get together with you to discuss this report and any other ideas you may have on how we can be supporting you better. May I invite you and two or three of your assistants to come to the Agency for luncheon with me and our top people involved in collecting and analyzing energy information.

Yours,

Stansfield Turner²

Attachment³

Proposed Intelligence Activities in Support of US Energy Policy and Planning

Observations and Conclusions

1. A number of studies have indicated clearly that a driving force in the strategic position of the major powers in the 1980s–1990s will be the availability and price of major energy resources. In this time frame, oil, natural gas, coal, and uranium are the only resources that need be considered. At present, a number of agencies and departments—CIA, DOE, Defense, Treasury, and State—have limited efforts to examine the present situation and are making limited extrapolations of what might happen over the next 10 years or more with the emphasis on the shorter term projections.

2. There is a high probability of continued increases in the price of oil and a possible severe shortage of oil relative to the demands of the world economy by the end of the coming decade. The “crunch” will be massive under the almost certain condition that the Soviets will no longer be a net energy exporter. The situation will be even worse if CIA forecasts of the Soviet need to become a substantial importer are valid. Alternative sources of energy will simply not be available in practical economic terms in the necessary volume by that time.

3. The implications of this situation in itself and for the actions of governments as it becomes closer and more salient are numerous, critical, and complex. With the probable exception of the nations of arid Africa, the consequences of the impending energy crunch will impact heavily on most governments and thus on most major international economic issues; on the stresses felt by existing alliance systems (NATO and Warsaw Pact); on regional power balances and emerging regional powers; and on perceptions of the need for and incentives to use military forces. Without engaging in overstatement, the energy fac-

² Turner signed “Stan” above this typed signature.

³ The report is dated June 1978.

tor will have at least as much impact on the role of the United States in the world in the coming decades as nuclear weapons have had in previous decades.

4. Relative to nuclear weapons, the energy factor will create far more difficult requirements for information and thus tasks for the US intelligence and policy analysis communities. The implications cannot be adequately grasped simply through concentration on a very small number of foreign countries, on military as distinct from economic matters, and on meeting the problem through unilateral US procurements or dispersal of technology.

5. The US energy policy community now has on its agenda a large number of relevant issues and action programs. These developments are relatively recent and fluid in terms of the division of executive branch responsibility and focus on coordination. Nevertheless, the policy community is well ahead of the current production capacity and institutional priorities of the Intelligence Community on energy and energy-related matters. Without substantial increases in the resources allocated to intelligence production pertinent to the energy factor, the gap will grow.

6. Scientific and technical development will greatly influence the pace of energy resource recovery and production in countries throughout the world. Much of this information is in the open literature or available from easily accessible sources. At one time, the Intelligence Community maintained almost routine coverage of these engineering (non-nuclear) developments. Shifting emphasis to assumed higher priority items has vastly degraded the US capability in monitoring technical developments in many areas of fossil fuel recovery, conversion, and use. For example, our knowledge of technological possibilities of the use of the high BTU gas production developed in East Germany is extremely limited. Our knowledge of the South African technology for the development and use of Solvent Refined Coal is similarly limited. A list of comparable examples is virtually limitless. The failure to maintain cognizance of technical developments in the non-nuclear energy area will severely limit technical developments in the use of fossil fuels in the United States.

7. Many of the policy alternatives now under active consideration and increasingly detailed formulation call for syntheses of two kinds. First, they require the integration of political, economic, and scientific and technical intelligence. Second, they require the integration of estimative intelligence on the policy intentions, capacities, and responses of numerous governments in OECD, in CEMA, and in the developing world.

8. Unfortunately, these two sorts of syntheses are precisely what the US Intelligence Community is poorly organized to provide. Given

other production burdens and historically established interagency and interoffice divisions of labor, it is unrealistic to expect these syntheses to be generated in the absence of high-level guidance and demand. There clearly exists competence among individual analysts as demonstrated by a superb ORPA report on the political economics of energy in the Warsaw Pact.

9. Analyses which synthesize across types of information and pertinent nations obviously can be no better than the descriptive intelligence information and “single discipline” and “single country” analyses on which they can draw. The activities being undertaken and the priority questions identified for production are by and large commendable and necessary. They are in no way sufficient, however, to the scope of the problems posed by the energy factor.

10. It would obviously be inappropriate to assume that the sole provider of information pertinent to energy and energy-related policy issues will or should be the Intelligence Community. However, there is little evidence of a thorough assessment of which information needs should be met by the Intelligence Community, which would be best provided by analysts working under other public and private sector auspices, and how these streams of production should be organized to complement each other efficiently.

11. An examination of these efforts to understand (a) the energy policy of the Soviet Union, (b) the implications of the energy shortages to the LDCs, and (c) the significance of these developments to the future of the United States convinces us that US efforts in this area fall far short of what is needed. In our view, the availability of energy will *determine* the economic situation in the world in the 1985–2000 period. There is at present no *unified* effort to understand the long-term view of the Soviets regarding their energy policy or even their assessment of the US policy. Limited efforts are under way to understand Soviet R&D developments. We believe that these are relatively weak attempts which reflect an evaluation of Soviet R&D in terms of our own programs.

12. The rapid evolution of requirements for intelligence on energy systems poses two kinds of important problems. First, our lack of experience will hinder the developments of the kind of analysis important in the 1985–2000 time period. Second, the users of intelligence analysis will also require experience as to the kind of analysis that will be of greatest aid in the formulation of policy. The development of the appropriate analytical capabilities and the acquisition of the means to use analysis will require the close cooperation of the analytic and policy making communities.

Recommendations

1. The DCI should charge his staff to develop a community-wide plan for the production of energy and energy-related intelligence and

the identification of the additional resources necessary to support the framing and evaluation of US policy choices. The plan should also identify the focus of leadership responsibility to ensure that the synthesized analyses mentioned earlier will be forthcoming.

2. The DCI and his representatives should clarify with the Secretary of Energy and his representatives the information needs of the latter and the contributions each will make to the provision of needed analyses. Resolution of their relationship is important for getting on with the substantive intelligence needs posed by the energy factor. Failure to do so is likely to result in unproductive hassles about control of the turf and additional intelligence resources.

3. While all necessary work cannot be done at once, the Intelligence Community should pursue major synthesized analyses of, and devote ongoing intelligence attention to, a small number of particularly crucial questions and problems facing US policymakers. These include:

- Preparations to maintain the safety of oil transport by sea to the United States, Western Europe, and Japan.

- Feasible and acceptable US initiatives to enhance the non-nuclear energy alternatives available to the developing countries (and in particular to potential nuclear proliferators).

- Alternative adaptations by major OECD nations to the coming energy crunch, including their responsiveness to collective action proposals in cooperation with each other and the United States.

- Clarification of the extent and the economic and technical conditions for feasible exploitation and use of energy mineral endowments on a worldwide basis (in particular oil, natural gas, uranium, and coal).

- Alternative strategies to create sufficient interdependence between major energy exporters and importers to induce the latter to sharply boost extraction rates in time of emergency and to acquire the facilities on a standby basis which will make that possible in a timely fashion.

- Development of institutional techniques that will facilitate the rapid application of energy technologies developed outside the United States but knowledge of which may have been obtained through intelligence analysis.

159. Memorandum From Timothy Deal of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, August 30, 1978.

SUBJECT

Proposed Meeting on Short-Term Oil Price Strategy

State recommends (Tab A)² that we convene a meeting in September to review our short-term oil price policy. The memo notes that OPEC appears to be moving quickly toward a decision to increase oil prices. State argues that if the US hopes to influence that decision, we must reach agreement soon on our tactical position on oil price issues. We cannot defer consideration of this question until completion of the PRC study on our long-term oil price strategy, which should go forward to meet other needs.

State proposes an ad hoc meeting among NSC, State, Treasury, and Energy during the week of September 11. You chaired a similar meeting in your office last September shortly before Mike Blumenthal left on his Middle East trip.³ It was successful producing important policy decisions and a diplomatic campaign for a price freeze throughout 1978.

The week of September 11 is inconvenient because of the Camp David Summit and a heavy NSC schedule during the latter part of the week. Under the circumstances, I have suggested to State that the meeting take place on September 18 or 19. State concurs. State will coordinate with DOE and Treasury in preparation of an agenda and briefing papers. Henry Owen and I will monitor that preparation.

Recommendation

That you agree to convene an ad hoc meeting among State, DOE, Treasury and NSC on September 18 or 19 to discuss our tactical position on oil price increases.⁴

¹ Source: Carter Library, National Security Affairs, Staff Material, Middle East File, Box 66, Subject File, Middle East Oil, 12/77–12/78. Confidential. Sent for action. Transmitted through Owen.

² An August 29 memorandum from Tarnoff to Brzezinski; attached but not printed.

³ The meeting was held in October. See Document 132.

⁴ Brzezinski checked the Approve option. Quandt initialed his concurrence with the recommendation. Dodson also concurred and wrote: "fine with me; you could, of course, if you thought the process and decision making necessary warrants it, elevate this meeting to an SCC. Tim tells me State will go along with that too."

160. Paper Prepared in the Department of State¹

Washington, undated.

Strategy Toward December OPEC Price Decision*Issue*

The OPEC Ministers will meet on December 16 in Abu Dhabi to decide the price of the market crude from January 1979. We must decide on our objective with regard to the price issue and our tactical approach over the next several weeks.²

Background

Most producers last increased oil prices in January 1977 by ten percent, based on a marker price of \$12.70. Saudi Arabia and UAE raised their prices by five percent then and by a further five percent in July 1977. At the Caracas meeting last December, Saudi Arabia and Iran effectively blocked any price increase for 1978, citing world economic and oil market conditions, and have maintained that the freeze applies for the full year.

The small and middle producers only reluctantly acquiesced in the price freeze and have sought unsuccessfully to overturn it through the year. Rising revenue needs, declining purchasing power of oil earnings, and the approaching end of the agreed price freeze period have contributed to strong pressures within OPEC for a price increase at the next meeting. No member currently espouses a continuation of the freeze. The Shah has gently signalled that an increase is desired; and while Saudi Arabia has not indicated it would support an increase,

¹ Source: Carter Library, National Security Affairs, Staff Material, Middle East File, Box 66, Subject File, Middle East Oil, 12/77–12/78. Confidential. The paper is attached to a September 19 memorandum from Bosworth to the National Security Council, Department of Energy, Department of the Treasury, and the White House, explaining that the NSC Staff had asked that he distribute the paper to principals for use at the September 21 NSC-chaired meeting on short-term OPEC price strategy.

² While the report of the Interagency Task Force on Long Term Strategy toward OPEC prices has not yet been reviewed by the PRC, its conclusion is that gradual increases by OPEC in the real price of oil are not preferable to a later, sharp oil price increase by the mid-1980's. The report recommended that the U.S.:

—Reaffirm the policy of seeking to keep OPEC price increases as small and infrequent as possible within the limits of U.S. influence and advisable tradeoffs with other objectives.

—Establish the longer-term strategic goal of seeking to expand world productive capacity as a major foreign policy objective.

—Review periodically U.S. posture and tactics with respect to OPEC in the light of market developments and past success in moderating price and expanding capacity. [Footnote in the original. For the terms of reference for the task force, see Document 150.]

it has clearly not ruled one out and is not working for a continued price freeze as it did prior to the meeting last December. Saudi Oil Minister Yamani has continued to comment publicly on the desirability of small but frequent price increases as an alternative to a sudden, large market-induced increase at some point in the future.

The second issue likely to come up at Abu Dhabi is a proposal for adoption of a mechanism to adjust oil prices for exchange rate changes. Several OPEC countries have sought oil price adjustments to compensate for loss of purchasing power caused by dollar depreciation. This effort has been resisted by Saudi Arabia, and Iran and Venezuela are not supporting it. For the moment it appears unlikely that such a mechanism will be adopted. However, continued rapid depreciation of the dollar against the yen, mark, and Swiss franc could intensify pressures for an exchange rate adjustment mechanism.

Relevant Factors

In making price decisions, OPEC members take a number of factors into account. OPEC's perception of these factors also affects the influence we can have on the Abu Dhabi decision.

1. *Current and expected demand for oil.* The rate of growth of oil consumption by the major oil-importing countries has declined since 1976, and non-OPEC oil production increased by 7 percent during the first half of 1978 over the same period of 1977. As a result, demand for OPEC oil has remained roughly level during the period 1976–78 at about 31 million b/d. The market will tighten through the remainder of 1978 as a result of seasonal inventory accumulation and anticipatory buying in advance of an expected price increase. Based on assumed constant real prices, demand for OPEC oil in 1979 will continue at about this same level, as rising global consumption is largely met by increased production from the North Sea and Mexico.

Saudi production policies introduce an element of some uncertainty in the market outlook for the next 15 months. The Saudis have imposed a limit on production of light Arabian crude, on an annual basis, to 65 percent of total liftings, compared with the traditional portion of about 75 percent. Misunderstandings involving how the limit would be calculated caused Aramco to overproduce light crude earlier this year, and reductions necessary to meet the limit will further tighten the oil market during the remainder of 1978. It is possible that the Saudis could tighten the heavy/light limitation further in 1979 by, for example, reducing the allowable proportion of light crude production to 50 percent (roughly in line with the proportion of light oil in Saudi reserves).

Over the longer term OPEC has no significant fear that demand for their oil will decline as a result of short-term price increases, nor are the

revenue surplus members persuaded that oil in the ground will be less valuable than financial assets accumulated now. This expectation lends force to the demands of Venezuela, Kuwait, and others that the price of oil should be adjusted at least to maintain constant purchasing power.

U.S. demand for imported oil is an important element in OPEC's perception of future demand because of the sheer size of U.S. demand and the U.S. potential for developing alternative conventional and non-conventional energy sources. Saudi Arabia in particular asserts that it cannot be expected to pursue the pricing and production policies we desire if our demand for oil goes unchecked. Enactment of the four pending parts of the U.S. energy plan³ will be helpful in influencing the upcoming price decision and should bolster our case for price moderation over the longer term.

2. *World economic conditions.* Except for maverick Iraq and Libya, all OPEC members and particularly the leading ones, have been responsive to some degree to the impact of oil price increases on the world economy. While economic growth in the oil-importing countries can hardly look robust to OPEC, it is also unlikely that OPEC currently believes that any oil price increase at all would necessarily endanger current levels of economic activity world-wide. Nevertheless, the impact of oil price increases is significant and may act as a restraining factor in OPEC's decision as to the amount of an increase. Further analysis is underway to obtain an agreed view on the impact of price increases which can be used in our tactical approaches. However, preliminary analysis indicates that a five percent price increase for oil for 1979 could raise inflation in the Big Seven OECD countries by 0.4 percent and reduce OECD growth by 0.25 percent, thus intensifying the problems of fiscal and monetary management of those OECD economies. The trade balances of the OECD countries in 1979, even taking into account increased exports to OPEC, would deteriorate by almost \$4 billion, with the U.S. bearing about 40 percent of that total.

The oil-importing developing countries would be hit even harder. A 5 percent price increase would raise their oil bills by \$700 million in 1979 and would add \$450 million to the cost of their non-oil imports. Their export revenues would also decline because of slowed economic growth by developed countries. The net result is estimated to be a deterioration of \$1.2 billion in the trade accounts of oil-importing developing countries.

3. *OPEC Purchasing Power and Revenue Needs.* The strongest argument made within OPEC for a substantial price increase for 1979 is based on the effect of dollar depreciation and inflation on the purchas-

³ See footnote 3, Document 153.

ing power of OPEC revenues, particularly in the markets of Europe and Japan. DOE has calculated that OPEC purchasing power for oil revenues (on a trade-weighted basis) has declined to about 80–90 percent of its value in 1974 depending on the country involved, with about 7 percent of the decline in the last quarter alone. OPEC's desire to recoup the loss through an oil price increase is restrained to some degree by the fear of leading producers, particularly Saudi Arabia, that a price rise could precipitate a further dollar depreciation and by their hope that the dollar will stabilize and strengthen.

This loss of purchasing power and the stagnant demand for OPEC oil has had a direct adverse effect on the ability of OPEC members to finance growing public expenditures. For members such as Venezuela, Indonesia, and Nigeria, immediate revenue needs will tend to outweigh concern over depressing effects of a price increase on global oil demand. The Saudis are not immune to this concern and have cut back production in the past year in part to assist the sales of other OPEC members.

4. *Political and security.* The political and security stake of individual OPEC members in cooperative relations with the West may not dictate the outcome of OPEC's decision, but at a minimum it will affect the receptivity of approaches we make on price. Here the priority Saudi concern will be the post Camp David-Summit implications for the Middle East, while Iran's first concern will be internal stability. These factors can conceivably strengthen our influence on the price decision. Conversely, the amount of influence we must concentrate on gaining continued Saudi support for our Mid-East peace strategy will determine how much we can press the Saudis on the short-term price issue.

5. *Attitude of other oil-importing countries.* The convictions and approaches of other governments will reinforce or weaken the arguments and approaches we make. Several industrialized countries are unlikely to take a strong position against any price increase in 1979. German and Japanese credibility is undercut by appreciation of their currencies which has resulted in major declines in the mark and yen price of oil. They will be more disposed to counsel unspecific price moderation, stressing the threat to financial and economic stability of a large price increase. The British now have a stake in high oil prices,⁴ and they are unlikely to oppose a 5–10 percent price increase. Most oil-importing developing countries would hope that a price increase could be avoided but are unwilling to oppose it actively.

⁴ As a result of oil development in the North Sea.

*Options for U.S.*1. *Seek a price freeze*

Since no one in OPEC is espousing a freeze, it is extremely difficult to expect this can be achieved. To carry it would require a Saudi lead, probably the backing of Iran, and some neutralization of Venezuela and others pressing for a price increase. If we decide to support this option, we would have to try to convince other major consuming countries to adopt a parallel and consistent posture. We would have to act quickly with high-level *démarches* to the Saudis, Iran, Venezuela and others. Publicly we would make clear that the onus of a price hike would rest squarely with OPEC, that market conditions do not justify an increase, that we want to avoid not only an increased burden on our own shoulders but a heavier burden for the non-OPEC LDC's.

Pro

—Tactically, it is a clear U.S. position which cannot be misunderstood, which OPEC has come to expect and which might act as a restraining factor on the eventual amount of any increase; and

—It accords with public and Congressional perception that the OPEC price is already unjustifiably high.

—Achievement of the objective would be the best outcome for the world economy and for the dollar.

Con

—Governments of some important oil-importing nations might not be willing to press for a freeze under present circumstances.

—To have a chance of acceptance probably requires extremely favorable linkage or costly actions on political and security matters of concern to leading producers.

—Would damage our domestic and international credibility if the objective were publicly announced and failed.

2. *Try to hold increase below ten percent*⁵

Recognizing that some increase is highly probable, we would try to minimize severely the amount of the increase. We would indicate privately to the Saudis that while any price increase can compound global economic problems, we could consider an increase of, say, five

⁵ In a September 20 memorandum to Brzezinski attached to this paper, John Renner of the NSC Staff recommended that Brzezinski favor this option because: "a. It is in line with the decision the OPEC countries are likely to make; b. It would appear to the Saudis as the more reasonable position and would enable us to use our influence to try to persuade the Saudis to support the Camp David agreements; c. It would put us in a better position to argue for increased investment in production capacity, which is essential to avoid supply problems in the late 1980s." Renner also noted that Henry Owen agreed with his recommendation.

percent for the full year to be at the outer limits of that which the world economy could absorb without serious damage and that which would not jeopardize our efforts to strengthen the dollar.

We could at the same time raise the issue of capacity expansion, pointing out the favorable impact that a firm Saudi decision to increase investment in capacity would have on the U.S., thus mitigating somewhat the adverse reaction to a price increase. We would make parallel approaches on the price question to Iran, Venezuela, and others. In any public statements we would avoid giving any specific number as to the price increase we would be prepared to accept but would stress that any increase would have some impact on the world economy and that OPEC governments have a direct responsibility for the health of the world economy. We should make our own efforts on inflation, domestic energy policy and the balance of payments a central feature of our overall approach to the oil price increase.

Pro

—Other major oil-importing countries would probably adopt a similar posture.

—If the dollar does not decline further, our objectives may be achievable within the limits of U.S. influence and without concessions on other questions.

—Achievement of an understanding would minimize the extent of potential damage to the world economy and could settle foreign exchange and oil markets if a small increase is understood to be the probable outcome of the OPEC meeting.

Con

—There is no strong justification for a price increase in oil market conditions.

—Position could be misconstrued by OPEC as acquiescence in a larger increase or future price increases.

—Is subject to criticism from segments of U.S. public and Congressional opinion.

Tactics

Regardless of the option decided upon, many of the tactics which can be employed will be the same. These include public pronouncements, letters to key OPEC governments from the Secretaries of State and/or Treasury and the President, *démarches* by our Embassies to OPEC governments, consultations with key oil-importing countries, inclusion into agendas during meetings with key OPEC officials, coordination of importing country positions via IEA and possibly other forums. In this regard, we should take advantage of the Bank/Fund

meetings in Washington and the UNGA later this month and the opportunities for contact with key OPEC ministers.

Our approaches should cover the elements analyzed in this paper, including the state of the oil market, the impact of oil price issues on the world economy, and the relationship between OPEC's decision on oil prices and the success of our efforts to control inflation and improve our trade deficit as fundamental to a strengthening of the dollar.

161. Summary of Conclusions of Ad Hoc National Security Council Meeting¹

Washington, September 21, 1978, 10:30–11:45 a.m.

SUBJECT

OPEC Oil Prices

PARTICIPANTS

State:

Richard Cooper, Under Secretary for Economic Affairs

Julius Katz, Assistant Secretary, Bureau of Economic-Business Affairs

Treasury:

Secretary Michael Blumenthal

Anthony Solomon, Under Secretary for Monetary Affairs

Energy:

Secretary James Schlesinger

Walter MacDonald, Deputy Assistant Secretary for International Affairs

Council of Economic Advisers:

Chairman Charles Schultze

Domestic Policy Staff:

Director Stu Eizenstat

Kitty Schirmer, Associate Director

White House:

Zbigniew Brzezinski

David Aaron

NSC:

Henry Owen

John Renner

Gary Sick

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 44, Rutherford Poats File, Chron, 9–11/78. Secret. The meeting was held in the White House Situation Room.

Summary of Conclusions

1. OPEC Oil Price Increase

It was agreed that US spokesmen would make a strong case against an oil price increase for 1979, that this case would be made as persuasive as possible taking into account political and economic realities, and that Presidential involvement was not appropriate. If an increase cannot be halted, we will work toward the lowest possible price hike—hopefully taken in two stages. The Department of State will prepare a telegram to the field setting forth the points to be used in our initial discussions.

There has been no price increase since July 1977. Inflation and the depreciation of the dollar have reduced the real income of OPEC countries. The OPEC countries with high revenue needs are pushing hard for a price increase; Iran has signalled that an increase is desired; Saudi Arabia is not working for a continuation of the price freeze.

There was a consensus that if we were to go flat out against any price increase, we would lack credibility and our ability to influence the extent of the price increase would be greatly reduced. We would also not be in a good position to argue for additional investment to increase production capacity, which is essential if we are to avoid supply stringencies in the mid to late 1980s. Furthermore, the more ammunition we use against a price increase the less we would have to oppose OPEC pricing on the basis of a basket of currencies.

2. OPEC Oil Price Based on Basket of Currencies

It was agreed that the US should make a maximum effort to persuade OPEC not to price its oil on the basis of the value of a basket of currencies, that this objective had a higher priority than avoiding a price increase, and that the President's prestige should be engaged if necessary. It was also agreed that when the monetary situation stabilizes we should consider whether a properly defined basket would be to our advantage.

Treasury believes exchange markets would react badly to OPEC pricing oil based on a basket of currencies. The exchange markets are nervous and the adoption of the basket would cause a run from the dollar. Furthermore, regardless of the theoretical symmetry of the basket, the OPEC countries would not lower prices when the dollar strengthened.

However, because OPEC oil prices are denominated in dollars, the cost of oil to Germany and Japan falls as the dollar depreciates in relation to the DM and the Yen. This reduces German and Japanese production costs and improves their competitive position. Thus, at some

future date when the pressure is off the dollar, a basket might serve our interest and help improve our competitive position.²

² Brzezinski sent an undated memorandum to Carter the following week informing him of the conclusions reached at the meeting. (Ibid.)

162. Memorandum From John Renner of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, September 26, 1978.

SUBJECT

Long-term National Security Strategy on Oil Prices

On May 12 you established a task force to prepare a study on long-term policy on imported oil prices for PRC consideration. Your tasking memo is at Tab B.²

The report you requested has arrived. It is at Tab A.³ There is an executive summary. The main policy conclusions are that the US Government should:

—Establish the longer-term strategic goal of seeking to expand world productive capacity as a major foreign policy objective.⁴

—Reaffirm the policy of seeking to keep OPEC price increases as small and infrequent as possible within the limits of US influence and advisable trade-offs with other objectives.

—Review periodically US posture and tactics with respect to OPEC in the light of market developments and past success in moderating price and expanding capacity.

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 44, Rutherford Poats File, Chron, 9–11/78. Secret. Sent for action.

² Printed as Document 150.

³ Not found, but see footnote 2, Document 160.

⁴ In his September 29 memorandum to Brzezinski analyzing the study, Odom wrote that “this kind of generalized policy,—to increase global production,—is more likely to entangle us in contradictions than to help in pursuit of our interests.” He noted that Schlesinger had “serious reservations” about the study and that it would be “interesting to smoke him out.” (Carter Library, National Security Affairs, Staff Material, International Economics File, Box 44, Rutherford Poats File, Chron, 9–11/78)

The next step should be a PRC meeting, which I will set up if you agree in principle. At such a meeting, we should examine the policy conclusions of the task force and attempt to reach agreement on our main policy objectives with regard to oil prices and supply.

We should also agree on a follow-up mechanism. I recommend that, near the end of the PRC meeting, you propose that an interagency working group, chaired jointly by State and Energy, review annually US posture and tactics with respect to OPEC in the light of market developments and past success in moderating price and expanding capacity. The composition of the working group should be the same as the task force that produced the present report.⁵

Recommendation

That a PRC meeting be held to review the report and determine policy objectives and follow-up.⁶

⁵ Under this paragraph, Renner wrote: "ZB, I've asked that the effects of the dollar vs. a basket on our competitive position also be added so we can look at that very important strategic issue—these other conclusions are obvious."

⁶ Brzezinski did not indicate his decision on the recommendation. On September 27, the President issued Executive Order 12083 establishing an Energy Coordinating Committee "to provide for the coordination of federal energy policies" and "ensure that there is communication and coordination among Executive agencies concerning energy policy and the management of energy resources." The committee had 23 members and included every major Cabinet officer. (*Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, pp. 1637–1638) Carter initially doubted "the need" for such a committee, as he wrote on the June 28 memorandum that McIntyre sent to him proposing it, preferring instead to "let Schlesinger and Watson try this without a formal E.O." (Carter Library, National Security Affairs, Staff Material, International Economics File, Box 44, Rutherford Poats File, Chron, 9–11/78) The committee's first meeting was held on December 19. (Draft minutes; *ibid.*, Chron, 12/14–31/78)

163. Telegram From the Department of State to the Embassy in Venezuela¹

Washington, September 28, 1978, 2010Z.

247461. Subject: Message to President Perez re Oil Prices.

1. Chargé is instructed to seek appointment with President Carlos Andres Perez to make following points on behalf of President Carter.

2. Talking points are as follows: *Begin text*: It has come to our attention that Venezuela is seeking to persuade other OPEC countries to agree to an immediate increase in oil prices and a further increase at the beginning of next year.

3. This would be a most inopportune time for such a step. It would damage the global economy, still struggling to emerge from a period of recession. The effect would be magnified by the uncertainties that would flow from a price increase which appears unwarranted by current market conditions.

4. Perhaps most important of all a rise in oil prices at this time would place further pressure on the dollar. This would not be in anyone's interest, and would be particularly unfortunate when US Government is taking vigorous measures both to strengthen the dollar and to strengthen the international monetary system. Our Congress will, in the next few days, pass legislation that will bring into effect the bulk of energy program that you, President Carter and other world leaders have felt was needed. The Senate acted on September 27 and the bill now goes to the House. And we expect that it will next year enact additional energy legislation. The Congress is also about to give final approval to the Witteveen facility which will augment the resources of the IMF.

5. An oil price increase now could have other unfortunate implications, globally and in the United States. It would place the Arab oil producers in the unhelpful position of raising the price of oil at a point when the results at Camp David have at last provided essential forward motion toward peace in the Middle East.²

6. For these and other reasons, our government requests that you reconsider Venezuela's position on oil prices and that Minister Hernandez not continue his efforts to obtain a price increase at this time,

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D780396–1071. Confidential; Immediate; Exdis. Drafted by Rosen; cleared by Vaky, Blumenthal, Schlesinger, and Owen; and approved by Cooper.

² The Camp David Accords were signed by Egyptian President Sadat and Israeli Prime Minister Begin on September 17.

and that this issue should be deferred until the regularly scheduled review. Venezuela can in this way make a significant contribution to the maintenance of forward momentum for the solution of important world economic and political problems. President Carter intends to continue to pursue with vigor policies toward the same end. *End text.*³

Christopher

³Chargé d’Affaires John J. Crowley made the démarche to Minister of Presidency Lauria on September 29. The Minister said that he would convey the U.S. position to Pérez, who had “an extremely full schedule” that day and believed that the President “would be willing to reconsider the current” Venezuelan position, although he “doubted this would result in any change.” Crowley characterized Lauria as “literally President Pérez’s right-hand man, and his views may be taken as accurately reflecting those of the President.” (Telegram 9294 from Caracas, September 29; National Archives, RG 59, Central Foreign Policy Files, D780398–1151)

164. Editorial Note

On October 15, 1978, the U.S. Senate and House of Representatives passed the five bills that together constitute the National Energy Act of 1978: 1) the National Energy Conservation Policy Act, which funded conservation and solar energy initiatives (P.L. 95–619); 2) the Power Plant and Industrial Fuel Use Act, which encouraged the use of coal and other alternative fuels instead of oil and natural gas in both new and existing utilities (P.L. 95–620); 3) the Natural Gas Policy Act, which provided for the creation of a single national market for new natural gas sales (P.L. 95–621); 4) the Public Utility Regulatory Policies Act, which facilitated conservation through the efficient use of utility generating equipment (P.L. 95–617); and 5) the Energy Tax Act, which established incentive tax credits to induce energy conservation and the use of alternative energy sources (P.L. 95–618).

In a telegram to posts in both oil-producing and oil-consuming nations, the Department of State noted that the new programs were estimated to save 2.4–3.0 million barrels of oil per day by 1985, compared to what the United States would otherwise have required. Such savings, the Department explained, met a commitment that the United States made at the Bonn Economic Summit in July and also adhered to “the decision on group objectives and principles for energy policy adopted by the International Energy Agency at its October 1977 Governing Board meeting.” (Telegram 273815 to Brussels and other posts, October 27; National Archives, RG 59, Central Foreign Policy Files,

D780443–0651) Regarding the October 1977 IEA meeting, see Document 129.

President Carter signed the bills into law on November 9. For the text of his remarks on signing the bills, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, pages 1978–1985.

165. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, October 20, 1978, 2259Z.

266410. Subject: OPEC Price Deliberations.

1) At an early opportunity, Embassies except Abu Dhabi, Jidda, Kuwait, and Tehran should make informal approaches to key officials to convey U.S. concern about upcoming OPEC oil price decision. You should not describe your approach as a formal *démarche* made under instructions, but you may draw from points below in your dialogue. (For Abu Dhabi, Jidda, Kuwait, and Tehran: Secretary Blumenthal will visit all four posts in mid-November while Under Secretary Cooper will visit all but Jidda next week. Suggest you defer your approach at the highest level until after conclusion of these visits, since combined impact is likely to be greater in this sequence. We would appreciate your assessment of this proposed procedure.)

2) The U.S. is concerned that the pressures within OPEC may result in a decision for a price increase which would have adverse effects on the global economic and financial systems.

3) Current oil market supply and demand conditions do not warrant a price increase. Demand for OPEC oil has been in the 29.5–31 million barrels per day range for over 18 months—below projections, and for most OPEC members below desired production levels. Recent tightening of the market has been caused by inventory build-ups in anticipation of future price hikes and by Saudi restraints on production of

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D780431–0447. Confidential; Immediate. Drafted by Moore and Hart; cleared by Bosworth, Rosen, Katz, Solomon, Bergold, and in NEA/RA and EUR/RPE; and approved by Cooper. Sent to Jidda, Kuwait, Tripoli, Abu Dhabi, Algiers, Doha, Tehran, Caracas, Lagos, Jakarta, Libreville, Quito, Ankara, Athens, Bern, Bonn, Brussels for the Embassy and USEEC, Copenhagen, Dublin, London, Luxembourg, Madrid, Oslo, Ottawa, Paris for the Embassy and USOECD, Rome, Stockholm, the Hague, Tokyo, Vienna, Wellington, Baghdad, and Dhahran.

Arabian light. Neither of these reasons reflect a shortage of oil which could justify a price increase.

4) While exchange market developments have been the subject of concern in OPEC countries, there is no reason to anticipate a long run decline of the dollar relative to other currencies. On the contrary, we believe that the dollar will be strengthened as a result of measures being implemented by the U.S. and several other countries: (A) At the Bonn Summit in July President Carter reaffirmed the U.S. commitment to reduce its dependence on imported oil.² The recent passage of U.S. energy legislation should produce an oil import savings of over 2.5 million barrels per day by 1985. (B) Reduced deficit spending and tighter monetary policy measures by the U.S. will help reduce the U.S. inflation rate, as will a strong anti-inflation program to be announced later this month.³ (C) There is a convergence of growth rates among OECD countries which will help the trade balance. U.S. growth is slowing somewhat, while Japan and Europe will achieve real growth in excess of the U.S. for the first time since 1975. (D) The dollar depreciation which has already occurred, coupled with an intensive export promotion program, should stimulate U.S. exports next year. (E) Japan and West Germany have both taken fiscal measures to stimulate their economies. The Japanese Government has proposed a supplemental budget increase of about 13 billion dollars to achieve its growth target of 7 percent for 1978. Germany has also increased its fiscal expenditures by 5.6 billion dollars in 1979 and 1.6 billion dollars in 1980.

5) The U.S. trade and current account deficits are now expected to improve substantially next year. As these movements become more obvious to exchange markets, we expect exchange market conditions will improve. An oil price increase at this time would tend to offset part of these favorable developments and could put downward pressure on the dollar.

6) FYI: As Embassies are aware, projections of changes in economic growth, international trade, and inflation owing to oil price changes vary considerably, depending upon model used and assumptions made about fiscal and monetary policy responses. Thus, figures cited in following paragraphs may vary in differing analyses, but substance of basic argument remains unchanged. End FYI. Our analysis shows that for every 5 percent increase in oil prices, real GNP growth for the seven largest OECD economies as a group would decline by about 0.25 percent or some 10 billion dollars. Consumer prices in these seven coun-

² See footnote 3, Document 157.

³ Carter introduced his anti-inflation program in an address to the nation on October 24. For the text of his speech and a fact sheet issued by the White House, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, pp. 1839–1848.

tries would increase also by about 0.25 percent for each 5 percent price increase. The level of GNP losses and overall price increases would vary from country to country, but according to our estimates, none of the big seven would be immune. In addition, the climate for capital investment decisions would be more uncertain, and governments with increased oil bills would face protectionist pressures to reduce non-oil imports and would have to slow economic growth to reduce energy consumption. OPEC countries should be aware that these responses could under present conditions come about from a relatively small price hike in percentage terms.

7) A 5 percent price hike would increase the import bills of the big seven OECD countries by 5 billion dollars. Even though the impact of this would be softened by increased exports to OPEC of about 1.2 billion dollars and decreased non-oil imports of about the same amount, exports to non-OPEC countries would decrease by nearly 1 billion dollars resulting in an overall increased trade deficit of around 3.5 billion dollars. Forty percent of this deficit would accrue to the U.S. Our estimate is that the smaller industrial countries would experience a 1.2 billion dollar deterioration in their overall trade balances from a 5 percent oil price increase because of a 1 billion dollar increase in their oil import bills and reduced exports to other developed countries.

8) For non-OPEC developing countries, an oil price increase would worsen their external debt positions and current account deficits by increasing import costs and reducing exports. A 5 percent price increase would add about 700 million dollars in 1979 to their oil import bill. Price increases in developed countries induced by a 5 percent oil price increase would add 500 million dollars to the cost to developing countries of non-fuel imports. The demand for non-OPEC LDC exports in the developed countries would be reduced as well, with the revenue loss offset only in part by higher export prices. A number of developing countries would be hit particularly hard.

9) FYI: Some projections indicate that the Japanese surplus on current account in 1978 will exceed that of OPEC as a group. Should OPEC officials raise the matter of surpluses within the OECD, you should indicate that we have consistently expressed our concern to the Japanese about their current account surplus and have received their assurance that actions will be taken to reduce the surplus. The Japanese commitment at the Bonn Summit to increase growth rates was in part a response to such pressure from the U.S. and other Summit countries. End FYI.

10) For OECD Embassies: You should add that U.S. believes that in any approaches to OPEC or public comments on OPEC oil prices, our governments should point out the adverse consequences of any price

increase at all at this time, as the best means to encourage restraint in OPEC's ultimate decision.

11) If asked about reports of estimate by Secretary Schlesinger of U.S. oil import level of 9–10 million B/D in 1985,⁴ Embassies may point out (A) that the energy measures on which Congress has completed action will effectively fulfill President Carter's commitment at the Bonn Summit to have measures in effect by the end of this year that will result in oil import savings of approximately 2.5 million B/D by 1985; and (B) that the U.S. will continue to strengthen its energy efforts in the fields of both conservation and accelerated production of alternative energy sources, including through the adoption of new measures when needed. If asked about Secretary Schlesinger's statement that demand for OPEC oil would approach the upper limit of current OPEC availability in the last quarter of this year, Embassies may point out that this would be a reflection of high seasonal and anticipatory buying in advance of any OPEC price increase, and not a permanent market condition. While demand for OPEC oil will undoubtedly rise in the early 1980's, we would in fact anticipate a drop in demand in the first quarter of 1979 as compared to the fourth quarter of 1978.

Vance

⁴ Not further identified.

166. Paper Prepared in the Department of State¹

Washington, undated.

Iranian Oil Production

Summary

The situation in Iran's oilfields and loading facilities is subject to rapid change, but as of November 3 reports indicated a curtailment of Iran's exports on the order of 4 million b/d (over 10 percent of OPEC exports). The interruption comes at a time when demand for OPEC oil

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 29, Iran, 11/78. Secret. The paper was forwarded to Brzezinski on November 3 under cover of an undated memorandum from Tarnoff indicating that it was done in response to a request from Brzezinski on November 1.

has been rising sharply, substantially reducing the amount of excess capacity available earlier in the year.²

The upward trend in spot market prices has already been accelerated by this situation, but spot sales represent a small portion of oil moving in international trade and are notoriously subject to speculative pressures. If the strikers go back to work within the next week or so, the situation would give only limited encouragement to OPEC price hawks. It is likely that by some increase in liftings elsewhere, a draw-down of stocks, and the adjustment of shipping schedules, the oil companies could accommodate the loss of exports while Iran's production is being built back to normal levels.

If the strike is prolonged by several weeks, and holds production down to the current level, it is unlikely that sufficient capacity will be available to make up fully the loss of Iranian oil. Much of OPEC's excess capacity is already committed to production for the fourth quarter; it would require a politically difficult reversal of conservation policies—particularly in Saudi Arabia, Kuwait and the UAE—and a period of months to reach maximum sustainable capacity. Even with the addition of surge capacity in producers outside OPEC (including Canada and the U.S.), there would probably not be enough oil available to avoid a tight market situation and substantial OPEC price increases in December, or possibly earlier, which reflect it.

Among the most dependent on Iran as a source of oil are the Netherlands (36% of imports); Spain (23%); and Japan, Canada and the U.K. (about 16% each). Italy's dependence is 13% and West Germany's 11%. The U.S. obtains 9% of its imports from Iran, which represents about 4% of consumption. Normal oil company practice to prorate supplies among their customers, however, would help to even out the impact of diminished Iranian exports.

Israel and South Africa, which are heavily dependent on Iranian oil and have few alternatives, have large stockpiles. Nevertheless, Israel is entitled to call upon the U.S. to fulfill its commitment to make oil available if Israel is unable to locate sufficient supplies.

If the shortfall in oil supplies is perceived as likely to be deep and prolonged, any of the members of the IEA whose traditional depend-

² Strikes began in Iran on September 9 when workers left a Tehran oil refinery to demand higher wages and protest martial law. With strikes in southern Iran continuing into October, National Iranian Oil Company Chairman Hushang Ansary reported to Sullivan on October 30 that production had fallen "about a million barrels a day for each of the past three days and was now down to slightly over one million barrels." (Telegram 10560 from Tehran, October 30; National Archives, RG 59, Central Foreign Policy Files, D780446–1068) The CIA produced a study entitled "Iranian Strikes: Impact on World Oil Market" on November 1; a copy is in Carter Library, National Security Affairs, Staff Material, Middle East File, Box 28, Country Files, Iran, 11/1–21/78.

ence on Iran's oil exceeds 7 percent of normal consumption would be entitled to request the activation of the IEA's emergency sharing system.³ While the actual size and distribution of the shortfall would depend on the supply and marketing response, the historic figures suggest that if the IEA sharing system were activated, the U.S. would have an obligation to make oil available to other IEA members by foregoing some imports. Operation of the scheme, however, would be likely to reduce the potential for strained relations among the Western allies, and help dampen speculative bidding on spot markets.

The Department of Energy's "Interim Response Plan for Petroleum Contingencies"⁴ provides for a number of domestic measures to allocate supplies and restrain demand. Our primary emergency management measures would be the standby crude oil and product allocation programs and price controls, as only relatively small savings can be expected from voluntary measures.

Consideration might be given to additional actions to enhance supplies if the Iranian strike continues, including (a) suspension of oil purchases for our strategic reserves and use of the 50 million barrels already purchased; (b) an approach to Canada to liberalize oil and gas exports; and (c) approaches as necessary to Saudi Arabia, the UAE and Kuwait to persuade them to move to full capacity production. Such approaches would have to be considered in light of their likely effect on perceptions in Iran and the Middle East of our continuing confidence in and support for the Shah.

A. Consequences for Supply and Price of Oil

The world oil market was tightening even before the strikes led to the interruption in Iranian supply. World demand for OPEC oil was fairly slack early in the year, averaging only about 29 mmb/d during the first six months, but it stepped up to 30.5 mmb/d in the third quarter and is estimated to reach 31–33 mmb/d during the fourth quarter. Normal seasonal swings produce a year-end jump in oil demand, but this fall's increase also reflects purchases for the U.S. and Japanese gov-

³ Lantzke convened the energy officers of the OECD's permanent delegations on November 8 to present the IEA's views on the "drastic" decrease in Iranian oil exports. According to the Embassy in Paris, "Lantzke believed 'crisis,' should it come, was months away, even though other producers would not be able to fully compensate for 4–4.5 million b/d drop in Iranian liftings." He concluded that "there might be a shortfall, but certainly less than the seven percent reduction in supplies to the IEA area needed to trigger emergency sharing program," adding that "no major supply problem" would occur until "well into the first quarter of 1979, after discounting from present demand hoarding in expectation of an OPEC price increase." (Telegram 37123 from Paris, November 9; National Archives, RG 59, Central Foreign Policy Files, D780463–0684)

⁴ Not found.

ernment stockpile programs and speculative stockpiling in anticipation of an OPEC price increase in January.

Iran supplied an average of 5.0 mmb/d to the world oil market during the first nine months of 1978, or about 10 percent of free world production and one-sixth of OPEC's exports. Since the inception of the severe strikes in the oil fields, Iran's production has fallen sharply, reportedly providing enough for domestic consumption (0.6 mmb/d) and up to 2.0 mmb/d of exports. Actual exports have not exceeded 1.5 mmb/d in recent days. (Iranian exports of refined petroleum products amount to less than 400,000 b/d, mainly residual fuel oil surplus to domestic needs. Domestic refineries will receive priority access to Iranian crude and in any case a drop in Iranian exports of refined products would not have a significant effect on world markets.)

Impact on Price

The reduction of Iranian exports and uncertainty about future production have intensified upward price pressures in spot markets for crude oil and products. This market is heavily influenced by marginal and speculative trading, and prices could soar if the strike continues for many weeks. At the moment, however, spot crude cargoes are not available at the prices offered. Prices in spot markets influence the climate for OPEC price increases, but are not an accurate reflection of the prevailing price for oil, which overwhelmingly moves under long-term contracts. If the strike continues, within a month or so pressures in spot markets would spread to the premiums charged among oil companies for the crude they sell to one another. At the same time, some OPEC members, including Algeria, Libya, Nigeria, and Venezuela would be tempted to break ranks by raising unilaterally the price differentials applied to their oil in order to capture the benefits of a rising market. Such market pressures in advance of the December 16 OPEC meeting would powerfully strengthen the hands of members pressing for larger and more frequent increases in the general level of oil prices.

It is impossible to predict what general level oil prices could reach in the event of a shortfall prolonged for several months. This would depend not only on the amount of the supply shortfall remaining after offsetting supply increases elsewhere, but also on perceptions about the duration of the crisis. In addition, national and international measures to restrain consumption and utilize existing stocks could help curb demand.

For the sake of illustration, assuming a shortfall of 2 mmb/d after the above measures were taken and a short-term price elasticity of 0.1, it would require a 37 percent oil price increase to balance supply and demand. However, the inflationary impact on domestic prices and the recessionary effect of additional income transfer to OPEC would create

new economic conditions in oil-importing countries; each 5 percent increase in the oil price raises the global cost of oil imports by over \$6.0 billion, and the U.S. cost of oil imports by about \$2.0 billion. Depending on the fiscal and monetary policy responses to these conditions, demand for oil might be further reduced through income effects.

Supply Vulnerability

International Energy Agency (IEA) members most dependent upon Iran for their petroleum imports are the Netherlands (36%), Spain (23%), and Japan, Canada, and the U.K. (each about 16%). The dependence of other industrialized consumers is Italy (13%), West Germany (11%), and the U.S. (9%). The Netherlands and Italy are refining centers, and some of the Iranian crude they import actually is reexported to other European consumers. France—not an IEA member—depends upon Iran for about 8 percent of its oil imports. A prolonged reduction in Iranian exports is not likely to affect all consuming nations in proportion to their dependence on Iranian oil, however, because oil companies can be expected to manage stocks and adjust sourcing and destination of crude flows to spread out the effect of the reduced supply among their own affiliates and long-term customers.

The two countries with the greatest dependence upon Iran as an oil supplier—South Africa and Israel—have limited alternatives. In anticipation, both have large oil stocks. South Africa's oil stockpile may be sufficient to provide up to three years' consumption. Israel, with about seven months' supply, might nevertheless call upon the U.S. to make good on our commitment to make oil available to cover its normal domestic requirements if it is unable to find replacement supplies on the world market, since that commitment is independent of the extent of Israel's stocks.

Impact on Gas Supply

Pipeline natural gas exports to the USSR have also been suspended as a consequence of the Iranian strikes. The USSR normally receives approximately one billion cubic feet of natural gas per day from Iran, which represents about 3 percent of total Soviet consumption of 32 billion cubic feet per day. However, the Iranian gas is consumed primarily in the North Caucasus area where it is a more important component of regional consumption of about 2 bcf/d. While the USSR is a substantial gas exporter (1.7 bcf/d to Eastern Europe, 1.9 bcf/d to Western Europe), it is unlikely that Iranian-related shortages in the North Caucasus could be relieved in the short run by diverting supplies destined for other markets, export or domestic, to that area. There would be technical problems in reversing the direction of flow in the gas pipelines which are currently set up for south-to-north deliveries, and the

Soviets would probably be reluctant to jeopardize their reputation as a dependable supplier.

B. Supply Response

Oil companies are assessing the contribution which stocks could make to current supply. Free world oil stockpiles at the end of the third quarter—some 3.8 billion barrels—represented 74 days of normal consumption but they are unequally distributed among countries. About half of these could be drawn down, but the rest are working stocks needed to keep the distribution system running smoothly. Oil being transported at sea amounts to more than a 30 day supply. Stocks and oil enroute are likely to provide only limited flexibility, however, as companies will be reluctant to liquidate stocks if future supplies are uncertain.

OPEC Availabilities

Oil companies are also seeking additional supplies from OPEC producers. Producer government output ceilings and other policies hold total OPEC available capacity below the maximum sustainable production capacity. Some output ceilings are applied on an annual average basis, however, and reduced liftings earlier this year mean that in some countries output theoretically could rise to maximum sustainable levels for the fourth quarter without exceeding the ceilings. Much of this nominal slack capacity, however, was already committed to meet higher demand expected in the fourth quarter before Iranian output fell. While additional amounts of oil might be available over time, this would depend upon producer governments relaxing a number of important constraints outlined below. Many of these constraints are based upon resource management considerations and have broad political support in the host countries. Therefore, we cannot assume willingness of producer governments to suspend these policies even temporarily; oil companies have already been turned down by Kuwait, Iraq and Abu Dhabi when they sought permission to lift greater than scheduled amounts of oil to help offset the Iranian shortfall.

Before the strikes affecting Iran's petroleum sector, maximum sustainable crude productive capacity in OPEC was estimated to be approximately 36.9 million b/d, including 6.5 million b/d in Iran. With OPEC production, excluding Iran, close to 25.6 million b/d in September 1978, under-utilized productive capacity outside Iran then stood at about 4.8 million b/d.

Much of this capacity already was committed to production in the fourth quarter. For a variety of reasons—political, technical and economic—most of the remainder located in Saudi Arabia, Kuwait, and Abu Dhabi will not be immediately available as a substitute for Iranian oil. If these countries were willing to lift existing restraints on oil pro-

duction to balance market demand as a result of shortfalls from Iran, two months or so might be required to bring a large share of this additional capacity on line.

Saudi Arabia—Aramco estimates its sustainable capacity in Saudi Arabia at 10.4 million b/d, and an additional 0.3 mmb/d is the Saudi share of the Neutral Zone production. The company is operating under a set of production rules, some of which will limit fourth quarter 1978 production to a level substantially below capacity. These rules include:

- A prohibition against producing more than 65 percent Arab Light crude on an average annual basis. This limitation would restrict fourth quarter output to approximately 8.7–9.0 million b/d. Production above the 65 percent ratio in the first nine months of 1978 means that Arab Light output will have to be held to 62 percent of the total in the fourth quarter. Current sustainable capacity in other crudes is only about 3.3 million b/d.

- Individual ceilings imposed on several major oil fields. These ceilings would cumulatively restrict output below 8.7 million b/d.

- An 8.5 million b/d annual production ceiling. Since Aramco production in the first nine months of 1978 averaged only 7.5 million b/d, it will be able to produce to the level of sustainable capacity for the rest of the year.

As of late September, one Aramco shareholder company projected fourth quarter production in the range of 8.8–9.0 million b/d. The decision by the oil companies to lift larger volumes of crude in the fourth quarter was made before the strikes in Iran. If this decision is approved by the Saudi Petroleum Minister and higher Saudi authorities, much of the additional crude would go toward meeting both normal winter market requirements and liftings in advance of an OPEC price increase.

Kuwait—Sustainable crude productive capacity in Kuwait is estimated at 3 million b/d, excluding the Neutral Zone, but the government maintains an annual ceiling of 2.0 million b/d on production. Several oil companies have already asked Kuwait to provide an increase in their fourth quarter 1978 liftings because of the supply dislocation in Iran. But Kuwait has thus far refused.

The Kuwaitis, arguing that the international oil companies have taken advantage of liftings in advance of OPEC price increases to garner windfall profits, have advocated control over this practice. Thus, the Kuwaiti oil minister indicated in October that additional volumes of crude could only be obtained if the companies were willing to sign contracts of 3 years or more. Moreover, Kuwait probably would prefer a tighter oil market, at least temporarily, to strengthen its demands for a higher price increase when OPEC convenes in Abu Dhabi in December.

United Arab Emirates—Abu Dhabi has maintained stringent production ceilings on the producing oil companies because of concern for reserve depletion and proper oil reservoir maintenance. Although the Emirate has estimated sustainable capacity of almost 2.0 million b/d, it is limiting average 1978 production to less than 1.5 million b/d. The government has cut back fourth quarter entitlements for companies that exceeded their limits earlier. A political decision would now be required to reverse existing policy temporarily. The other Emirates together have only about 400,000 b/d of productive capacity, almost all of which would be produced in the fourth quarter under normal market conditions.

Iraq—Iraq has an estimated 3.0 million b/d sustainable crude productive capacity and produced close to this level in September 1978. Damage to the Iraq–Turkey 500,000 b/d pipeline resulted in some curtailment of production in October, but the pipeline returned to service in early November. Normal market demand (excluding the Iranian supply problem) will lead Iraq to produce between 2.7–3.0 million b/d in the fourth quarter. Hence, Iraq probably will not be in a position to measurably add supplies this year to compensate for shortfalls in Iran.

Venezuela—Estimated sustainable productive capacity in Venezuela totals 2.6 million b/d and the government normally maintains a production ceiling of 2.3 million b/d. With Venezuelan output expected to reach 2.4 million b/d or more in the last two months of 1978, primarily to meet U.S. winter demand for heavy fuel oil, only an additional 100,000 b/d could be made readily available to meet extraordinary demand requirements.

Other OPEC—The seven remaining OPEC countries—Libya, Indonesia, Nigeria, Algeria, Qatar, Gabon and Ecuador—have a combined crude productive capacity of about 8.4 million b/d. In September 1978, their cumulative output totaled more than 7.7 million b/d, leaving less than 700,000 b/d in under-utilized productive capacity. Much of this spare capacity would have been brought into production in any case during the fourth quarter; the volume available to compensate for Iranian supply shortages will be small.

Non-OPEC Producers

Non-OPEC oil exporters, such as the U.K., Norway, the USSR, Mexico and Trinidad, tend to produce as much as they can, and are unlikely to be able to export significant additional quantities of oil on short notice. Canada has about 400,000 b/d of capacity shut in to slow its long-term production decline, which would be available if the Canadian Government should decide to authorize further exports or exchanges with the U.S. Lesser amounts of capacity might be found in the U.S., with up to 200,000 b/d available from stripper or marginal wells

and other shut in capacity. Alaska's North Slope is now producing at the 1.2 mmb/d capacity of the pipeline, and the Naval Petroleum Reserves are producing at their maximum efficient rate of 132,000 b/d, given current facilities.

C. Contingency Plans

IEA Sharing System

The IEA provides a system for member countries (most developed countries but not France) to allocate oil equitably in an emergency to prevent a scramble which could be costly both economically and politically. The IEA emergency sharing system may be triggered whenever the group, or any member, sustains or can reasonably be expected to sustain a reduction in daily oil supplies (production plus net imports) of 7% or more when compared to Base Period Final Consumption (the current base period is July 1977–June 1978). Because of economic growth since the base period, seasonal factors, and anticipatory lifting, a stoppage of Iranian production would not reduce available oil to the IEA group trigger level.

However, Italy, the Netherlands, Spain, Japan, and the UK depended on Iran for over 14% of their oil supplies in 1977. One of them could seek to activate the selective trigger if normal rearrangements of supply and trading among oil companies did not go far enough in evening out the shortfall among countries.

Procedurally, such a country would have to supply to the IEA Secretariat detailed national oil supply data indicating a prospective shortfall of at least 7% below its base period consumption. The Secretariat would verify the data and submit a report to the Governing Board, which would have to decide whether the conditions for emergency action are fulfilled. To decide not to implement emergency measures when the conditions for such action are found to exist requires a "special majority" consisting of 3/4 of member countries and 60% of weighted votes. (The U.S. has about 1/3 of the weighted votes.)

If the IEA's sharing system is activated, the Governing Board is to decide whether the situation warrants a partial or full application of the allocation procedures. Full implementation of the system on the basis of a selective trigger would require those countries receiving oil to make up the first 7% reduction in their supplies through demand restraint measures or draw down of stockpiles.

Since the U.S. depends on Iran for a comparatively small part of its consumption, a triggering of the IEA system based on the Iranian crisis would likely obligate the U.S. to make oil available to other IEA members, an obligation which would be fulfilled by foregoing some of our imports.

U.S. Domestic Contingency Plan

The Department of Energy's "Interim Response Plan for Petroleum Contingencies" provides overall guidance for managing supply interruptions. As in 1973–74, our primary emergency management measures would be the standby crude oil and product allocation programs and price controls, as only relatively small savings can be expected from voluntary measures. The crude oil allocation program is designed to mesh with the IEA allocation system internationally and to allocate available crude oil supply equitably to all refiners. Product allocation programs would result in distribution of available products to domestic consumers.

Revisions of the emergency standby crude oil allocation, refinery yield control, product allocation, and price control regulations are underway; DOE is accelerating this process in view of the Iranian situation. DOE is also readying emergency data acquisition systems necessary to support the IEA allocation system and domestic allocation programs. Agencies involved have accelerated preparation of antitrust clearances which would enable U.S. oil companies to participate in the IEA emergency allocation system if it is triggered.

As authorized by the Energy Policy and Conservation Act of 1975, DOE has developed mandatory energy conservation contingency plans and a standby gasoline rationing plan. The mandatory demand restraint proposals now ready for transmittal to Congress would, if fully effective, curtail demand by about 600,000 barrels per day. The plans cover: restrictions on energy use for commercial, industrial, and public buildings; commuter parking management and carpooling incentives; weekend restrictions on sale of gasoline and diesel fuel; emergency boiler combustion efficiency standards; and restrictions on illuminated advertising. The proposed standby gasoline rationing plan would require a number of steps, including Congressional action, before it could be made ready for implementation.

D. Additional Measures

For the next several days, the situation bears watching as the GOI strives to restore control and production in its oil facilities and while oil companies push their production systems worldwide and probe producer governments for access to offsetting supplies. We will then have a better idea of the technical and political flexibility of supply and a sharper picture of industry patterns of sharing supplies among consuming countries. The stock position in consuming countries and the supply of crude on the high seas give us at least some time to assess next steps. If, however, production in Iran is not restored soon and price pressures continue to build, we may have to consider additional

measures to affect supply and demand. The possibilities discussed below are not exhaustive and will require further analysis.

U.S. Supply Actions—We could suspend crude oil purchases for the Strategic Petroleum Reserve, expected to average 330,000 b/d in November and December, in order to remove that much non-commercial demand from the world market, provided that the contracts made by DOD allow such flexibility. There might, however, be an additional budgetary cost in reordering these amounts of crude at a later date. In addition, although SPR holdings are not large (currently 50 million barrels) we might at some point wish to consider using these to help maintain oil supplies to the U.S. economy. Presumably we would first wish to explore the imposition of stringent conservation measures to restrain total oil demand.

Approaches to producers—If market forces and company approaches to producer governments fail to bring forth all the technically feasible alternative oil supplies to offset the Iranian shortfall, we should consider making official approaches to Saudi Arabia, the UAE and Kuwait to relax constraints on producing at full physical capacity, recognizing that the time required to reach full capacity is different for each country. We could also explore the possibility of short-term availability of increased exports of crude oil and natural gas from Canada.

Before we make approaches to OPEC governments it would be prudent to examine carefully a number of significant political considerations. The Saudis and their small Gulf neighbors are acutely sensitive to any sign of lack of constancy in our support for the Shah. They might draw undesired conclusions with respect to their own future relations with us if we appear to be premature in showing a lack of confidence in him. It would also be desirable to consult with the Shah before taking such action.⁵

⁵ On November 10, Schlesinger sent a memorandum to the President updating him on the "Iranian oil situation," including its background, the available alternative supplies, and the impact on the international oil market. (Carter Library, National Security Affairs, Brzezinski Material, Country Files, Box 29, Iran, 11/78)

167. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to Secretary of Energy Schlesinger¹

Washington, November 8, 1978.

SUBJECT

U.S.-Mexican Energy Relations

With the passage of the President's energy legislation,² we will need to develop some options for the President on strategies for negotiating with Mexico on supplies of oil and natural gas. We will not only want to be clear on our objectives, but also on our tactics both with regard to U.S. companies and regulatory agencies and Mexico.

As you know, the President places high priority on good relations with Mexico, and he has directed a Presidential Review Memorandum (PRM-41)³ to look comprehensively at all of the issues in our relationship with the purpose of suggesting a coherent strategy for dealing with them. Since U.S.-Mexican energy relations are such an important element in our overall relations with Mexico, and since energy is interconnected with other important issues in our relationship, a strategy on energy should be developed in the context of PRM-41 rather than separately. This is the purpose of the PRM exercise.

Therefore, the President would like you to present your views on an appropriate energy strategy in PRM-41, and delay taking any steps towards opening negotiations with the Mexicans until he has had an opportunity to review PRM-41 and decide an energy strategy for U.S.-Mexican relations.

Zbigniew Brzezinski

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P780176–1194. Confidential. Copies were sent to Vance and McIntyre.

² See Document 164.

³ PRM 41, "Review of U.S. Policies Toward Mexico," August 14. (Carter Library, National Security Affairs, Staff Material, North/South File, Box 32, Pastor Country Files, Mexico: PRM 41 (Policy), 10/77–11/78)

168. Summary of Conclusions and Minutes of Policy Review Committee Meeting¹

Washington, November 9, 1978, 3–4:23 p.m.

SUBJECT

Secretary Blumenthal's Trip to the Middle East²

PARTICIPANTS

State

Deputy Secretary Warren Christopher
Mr. Richard Cooper, Under Secretary
for Economic Affairs
Mr. Harold Saunders, Assistant
Secretary for Near East and South
Asian Affairs

Treasury

Secretary W. Michael Blumenthal
Mr. Anthony Solomon, Under Secretary
for Monetary Affairs
Mr. C. Fred Bergsten, Assistant Secretary
for International Affairs

Defense

Deputy Secretary Charles Duncan
Ms. Ellen Frost, Deputy Assistant
Secretary for International
Economic Affairs

Commerce

Mr. Stanley Marcuss, Deputy Assistant
Secretary for Domestic Commerce

Energy

Mr. Walter MacDonald, Deputy Assistant
Secretary for Intl Affairs

OMB

Mr. Randy Jayne, Associate Direc-
tor for National Security and
Intl Affairs

JCS

Lt. Gen. William Smith

CIA

Admiral Stansfield Turner
Mr. Robert Bowie, Dir., Ntl For-
eign Ass. Cntr.
Mr. Maurice Ernst, Dir., Economic
Research

White House

Mr. Stuart Eizenstat
Amb. Henry Owen

Domestic Policy Staff

Ms. Kitty Schirmer

NSC

Capt. Gary Sick (Notetaker)
Mr. Rutherford Poats

SUMMARY OF CONCLUSIONS

1. The group discussed the possible danger of a high-level visit to Iran at this moment. It was agreed that it was difficult to predict what the situation would be in ten days, and it was decided to maintain the

¹ Source: Carter Library, National Security Affairs, Staff Material, Special Projects File, Box 8, Henry Owen, Chron, 11/1–13/78. Secret. The meeting was held in the White House Situation Room.

² Blumenthal visited Saudi Arabia, the United Arab Emirates, Iran, and Kuwait November 16–22. Detailed reports of Blumenthal's meetings are in telegrams 8212 from Jidda, November 19; 6258 from Kuwait, November 22; 8352 from Jidda, November 26; and 3162 from Abu Dhabi, November 30. (All in National Archives, RG 59, Central Foreign Policy Files, P850040–2681, P850070–1906, P850040–2687, D780495–0142)

closest possible watch on the security situation, with this information to be passed to the Secretary's party prior to arrival in Tehran.

2. Prior to Secretary Blumenthal's departure, an interagency group will examine possible areas of economic cooperation and technical assistance where the United States might be helpful to Iran.

3. The possibility of offering U.S. technical assistance to Iran to open up the oil fields once again and get production started was examined. It was decided that this point would be checked with Ambassador Sullivan; if he approved, Secretary Blumenthal could make a low-key offer of U.S. assistance when he saw the Shah.

4. On oil prices, all agreed that an increase in oil prices of some size was probably inevitable in December at the OPEC pricing meeting. Discussion focused on what U.S. strategy should be to minimize that price increase. Specifically, should the U.S. continue to argue for a zero price increase, or should we direct our efforts toward minimizing and spreading out the price increase that we anticipated? It was agreed that Secretary Blumenthal in his meetings with Middle East leaders would make all of the arguments against a price increase and counsel extreme moderation. Mr. Eizenstat added that any indication that the United States was supporting a price increase by OPEC would undercut anti-inflation efforts in this country. He therefore suggested that "extreme moderation" should publicly be interpreted to mean no increase at all.

5. If asked about the President's pledge at Bonn to bring domestic oil prices in line with world levels by 1980,³ Secretary Blumenthal will take the line that the President has not changed his commitment, but has not decided when and how it would be implemented.

6. The oil situation would be monitored very closely in the coming days. If it appears that the Iranian strike is going to be prolonged, Secretary Blumenthal should press Kuwait, the UAE and the Saudis to increase their production as much as possible.

Mr. Christopher opened the meeting with a general overview of the situation in the four countries to be visited by Secretary Blumenthal. He proposed that rather than going country-by-country, the group focus on Iran first, then the oil pricing question, thirdly, a review of the current status of the peace process by Assistant Secretary Saunders, and finally, Mr. Cooper would give his impressions based on his own recent trip to many of these countries.

[Omitted here is discussion unrelated to oil prices.]

³ See footnote 3, Document 157.

He [Mr. Christopher] then turned to the oil price question, noting that he expected a very strong pitch in December to increase prices. The improved status of the dollar will help minimize the increase, but the Iranian shortfall will soon be felt in the oil market. He wondered how much could be done to minimize this.

Mr. Cooper said that we were in a condition of typical pre-OPEC jockeying for position and that in fact the calls for a price increase were more moderate than they had been in past years.

Secretary Blumenthal disagreed, recalling that a year ago we estimated that there was a 50–50 chance of no increase at all. Today no one is estimating that no increase is impossible. However, he agreed that OPEC members are being moderate, considering the provocation involved. He wondered if it still made sense for us to call for no increase in prices and whether this was the best tactical position we could take to in fact get no increase or a minimum increase in prices.

Mr. Cooper said that during his recent trip they had not dismissed his arguments about no price increase. The UAE had been not unsympathetic to the arguments. Iran recognized the importance of a price increase on the world economy; but, of course, oil price policy itself has become the subject of political demonstrations. Kuwait favors at least a 10% increase; however, the improved position of the dollar has taken some of the wind out of their sails on this argument.

Secretary Blumenthal noted that he had talked recently to Aba al-Khayl, the Finance Minister of Saudi Arabia, who had said that a price increase was inevitable. He wondered about our credibility in continuing to maintain the position of no price increase.

Mr. MacDonald noted that we had anticipated a five to seven percent increase even before the Iranian events. Now it's going to be at least that high.

Mr. Eizenstat said one reason for the painful steps that we took on the dollar was to give ourselves more leverage with regard to oil prices. Our position calling for no price increase was not unreasonable.

Mr. Bowie said that we have to try to bring on additional supply and that in order to gain leverage to convince the oil-producing states to increase their production, we will need to recognize the problem and thereby recognize that some increase in price is probably essential.

Mr. Cooper noted that the Government of Kuwait is concerned about taxes, not about prices. They have refused to raise production if they can't be sure of their earnings on investments in this country.

Ambassador Owen said the question is not whether or not there will be an increase—he felt that everyone agreed that there would be—or admit that there will be some. It was a tactical decision.

Secretary Blumenthal thought that it might be better to acquiesce reluctantly on some price increase and tie that to an increase in production, knowing that the price increase is probably unavoidable, and the other is critical.

Mr. Eizenstat suggested that we take the line of outlining the reasons why there should be no price increase, recognizing that we cannot determine OPEC policy, and if they insist on having a price increase they should keep it as small as possible.

Secretary Blumenthal wondered in that line whether he could let himself be drawn into a discussion of the nature of the increase; i.e., whether it should be split and spread out over an entire year rather than all at once, and so forth.

Mr. Christopher said that as soon as there is any public mention of an increase, that will become the working floor for OPEC and they will simply negotiate on from there.

Secretary Blumenthal said that as far as public position is concerned, he would intend to explain all the reasons why there should be no increase. If the question was posed to him that an increase appeared to be inevitable, he would say that if that in fact comes, he would prefer to see as little as late as possible. He felt the real issue is what gives us the best leverage to get the lowest price and that should be our strategy even if it doesn't play well in the United States. Last year we knew the Saudis were prepared to support a zero price increase, and the Shah was leaning in that direction. This year we know the Saudis feel that some increase is inevitable.

Mr. Cooper wondered if we could counsel "extreme moderation."

Secretary Blumenthal noted that that is different from calling for no price increase.

Mr. Christopher said that a possible line would be to use all arguments against any price increase and counsel extreme moderation. There were no objections to that formulation.

Mr. Eizenstat said that with regard to public opinion in this country, "extreme moderation" should be interpreted to mean a zero price increase. We should not be seen as favoring an increase, however small. On another issue, Mr. Eizenstat noted that the President had pledged in Bonn to reduce imports by 2.5 million bpd by 1985. That we can say is all right in view of the Energy Bill. Secondly, he had pledged to bring domestic oil prices up to world levels by 1980. A decision on this will be required in May of 1979. It is going to be extremely difficult in view of the inflationary nature of the decision. If asked about the U.S. pledge, what would Secretary Blumenthal say?

Secretary Blumenthal said that he would say that the President had not decided to change his commitment he made in Bonn, but when

and how to implement that decision had not yet been decided, including actions in 1979.

Mr. Cooper said that within the next week we will have to decide how much Secretary Blumenthal should push the Governments of Kuwait and the UAE and potentially the Saudis to increase production. If the situation in Iran is bleak, we should push hard.⁴

Admiral Turner wondered whether it would be better to get the Saudis to put the pressure on these countries, or whether we should do so. If the Saudis take the position that a price rise is acceptable, then Kuwait might be prepared to cooperate on production.

Mr. Poats observed that a technical meeting that day had reviewed the supply situation and concluded that Kuwait and the UAE together had only 600,000 bpd of excess production capacity and in the entire world there was only 1.7 million bpd in excess capacity, which meant that even under the best of circumstances we could not hope to overcome the entire Iranian shortfall.⁵

[Omitted here is discussion unrelated to oil prices.]

⁴ In a November 24 memorandum to the President, Blumenthal reported on his trip and commented, among other things, on the oil price issue: "Each country's position on this complicated matter differs somewhat. In each case, attitudes are shaped by a complex interplay of individual perceptions as to political interests (*vis-à-vis* the U.S., other OPEC members, LDCs, domestic pressures) and economic considerations (budget requirements, cash flow, external asset position, amount of reserves, etc.). Saudi Arabia and the UAE will be the most moderate. Iran will be passive (but probably wouldn't mind a pretty good increase). Kuwait will support those arguing for at least 10–15%. The final outcome is uncertain." (Carter Library, National Security Affairs, Staff Material, Special Projects File, Box 8, Henry Owen, Chron, 11/1–13/78)

⁵ Telegram 304969 to the Embassies in OPEC countries, December 2, instructed them to "approach key officials on forthcoming OPEC price decision, using as point of departure report on Secretary Blumenthal's trip to the Middle East and the presentation he made in regard to the upcoming OPEC oil price decision." (National Archives, RG 59, Central Foreign Policy Files, D780497–0160)

169. Letter From Secretary of Energy Schlesinger to Director of Central Intelligence Turner¹

Washington, November 11, 1978.

Dear Stan:

I recently wrote you² to express my concern over the impact of proposed reductions in FY 1980 funding for certain National Security Agency collection activities which support, among others, Department of Energy requirements. Review of the National Intelligence Topics attached to your 28 August letter³ has prompted me to express additional concerns regarding the collection, analysis and production of intelligence on foreign energy intentions, research and technology development and the priorities assigned to Community efforts in these areas.

It is important that the U.S. not be surprised by future foreign political or technological developments in energy or energy-related fields. Community reporting on the political and economic aspects of oil supply and pricing is generally adequate. However, it appears that insufficient information is being collected to allow comprehensive analysis and evaluation—in DOE or elsewhere—of potential developments in foreign energy technologies and energy resources, especially in the Soviet Union. The National Intelligence Topics reflect this situation in mentioning energy only with respect to nuclear proliferation and oil production policies and capacities. Although these are important topics, there are many other important areas of interest, for example: resource development, especially in the Soviet Union, and foreign energy technology, such as secondary oil recovery, coal conversion, and breeder reactors. My staff will work closely with the DCID 1/2⁴ Committee this Fall in order to more clearly define requirements and align priorities for collection of this essential information.

Despite the increasing importance of energy from a political, economic, and security standpoint, it appears that Community efforts in this area continue to be fragmented and lack overall coordination. Specifically, the Community lacks a suitable focal point for interaction with policy-level users of energy intelligence, for coordination and monitoring of efforts throughout the Community, and for timely dissemination of information and analyses. For instance, energy intelligence production responsibilities are spread among the Economic Intelligence

¹ Source: Library of Congress, Manuscript Division, Schlesinger Papers, Box 4, Chron: Oct.–Dec. 1978. Secret. Drafted by J.B.K. LaBarre on September 12.

² Not found.

³ Neither the letter nor its attachment was found.

⁴ DCID 1/2, February 17, 1977, is entitled “U.S. Foreign Intelligence Requirements Categories and Priorities.”

Committee, the Scientific and Technical Intelligence Committee, and the Joint Atomic Energy Intelligence Committee rather than in a single committee or working group concerned with providing a broad perspective of all factors relating to energy. Even within CIA, energy intelligence production efforts are shared by several offices, including OSI, OER, and ORPA, with no one office having overall coordination responsibility.

I believe that existing Community assets are capable of satisfying the requirements of this Department and other users for timely warning of significant foreign energy developments and for subsequent assessment of the implications of such developments. However, I feel this will require that higher priorities be given to the collection of energy intelligence and a more central focusing and coordinating of Community analysis and production efforts. I understand that the Resource Management Staff currently is conducting a study of Community energy intelligence activities which will serve as a basis for review and subsequent revision of Community priorities, efforts, and organizations. I look forward to discussing these matters with you following conclusion of the RMS study.

Sincerely,

James R. Schlesinger⁵

⁵ Printed from a copy with Schlesinger's typed signature and an indication that he signed the original.

170. Paper Prepared by the National Security Council Staff¹

Washington, November 22, 1978.

PRM 41—Energy

U.S. Interests and Key Issues

The discovery of sizeable oil and gas deposits in Mexico is a major development which can make a significant contribution to world oil supply and exert a restraining force on oil prices. Within a decade, Mexico will be at the forefront of the world's oil nations, producing at a

¹ Source: Carter Library, National Security Affairs, Staff Material, North/South File, Box 32, Pastor Country Files, Mexico: PRM 41 (Policy), 10/77–11/78. Secret. This paper is part of a larger study on the central issues affecting U.S.-Mexican relations, produced in response to PRM 41 (see footnote 3, Document 167).

level double the projected production of Nigeria, Kuwait and Libya and probably on a par with Iran. Mexico's announced "potential reserves"—160 billion barrels of oil plus gas equivalent to an additional 60 billion barrels—far exceed those of other nations except Saudi Arabia.

These new discoveries substantially alter opportunities for Mexican development and offer the United States an important new source of oil with reduced vulnerability to political and military developments beyond the hemisphere.

Mexican oil will impact significantly on the United States. Our major interest is to see Mexican oil production increase rapidly—at a rate consistent with Mexico's own hydrocarbon development program, its economic and social objectives, and world oil market requirements. In view of the Mexican policy to promote rapid oil development and production, some question whether U.S. actions to accelerate Mexican production prior to 1982 (the end of Lopez Portillo's term) will be needed. Others believe we can and should move vigorously to stimulate Mexican output.

Our interests in *Mexican gas* raise complex issues. The potential availability of 2 billion cu. feet per day of Mexican gas (rising to a level of 5 bcf by 1985 or just under 4 percent of total U.S. gas consumption) would be highly attractive under certain conditions. Whether such imports would exert a positive economic impact on the U.S. would depend largely on price and displacement factors.

From a strict supply standpoint, because National Energy Act incentives have spurred new domestic production, we do not now "need" Mexican gas, and are unlikely to need it until the mid 1980's—assuming (a) we continue to pursue a strategy of stimulating increased domestic gas production by allowing higher prices and (b) we do not wish to import Mexican gas as an alternative to imported oil.

In negotiations last year the Mexicans held tenaciously to a price of \$2.60 per thousand cu. feet, with an OPEC-tied escalator, or 20% above the comparable price for imported Canadian gas. President Lopez Portillo is strongly and publicly committed to that price and PEMEX Director Diaz Serrano has reiterated recently that Mexico now does not want to talk gas for two years. Nevertheless, whether the Mexicans will be prepared to adjust downward in view of the larger domestic U.S. availabilities has not been tested.

If Mexican gas were available below U.S. domestic gas prices, that could exert a positive impact on the cost of living in those areas serviced, although it would run counter to the production incentive provisions of the National Energy Act and might jeopardize the Alaskan gas pipeline deal. If Mexican gas were available at prices above those prevailing domestically, there would be no domestic displacement but it

could spur increased Canadian prices on the 3 bcf exported to us, at a cost of \$900 million.

While it might have some impact on domestic and Canadian production and prices, Mexican gas could represent a net addition to U.S. gas consumption, possibly replacing imported oil from the Middle East. One impact would be that \$5–6 billion per year in U.S. payments for energy imports would go to Mexico's economy rather than Middle Eastern oil countries. With 62 percent of Mexico's imports coming traditionally to the U.S., a significant part of U.S. gas payments are likely to return in the form of Mexican payments for imports from the U.S.

The *key issues in energy* therefore are both long term and immediate, e.g., (1) what policies, if any, the U.S. can or should pursue to encourage the development of Mexico's petroleum resources and increase U.S. and world access to Mexican production; (2) what our position should be on the proposed Mexican-U.S. gas deal.²

U.S. Demand for Oil and Gas

Petroleum: Between 1978 and 1990, U.S. consumption is projected to increase from 21.8 to 24.2 million barrels per day. During this period U.S. domestic production probably will decline slightly, from 10.2 to 9.8 million b/d and imports rise from 11 to 13.8 million b/d.³

Gas: Current U.S. consumption of natural gas is approximately 20 trillion cubic feet (tcf) annually. Domestic production accounts for about 19 tcf, or 95% of this amount. Imports of natural gas from Canada and high cost LNG from Algeria make up the balance. DOE anticipates 1985 domestic production still will be approximately 19 tcf feet and consumption 21 tcf.

U.S. Sources of Supply

Most oil imports come from the Middle East, which has grown rapidly as the prime source of supply for the U.S., from 21 percent in 1975 to 40 percent today. Future production by other established suppliers like Indonesia and Nigeria is expected to stagnate or decline during the 1980's. Absent Mexico or other major new sources, U.S. dependence on Middle East suppliers will continue to grow. Exports of Mexican oil could modify this trend somewhat and provide the U.S.

² The PRC discussed this paper on December 6. At the meeting, Schlesinger recommended that the United States try to reach a natural gas agreement with Mexico and that an approach on the issue be proposed for the President to discuss with Mexican President José López Portillo. Everyone "recognized the importance of resolving this issue to secure energy and ensure good relations with Mexico." (Carter Library, National Security Affairs, Staff Material, North/South File, Box 32, Pastor Country Files, Mexico: PRM 41 (Policy), 10/77–11/78)

³ Source: Energy Information Administration, "Annual Report to the Congress," 1977. The data comes from the "Base Case," (or Case C). [Footnote in the original.]

and its allies with a more diversified and balanced oil import pattern. The Middle East will continue to play the dominant role in the supply of oil to the U.S. and world markets. But Mexican production will help and could have a positive impact on world oil prices as well.

U.S. Security Interests

The strategic, political and security ramifications of even further dependence on the Middle East in the mid-80's are obvious. Recent events in Iran underline U.S. vulnerability. The summary judgement of the Department of Defense on the national security implications of Mexican petroleum is:

"Mexico provides a relatively close source of supply to meet present and future U.S. energy needs during periods of war or international crisis. We believe that much of the oil produced in Mexico will naturally flow to the U.S. because of the U.S.' geographic proximity to Mexico and its large market. However, the U.S. should offer positive encouragement to Mexico to develop its energy sources and to build infrastructure projects such as pipelines which will connect Mexico with the U.S. petroleum (liquids and gas) distribution system. Such cooperative arrangements enhance U.S. security by providing overland routes not subject to ocean interdiction."

Mexico's Oil and Gas Reserves

The full scope of Mexico's petroleum reserves is not yet determined. On the basis of exploration to date, they would seem clearly to exceed those of any country outside the Middle East. Official estimates are:

—*"Proved reserves"* of 20 billion barrels (both oil and gas in oil equivalents);

—*"Proved and probable reserves"* of 57 billion barrels (40 oil and 17 gas in oil equivalents);

—*"Potential reserves"* of 220 billion barrels (160 oil and 60 gas in oil equivalents).

By comparison, using the conservative 40 billion barrels *"proved and probable"* oil reserves, Mexico has more oil than almost all major producers, including: the U.S. (39 billion), Iraq (36), Libya (25), Nigeria (19), Venezuela (14) and Canada (8) and is exceeded only by the USSR (41), Iran (60) and Saudi Arabia (150). If its *"potential reserves"* prove out, Mexico (160) will exceed Iran and could move into a class with Saudi Arabia (150).

These are staggering estimates. The finds are so recent, however, (most of Mexico's resources are located in fields discovered since 1972 in the Reforma area of southern Mexico), experts still disagree strongly on their full extent. Because of this, some experts recommend using 100 billion barrels (more than Iran, less than Saudi Arabia) as the best rule of thumb for now. Whatever its ultimate reserves, Mexico is clearly

destined to move into the front rank of major world producers within the next 5 to 10 years—a factor which will greatly benefit the U.S. and other consuming nations.

Mexican Oil Production

Mexico's total crude oil production is slated to reach 1.6 million b/d by year's end, with nearly 600,000 b/d exports, a tripling of its output since the initial Reforma discoveries in 1972. Reforma output, from 17 fields, will account for over half the total this year, or about 950,000 b/d.

Until Lopez Portillo came into power, PEMEX had a very conservative approach to oil matters and developed resources slowly. After the 1976 elections, Lopez Portillo opted for a strategy of massive and rapid development to provide funds for Mexico's pressing social problems. He reorganized PEMEX, and appointed Jorge Diaz Serrano as Director General.

With the new orientation production and export guidelines have been revised steadily upward. PEMEX had previously indicated that it would produce 2.2 million b/d in 1982 and export roughly 1.1 million b/d. Plans now call for reaching these targets in 1980. PEMEX now expects to produce 2.7 to 3.0 million b/d by 1982, and exports of about 1.5 million b/d.

Rapid increases in output have been accomplished in the face of severe problems. Although fields are productive, initial development has been slow because the Reforma reservoirs are extremely deep, geologic conditions and terrain are difficult and infrastructure has been lacking. PEMEX now has about 150 producing wells in the area, up from about 100 a year ago.

There seem few technical constraints to higher output. PEMEX, established with the nationalization of foreign oil companies in Mexico in 1938, is an experienced oil company with impressive expertise in all aspects of the petroleum industry. It is credited with the huge Chiapas-Tabasco discoveries and development. Financially sound, PEMEX enjoys an excellent credit rating and there are no company financial obstacles to constrain rapid oil development.

Despite the very real Mexican sensitivity to foreign interference in oil matters, PEMEX uses U.S. contractors and consultants, asking only that PEMEX be clearly in control and the foreign presence be relatively unobtrusive.

Few political obstacles exist to rapid expansion of Mexican petroleum production through 1982 and Mexico is expected to continue its rapid development efforts. The President of Mexico remains the key to major petroleum decisions but the environment in which he operates is also important. Outside of PEMEX, some of the government and busi-

ness elite question the wisdom of a rapid pace of oil production and believe the substantial new oil earnings will disrupt the economy, as happened in Venezuela, Nigeria and Iran. Some fear the oil bonanza, combined with other dynamics such as the rapid demographic changes and continued high levels of unemployment could disrupt the balance in Mexican politics and society. In the years ahead, Mexican policy makers must weigh these factors carefully as they set oil policy.

By 1985, production is likely to reach from 3.5 to 5 million b/d. The more conservative estimate assumes that Mexico tries to increase production at the same rate as in 1978–82 but faces increasingly real absorption problems. The higher estimate assumes the new Administration that takes office in 1982 at least continues, and perhaps steps up, the current fast pace development effort, that there are few serious technical constraints and that Mexico is able to absorb the revenues generated.

Gas Production

This year, Mexican production of natural gas will be 2.1 billion cfd, 1.1 billion cfd of Reforma gas (associated with oil) and 1.0 billion cfd of non-associated gas.

Mexico's domestic demand for gas amounts to 1.6 billion cfd with another 0.5 billion cfd flared. Consumption has been stagnant for the past few years because of supply and distribution problems, but expansion of domestic pipeline capacity now underway will enable Mexico to increase future usage. Mexican gas production could grow to 8.3 bcf by 1985. With strong Mexican Government stimulation, domestic demand could grow to 2.5–3.0 billion cubic feet by 1985.

Status of Natural Gas Import Proposal

PEMEX signed a Memorandum of Intention in August 1977 with a consortium of six U.S. pipeline companies to sell 2 bcf daily of natural gas. The proposal called for a 6-year renewable contract with a border price equivalent to the price of #2 fuel oil in New York Harbor (then \$2.60 per thousand cu. feet, now \$2.87) and an escalator clause also tied to the price of #2 fuel oil. U.S. officials were concerned by its impact on energy legislation and the price of the larger quantities of natural gas imports from Canada, priced at \$2.16 per mcf at the border and had strong reservations concerning the proposed price escalator because of its tight link to OPEC-determined oil prices. The U.S. and Mexico could not reach agreement and the Memorandum expired. Lopez Portillo, who had staked personal prestige on the gas deal as a sign of the advantages of close cooperation with the U.S., was bitterly disappointed at our failure to reach agreement. We had indicated, however, willingness to resume negotiations whenever Mexico requested after passage of U.S. energy legislation.

Without exports to the U.S. Mexico will be forced to adopt several measures to maximize domestic use and avoid flaring and could conceivably attempt to look elsewhere for exports. With the gas deal still in suspense, Lopez Portillo committed Mexico to expanded domestic usage. Construction of the gas pipeline from the Reforma area to Monterrey has begun and should be completed by the end of 1979. A possible second pipeline would increase through-put to over 4 billion cfd.

The building of the pipeline to high energy consumption areas gives Mexico two options: to use the gas domestically (including the shutting in of non-associated gas), or to add a spur to the U.S. border should an export agreement be reached. Increased domestic use would involve substantial conversion costs, however, and force Mexico to use such energy for lower priority requirements. The use of cheap gas to subsidize the power costs of domestic industry—and make exports more competitive—provides an attractive option for Mexican planners.

Privately, Mexican officials have made clear that at some point they expect substantial quantities of gas surplus to Mexico's needs to be available for export. It is difficult to tell whether Mexico would agree at present to the 2 billion cfd gas deal on terms acceptable to us. Given Lopez Portillo's desire for foreign exchange to finance Mexico's development before 1982, such a gas agreement still may be negotiable, if we judge it to be in our interests. But we have seen strong evidence that we may be too late—that Mexico may have decided to go ahead on its own without a U.S. linkage on gas.

Importance of Oil and Gas to Mexican Development

Mexico's new oil and gas discoveries represent a dramatic opportunity to deal with the problems of underdevelopment. The government now seeks to develop its large-scale reserves as rapidly as possible consistent with sound oil management. Although well aware of the problems that rapid oil development could entail, the Lopez Portillo Administration is determined to achieve full benefit of its new petroleum resources to attack serious socio-economic problems.

We judge that Mexico could produce enough crude, 5 million b/d, to support oil exports of about 3.4 million b/d in 1985 and gas exports of nearly 5 billion cfd. Earnings from oil would approach \$30 billion by 1985 (assuming oil prices increase 3 percent annually in real terms) and gas sales another \$7 billion (assuming sales priced at \$2.60 per thousand cubic feet plus an escalator tied to the U.S. rate of inflation) bringing total oil and gas revenues to \$37 billion annually by 1985 (or about \$20 billion in constant 1978 dollars). Taking a more conservative projection (oil exports limited to 2.5 million b/d, and gas to 3 bcf) oil and gas revenues in 1985 will be \$25 billion. This compares with export earnings from all sources of \$5 billion in 1978.

OPEC Membership

Mexico determines its own pricing and production policies. Like all exporters, Mexico follows OPEC price leadership on oil. It is unlikely that Mexico would join OPEC, however, because of its stubborn resistance to any outside influence on its oil policies. It already gets the benefits of high OPEC prices on oil, without paying the dues of membership, much as it benefits from GATT tariff reductions without joining GATT and gets GSP which OPEC members do not. Mexico is determined to maintain the independence of its petroleum industry and resists adamantly any outside influence, or the appearance of yielding to foreign pressure, on its oil and gas policy.

U.S. Influence on Mexican Energy Policies

The PRM-41 review has revealed disagreement among the agencies on whether the U.S. will be able to influence the pace of Mexico's petroleum development. Deep-seated political sensitivities in Mexico seriously constrain our ability to influence the evolution of Mexican energy policies. These sensitivities are based on the long-standing fear of domination by the United States. Thus, the level of Mexican production will be determined basically by Mexico's perception of its national interests. Mexican internal political factors, especially the need for revenue to finance labor-intensive development and other programs, could push the Mexicans to expand production. Nevertheless, prospects for direct U.S. influence do not appear to be great, unless we are prepared to play some heavy chips.

Although Diaz Serrano has stated categorically that Mexico does not wish to discuss the export of gas for two years, Mexico will have more gas than it can consume domestically at some point. Essentially, time is on our side since the price which Mexico seeks for its gas will converge with the U.S. market price after deregulation in 1985, and the current surplus of gas will come to an end.

We are, however, the only feasible external market for Mexican gas (unless the Japanese are prepared to invest heavily in liquification facilities) and the natural market for Mexican oil and this close symbiosis plus the need for upfront gas and oil revenues to finance Mexico's development in the 1980–82 period suggest a degree of common interest.⁴

⁴ On December 12, Brzezinski sent a memorandum to members of the Cabinet informing them that the President approved the conclusions of the December 6 PRC meeting, including reaching an agreement on natural gas with Mexico. Brzezinski asked, among other things, that the Departments of State and Energy coordinate with each other to "prepare a short paper which suggests a strategy for concluding an agreement with Mexico on the importation of natural gas." He added: "This should also include talking points which the President could use with President Lopez Portillo and recommendations for how to relate the President's trip to the conclusion of such an agreement." (Carter Library, National Security Affairs, Staff Material, North/South File, Box 32, Pastor Country Files, Mexico: PRM 41 (Policy), 10/77–11/78) The President made a State visit to Mexico February 14–16, 1979. See Document 190.

171. Summary of Conclusions of Special Coordinating Committee Meeting¹

Washington, December 7, 1978, 3:30–5:30 p.m.

SUBJECT

Strategic Petroleum Reserve

PARTICIPANTS

The Vice President

State

Julius Katz, Assistant Secretary for Economic and Business Affairs

Harold Rosen, Director, Office of Fuels and Energy

OSD

David McGiffert, Assistant Secretary for International Security

Ellen Frost, Deputy Assistant Secretary for International Economic Affairs

Treasury

C. Fred Bergsten, Assistant Secretary for International Affairs

Philip Verleger, Special Assistant to the Assistant Secretary for Economic Policy

Energy

Secretary Schlesinger

Alvin Alm, Assistant Secretary, Policy and Evaluation

Carlisle Hystad, Chairman, DOE Task Force on Strategic Plans for the SPR

JCS

Lt. Gen. William Smith, Assistant to the Chairman

CIA

Robert Bowie, Deputy Director, National Foreign Assessment Center

John Eckland, OER Analyst

OMB

Dr. John White, Deputy Director

Eliot Cutler, Associate Director for Natural Resources, Energy, and Science

Council of Economic Advisers

William Nordhaus, Member

DPS

Kitty Schirmer

White House

David Aaron—Chairman

NSC

Rutherford Poats

James Thomson

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 44, Rutherford Poats Files, Chron: 12/5–13/78. Confidential. The minutes of the meeting, which was held in the White House Situation Room, are *ibid*. The meeting was held in response to the President's request for a review of a December 2 OMB memorandum and a Department of Energy proposal concerning the Strategic Petroleum Reserve. (Memorandum from Aaron to Carter, undated; *ibid*.)

SUMMARY OF CONCLUSIONS

An expanded NSC Special Coordinating Committee examined the risks and costs of differing proposals of the Department of Energy and OMB with regard to the fourth increment of the Strategic Petroleum Reserve. OMB advocated restatement of the SPR goal as one billion barrels worth of protection, including 750 million barrels (mmb) of USG storage and 250 mmb worth of private endurance through use of private stocks, fuel switching and reductions in use of oil in an emergency. DOE advocated proceeding with investment in FY 1980 on the fourth increment of 250 mmb of SPR storage, adhering to the announced goal of 1,000 mmb of USG-held SPR oil by 1985 or soon thereafter.

The NSC/SCC review examined four issues:

1. *Potential military or political threats of extreme and prolonged oil supply interruption.* Such threats, sufficient to give significant value to a fourth 250 mmb of USG-held oil, were judged to be of very low probability but they could not be discounted entirely. No participant contended that such supply interruptions would endanger US national security if the SPR were limited to 750 mmb of USG-held oil. In such circumstances vital US military and economic requirements could be met by allocation measures. Rather, the issue was judged to be economic and political: how much popular inconvenience and lost production could be avoided by the extra 250 mmb?

2. *The potential costs of adapting to oil supply reductions beyond amounts offset by SPR releases.* In the extreme threat scenario, there is a difference of 700,000 b/d in US oil supply between the DOE and OMB proposals. Stringent allocation of gasoline would be required whether the SPR were 1,000 mmb or 750 mmb, but general gasoline rationing would be more likely with the smaller SPR. Further study of the best means of distributing the marginal shortage should be undertaken by DOE and OMB.

3. *The costs in strategic and foreign relations terms of restating the SPR goal as proposed by OMB.* The OMB option would not violate international agreements nor would it be inconsistent with plans of other IEA countries. It would, however, conflict with clearly declared US objectives. Most participants believed such a change would be interpreted as a weakening of US oil security. Its announcement at a time of heightened instability in the Middle East was particularly troubling to several participants.

4. *Costs and benefits of postponing budget action.* No one argued that national security will require completing the full SPR by 1985. Further slippage of the schedule would cause nominal cost increases—possibly real ones in oil fill in a tightening world market. If given a choice of announcing a change to a 750 mmb USG-held SPR in January or, alterna-

tively, to defer this decision and not commence spending on a fourth increment until FY 1982, all participants except OMB preferred the latter.²

² On December 7, Brzezinski sent the President a memorandum informing him of the conclusions reached at the meeting. (Ibid.)

172. Telegram From the Department of State to the Embassies in Saudi Arabia, Iran, the United Arab Emirates, and Kuwait¹

Washington, December 8, 1978, 2008Z.

310048. Subject: Follow-up to Secretary Blumenthal's Middle East Trip. Ref: State 304969.²

1. Prior to departure of key officials for OPEC meeting in Abu Dhabi, addressee posts should make high-level approach to key officials concerned with forthcoming OPEC price decisions to reiterate highest level U.S. concern that decision fully reflect considerations presented by Secretary Blumenthal during his recent visit, as summarized in reference cable. Objective should be to make sure officials clearly understand depth of U.S. concern on the issue. We believe approaches should be made as soon as possible in order to have maximum impact on pre-meeting maneuvering and decision process.

2. In making approaches, posts should convey Secretary's appreciation for the courteous hearing and hospitality he received everywhere and for the public statements by the Oil Ministers of Saudi Arabia and the UAE that they would advocate continuation of the present price freeze.

Christopher

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D780508–0153. Confidential; Immediate. Drafted by Ernest Chase (Treasury Department), cleared by Katz and in the Treasury Department, and approved by Cooper.

² See Document 168 and footnote 5 thereto.

173. Memorandum From Rutherford Poats of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Aaron)¹

Washington, December 12, 1978.

SUBJECT

Long-Term International Oil Price Strategy

On October 20, 1978, after submitting a summary report to the President on a DOE-led interagency task force paper on this subject,² Zbig asked John Renner to identify key issues and options for a PRC meeting based on this paper.

At the same time you asked Renner to consider the effects of continued use of the dollar in OPEC pricing, as opposed to a basket of currencies, on the costs of production and consequent industrial export prices of Japan and Germany. This question arose from the paper's recommendation, endorsed by the September 21 ad hoc NSC meeting,³ that we should strongly encourage continued use of the dollar as the denominator of OPEC prices. Treasury undertook an econometric study of this question and now has reported that the declining relative cost of imported oil in Germany and Japan (resulting from the appreciation of the Deutsch Mark and yen against the dollar) has offset about four percentage points of Germany's 38% Deutsch Mark appreciation and about 5–10 percentage points of the Japanese yen's 55% appreciation.⁴ These are relatively small competitive benefits for those two countries as compared with competitive disadvantages of their currencies' appreciations. They also have realized competitive benefits from dollar-denominated contracts for other imported industrial raw materials. The sum of these benefits would go a long way toward explaining how Germany and Japan have remained competitive in industrial exports. However, the particular advantage that derives from dollar pricing in oil is not so great as to outweigh the threat to our dollar-defense program of OPEC's abandoning the dollar at this time.

In response to Zbig's request, I have reviewed the interagency paper and found no issues that, in my judgment, require Presidential decisions. The summary of conclusions, circulated after the ad hoc

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 44, Rutherford Poats Files, Chron, 12/5–13/78. Secret. Sent for information.

² See Document 162.

³ See Document 161.

⁴ The Treasury Department report was not found.

meeting of September 21, was focused on the immediate issues of how to resist a large OPEC price increase for 1979 and how to persuade OPEC not to switch to a basket of currencies. The other policy recommendation made by the paper was that the US Government “establish the longer term strategic goal of seeking to expand world (oil) productive capacity as a major foreign policy objective”. Bill Odom, in a memorandum at that time,⁵ pointed out that this policy formulation was susceptible of various interpretations, including US support of expansion of Soviet oil production without regard to other aspects of US-Soviet relations. We are currently dealing with the application of this general policy to Mexican oil production, and we occasionally return to this subject in considering US-Saudi Arabian relations. In the IEA and the World Bank we are encouraging joint measures to stimulate greater oil and gas production in less developed countries. In short, we are adapting the general policy suggested by the paper in specific cases.

If you agree, the record will show that work has been completed on the task force paper, “Long Term Oil Price Strategy”.

⁵ See footnote 4, Document 162.

174. Memorandum From Secretary of Energy Schlesinger to President Carter¹

Washington, December 14, 1978.

SUBJECT

Mexican Gas—A U.S. Strategy

The purpose of this memorandum is to present a proposed strategy and analysis regarding negotiations on the possible purchase of Mexican natural gas.

¹ Source: Carter Library, National Security Affairs, Staff Material, North/South File, Box 29, Pastor Country Files, Mexico, 12/1–14/78. No classification marking. Copies were sent to Vance and Brzezinski. At the top of the first page, the President wrote: “No copies to be made except the 3.” He also wrote: “Jim—Good summary. Get State and NSC comments to me.”

Background

In August, 1977, Pemex signed a Memorandum of Intent with six U.S. gas transmission companies for the sale of up to 2 billion cubic feet per day (BCFD) of Mexican gas. At a time of perceived gas shortages, these predominantly production-poor companies reached agreement with the Mexicans on a price that was simply too high from a national perspective. This price, for example, would have created serious political difficulties with the Canadians from whom we currently import about 1 tcf of gas annually.

The initial border price and subsequent escalation were tied to the equivalent price of #2 fuel oil. President Lopez-Portillo has publicly cited \$2.60 as the Mexican asking price, but the actual formula price has not been below \$2.70 over the past year and is currently at approximately \$2.90. The price and escalation clauses would have come into effect when the purchase contracts were signed—some 18 months before we would have begun to receive significant quantities of gas.

The Mexicans and the U.S. companies were advised by the Administration before the memorandum was signed that the price/escalation formula was unacceptable to us because (1) it was substantially higher than the price we were proposing to pay for new U.S. gas; (2) it would have threatened the \$2.16 price we pay Canada for even larger volumes of gas; and (3) it would have tied the price of the gas to OPEC oil pricing decisions.

In October, 1977, Senator Stevenson² introduced a resolution in Congress blocking an Ex-Im Bank credit to Mexico for financing a gas pipeline to the U.S. on the grounds that the Mexican price was too high. The Mexicans reacted sharply to this, charging that the U.S. was trying to blackmail them on the price issue.

In November, 1977, direct discussions were initiated with the Mexican Government aimed at reaching policy agreement on the general outlines of a gas transaction. The fact that the actual contracts would still be subject to U.S. regulatory approval was stressed. During these discussions, the Mexican negotiators accepted a U.S. proposal for a \$2.60 price, to begin when substantial volumes of gas begin flowing, with escalation tied to a general price index (WPI) rather than No. 2 fuel oil. However, this proposal was subsequently rejected by Lopez-Portillo who had come under domestic political pressure over the proposed export of Mexican gas to the U.S. In view of the continuing debate on the National Energy Act, it was jointly agreed by both governments to indefinitely suspend the gas discussions, allowing the Memorandum of Intent to expire on December 31, 1977.

² Senator Adlai Stevenson (D-IL).

In your letter to Lopez-Portillo in August (Tab A),³ you stressed our continuing interest in importing Mexican gas, but indicated that the matter should be deferred until Congress had completed action on the energy bill. There have been no formal discussions with the Mexicans since the passage of the energy bill.⁴

Lopez-Portillo has said publicly that because he was unable to reach an acceptable agreement with the U.S., Mexico would complete the pipeline from the Chiapas-Tabasco fields only to Monterrey and restructure its industry to expand domestic gas consumption. Natural gas, which in fact is now being flared, would replace residual fuel oil used in industry. Thus, the maximum value of this gas in Mexico, if it is not flared, is equivalent to lower-priced residual fuel oil even though the Mexicans propose to charge U.S. companies the btu equivalent of higher-priced distillate oil.

The residual oil displaced by gas would be exported. Estimates indicate they could expand domestic consumption by perhaps 1 BCFD, although at some cost in terms of infrastructure investment and foreign exchange losses arising from the lower export value of the residual fuel oil they would free for export. The Mexicans could also reinject limited quantities of associated gas in the Chiapas-Tabasco field and shut in the non-associated gas fields in Northern Mexico. But our intelligence reporting and private remarks by other Mexican officials confirm that the Government recognizes the substantial costs associated with a domestic option. The Mexicans also appear to realize that as oil production rises toward the 1982 target (2.0–2.5 mbd), they will have substantially more associated gas available than they had earlier anticipated.

In view of the current surplus of domestic gas, the projected surplus of Mexican gas, and the rising price of domestic gas supplies, it is inevitable that sometime in the mid-1980's Mexican gas will flow into U.S. markets to the economic advantage of both countries. In view of these realities, it is important that the United States not find itself in the position of over-paying for this gas by being too anxious to conclude an agreement. It would not be in the long-term interests of either country to rush into a gas sales agreement that contains inappropriately high prices.⁵

Analysis

Domestic Gas Market: With the Natural Gas Act now in place, there has been a major shift in the U.S. domestic gas market. Up to 1.0 trillion

³ Sent August 18; attached but not printed.

⁴ See Document 164.

⁵ Carter wrote "I agree" next to the last sentence of this paragraph and underlined "either country."

cubic feet annually (2.7 BCFD) of gas which was formerly locked up in intrastate markets is now available to the interstate system. To attain the projected savings on imported oil, it is important to ensure that this gas is used. Those industrial customers who went off gas in the winter of 1976–77 must come back on over the next several months. A substantial volume of new gas is expected to be produced over the next several years in response to the price incentives in the Natural Gas Act. But the U.S. must ensure that potential investors in new gas exploration and production are confident that there will in fact be a market for that gas.

The U.S. companies would contract for the Mexican gas on a take-or-pay⁶ basis. Therefore, there would be a strong tendency for the high-cost Mexican gas to be sold first, with new U.S. gas (including Alaskan gas) taking the role of residual supply. This would be contrary to both domestic energy objectives—to maximize U.S. gas production—and the nation's balance of payments interests. Under the provisions of the Natural Gas Act, a portion of the Mexican gas price will have to be paid by industrial customers, but the bulk of it will be paid by all consumers on a rolled-in price basis. Thus, as long as the price of Mexican gas is substantially above the *average* price of U.S. gas, residential consumers would be, in effect, subsidizing the consumption of high cost imported gas by industrial users.

In general, the large volumes of old, lower-priced gas in the interstate market will be available for many years to subsidize higher cost gas supplies. To the extent possible, that subsidy should not be used extensively for imported natural gas. The gas price proposed by Mexico would absorb a substantial portion of this subsidy.

The U.S. gas companies are willing to pay virtually any price to Mexico as long as their average price (Mexican gas plus all other gas in their systems) remains competitive with the cost of alternative fuels available to their industrial customers. They believe that #2 fuel oil is the most likely alternative fuel against which they will be competing and are, therefore, comfortable with the Mexican price formula.

The longer-term view of the U.S. gas market is less clear. Estimates of domestic gas supply and demand through the 1980's vary. But it seems likely that by the mid-1980's, Mexican gas would displace not domestically produced gas, but rather alternative fuels—largely oil. For the foreseeable future, the marginal natural gas supplies in the U.S. will compete with residual fuel oil rather than higher-priced distillate oil. In most markets, if the delivered price of the gas exceeds the price of residual oil there would be a sharp reduction in natural gas demand

⁶ Carter underlined "take-or-pay" and wrote a question mark next to it.

and a consequent increase in oil imports. Over the longer-term, and depending on the volumes of gas coming from Mexico, Mexican gas would be competing for those industrial markets where lower-priced residual fuel oil is used.

Because residual fuel oil is the most likely substitute fuel in the U.S. and represents the highest value for use in Mexico, the U.S. should seek a Mexican gas price no higher than the btu-equivalent of residual fuel oil. That price would be approximately \$.70 per MMBTU less than the distillate price proposed by Mexico.

Canadian Gas: In addition to these domestic considerations, the U.S. must be sensitive to the possible impact of a deal with Mexico on the price of gas imports from Canada. The Canadian gas price is now \$2.16/mcf for about 1 tcf per year. The Canadians are likely to raise this price next year, possibly to the \$2.35 to \$2.45 range. But that price will still be substantially lower than that sought by Mexico. It is not likely that the Canadian government could long resist domestic pressures to bring its export price up to the level obtained by Mexico.

In addition, Canada's National Energy Board (NEB) is currently considering a number of proposals for the export of additional gas to the U.S., including a proposal for delivery of new supplies of Canadian gas through pre-building the southern legs of the Alcan line—a move which we favor because it would enhance significantly the financiability of the Alcan project.⁷ Agreement in the next few months to the Mexican asking price would impact directly on the price which Canada might demand for these incremental exports.

Alaskan Gas Project: Some U.S. gas transmission companies view Mexican gas as an alternative to Alaskan gas. The Alcan project is already suffering from uncertainty over the marketability of the Alaskan gas in the lower-48. One of the keys to the success of the Alcan project will be the ability of the project sponsors to negotiate firm contracts for the Alaskan gas with U.S. gas transmission companies. To the extent that U.S. companies give priority to Mexican gas, the failure of the Alcan project becomes an increasing possibility.

This is particularly important in view of the fact that it is clearly in the long-run energy and economic interests of the nation to bring Alaskan gas to market. While it is true that the cost of the Mexican gas will be less in the mid-1980's than the cost of delivered Alaskan gas, the costs of Alaskan gas will decline significantly over time as the capital costs of the pipeline are amortized. The Mexican gas, on the other hand,

⁷ A pipeline project that would follow the Alcan Highway across Alaska and Canada to deliver natural gas to the continental United States.

will continue to increase in price as the world oil price increases. Since the incremental cost of producing Alaskan gas is low, the Alaskan gas will require a lesser expenditure of our real resources and therefore will have a higher national economic benefit than Mexican gas. These long-range considerations underscore the undesirability of a Mexican gas price that would subsidize imported gas at the expense of the Alaska project.

Next Steps

The Mexican position has been based on the premise that the U.S. is desperate for Mexican gas. That is clearly not the case. Based on our current domestic supply situation, the U.S. can afford to wait a significant period of time before purchasing Mexican gas. In fact, the rising domestic price for gas coupled with the growing Mexican surplus will inevitably draw Mexican gas into the U.S. market by the mid-1980's.

On the other hand, the U.S. should also stand ready to accept Mexican gas at an earlier time if a reasonable price can be negotiated. This country has a strong interest in rapid Mexican industrialization which will impact on virtually all areas of our relationship. We also want to assure that an inability to dispose of associated gas—other than by flaring—does not become a potential constraint on Mexican oil production in the late-1980's.

There are also substantial economic costs to Mexico in foregoing gas sales to the U.S., both in terms of lost foreign exchange earnings and the investment expense of increasing domestic gas consumption. It would not be economically prudent for the Mexicans to continue flaring increasing volumes of their natural gas production. Lopez-Portillo wants to maximize foreign exchange earnings by accelerating the oil production schedule—and if possible by selling gas—in order to finance a greatly expanded industrialization effort. His recent initiative in suggesting⁸ new discussions confirms that the gas transaction is at least as important to Mexico as to the U.S.

Therefore, I believe that we should try to negotiate an agreement with Mexico which would:

1. Meet Lopez-Portillo's political problem;
2. Assure us of the availability of Mexican gas at a price competitive with the btu equivalent of the most realistic long range substitute fuel—residual fuel oil; and
3. Minimize any adverse impact on our present and future imports from Canada.

⁸ Carter underlined "recent initiative in suggesting" and wrote a question mark next to it.

Negotiating Strategy

With these objectives in mind, I would propose to negotiate with the Mexican leadership in an effort to see if an acceptable agreement can now be achieved.

Starting Price of \$2.60

In view of the importance of the \$2.60 price to the Mexicans, the initial U.S. position could be a \$2.60 per MMBTU price when the gas starts flowing in 1980, escalated by the world price of crude oil, or distillate, or a combination of one-half the GNP deflator and one-half the price of oil. In the 1985 timeframe (the longest term the Mexicans are likely to accept), the difference between these escalators will be insignificant as long as world oil prices do not rise faster than inflation. This formula would also include a limitation of 15 percent⁹ on the price increase in any given year.

This approach addresses some central Mexican concerns and is acceptable from the U.S. point of view. It allows the Mexicans to cite a \$2.60 starting point, a number which for them has assumed political significance. Given his public statements, Lopez-Portillo cannot accept a lower price and may seek a higher level.

As shown on the attached table,¹⁰ the \$2.60 starting price in 1980 is \$.59 below the current Mexican proposal. It is also at the low end of the residual fuel oil price range in 1980 (\$2.69 compared to \$2.60–\$2.85) and \$1.55 less than the current Mexican formula in 1985. In 1980, however, this price would be approximately \$.30 higher than the current Canadian price adjusted for a 7 percent inflation rate. If the Canadians raise their price to \$2.45 sometime next year, then the difference declines to \$.15.

Modifications

Because this price trajectory is substantially below the initial Mexican proposal and similar to the last offer made to the Mexicans in September of 1977, this proposal may be difficult for the Mexicans to accept.

Modifications to this initial proposal might include adding a provision that in no event could the Mexican price be lower than the Canadian border price. The Canadian price, however, is not likely to exceed the \$2.60 price. The Canadians are having difficulties in finding markets for existing export commitments at the current price of \$2.16 per mcf. Since they are currently reluctant to press for still higher

⁹ Carter underlined "15 percent" and wrote "Too high?" next to this sentence.

¹⁰ Entitled "Projected Mexican Gas Prices"; attached but not printed.

prices, it is more likely that the Canadian price will follow the Mexican price.

Another modification might include offering the Mexicans the highest of the \$2.60 price, the Canadian border price, or a third option such as the onshore production well price under the Natural Gas Policy Act (today \$1.98 per MMBTU; in 1980, \$2.19 per MMBTU) at the well-head in Mexico, plus transportation charges to the border. At constant world oil prices, this price trajectory is very close to the \$2.60 option. Under this approach, an expected negotiation point would be the appropriateness of the transportation charge used in this formula. The Mexicans can be expected to claim the transportation charge is in the range of \$.80, while our estimates, depending on rate of return and other variables, might range as low as \$.30. For purposes of this calculation, a declining rate starting at \$.50 per mcf was used.

The U.S. onshore production well price plus transportation option offers added flexibility in minimizing potential Canadian price increases. Allowing for a \$.30 or more transportation charge for Canadian gas from Alberta to the border compared to the estimated \$.50 Mexican charge reduces the differential between the Mexican gas price and the Canadian price to less than \$.20.

Residual Oil Price

If any or all of these options prove unsatisfactory, tying the gas price to the btu equivalent of residual fuel oil would meet a large portion of the U.S. and Mexican objectives.

Because of continuing surpluses brought on by increasing use of heavier crude oils and growing demand for lighter products, the residual oil market over the course of the next few years will in all likelihood rise at a slower rate than that of distillate.

Because the best estimates of residual oil prices in 1980 are above both the \$2.60 starting point and the onshore production formula, this price closes about 40 percent of the gap between the proposed U.S. starting position and the original Mexican position, as indicated on the attached chart. This option brings the gas purchase price up to the btu equivalent of the appropriate substitute and may provide the Mexicans with a politically feasible starting point. However, it leaves a gap of approximately \$.30 to \$.40 per mcf between the 1980 inflation-adjusted Canadian price and the Mexican price.

Possible Additional Incentives

—The Ex-Im Bank credit to finance U.S. sales of additional pipe and other equipment needed to complete the line to the U.S. could possibly be re-established.

Mexico has not had difficulty obtaining financing elsewhere, but Ex-Im Bank credit could be politically useful to Lopez-Portillo. I will consult with Senator Stevenson on this.

—Front-End Payments for future gas deliveries.

Front-end Payments maximize Mexican earnings in the short-term when they are of greatest interest to Lopez-Portillo. The Japanese have obtained access to the Mexican oil market through such front-end payments. Tenneco¹¹ officials have indicated in confidential discussions with me that they would be willing to enter into a \$1 billion advance payment arrangement. Regulatory and contractual mechanisms for completing such arrangements on both sides of the border would have to be explored.

—An offer could be made to transport Mexican gas on a reimbursable basis through the U.S. pipeline system from Eastern to Western Mexico.

This transportation option would permit the delivery of gas to the Mexican cities along the border at a substantially lower cost of service than through the construction of a new line through Mexico and could be presented to Lopez-Portillo as a significant side benefit to Mexico of the overall deal with the U.S.

Conclusion

Mexican gas at an appropriate price can be a desirable source of U.S. energy supply. Since there is a great likelihood that this gas will in any event flow into U.S. markets by the mid-1980's, it is important that contracts for earlier purchase of this gas not be at disadvantageous prices.

This proposed mix of negotiating options offers the opportunity to conclude an agreement that would be beneficial for both countries while meeting a major portion of our negotiating objectives. The most difficult objective to meet satisfactorily will continue to be minimizing the effect of any final Mexican settlement on Canadian gas prices.

During any preliminary discussions, it will be important to remain flexible within the framework of this negotiating strategy, since it will be difficult to make a more specific assessment of the best approach until actual discussions have progressed. I would try to reach agreement in principle with Mexican leaders based on this proposed strategy. You could then conclude the matter during your visit in February with a public announcement either then or later in the year.

¹¹ A U.S. oil company (taking its name from Tennessee Gas) that in 1978 converted its Louisiana refinery to process the lower grades of crude oil that were exported from Venezuela and Mexico.

175. Memorandum From the Under Secretary of State for Economic Affairs (Cooper) to the President's Assistant for Domestic Affairs and Policy (Eizenstat)¹

Washington, December 15, 1978.

SUBJECT

Recommendation for the President on U.S. Oil Pricing Policy

I. Issue

How to fulfill the President's commitment to reduce U.S. imports of oil by raising U.S. crude oil prices to world level by the end of 1980, while at the same time limiting the inflationary impact of this action. The policy adopted should also eliminate the complicated oil price control and entitlements programs and prevent oil producers from capturing windfall profits.

II. Essential Factors

An interagency memorandum to the President on December , 1978, described options on oil pricing policy.² The policy the State Department recommends is a phased decontrol of U.S. crude oil prices combined with an excise or "severance" tax on old oil (excluding stripper and enhanced recovery production). The decontrol of oil prices should not be contingent upon Congressional passage of the excise tax but should proceed independently. This policy will minimize the inflationary impact of decontrolling oil prices while permitting the President to fulfill his Bonn summit commitment to raise prices paid for oil in the United States to the world level by the end of 1980.³

The proposal is illustrated in a schematic diagram on page 5 and would work as follows (on the assumption of annual 10% OPEC price increases):

—Early in 1979, the President would announce that controlled prices for all U.S. oil would be raised by the statutory limit through December 31, 1979, and that on January 1, 1980, wellhead prices for upper-tier oil would be completely decontrolled, as would retail product prices. As stripper and enhanced recovery oil prices are already decontrolled, this would leave only the price of lower-tier oil controlled. These price controls would be gradually raised until the control authority expires in September 1981.

¹ Source: Carter Library, White House Central Files, Subject File, Box TA-26, Trade. Confidential.

² The date was left blank on the original. The memorandum was not found.

³ See footnotes 2 and 3, Document 157.

—At the same time, the President would propose legislation for an excise or “severance” tax to be initiated on January 1, 1980. This tax will increase during the year to raise the price of old oil to refiners to the world level by the end of the year. After December 31, 1980, this tax would prevent oil producers from obtaining windfall profits from old oil.

—If OPEC increases oil prices on January 1, 1981, the excise tax would be used to adjust the composite price to U.S. refiners to the new world price level by September 1981, when the control authority expires. U.S. prices thereafter would remain at the world level.

—After October 1, 1981, the excise tax would be adjusted to permit wellhead prices of old oil to reach world levels gradually, minimizing any incentive to withhold production, while preventing windfall profits in the interim.

III. Pros and Cons

Advantages of this approach are:

—It utilizes your existing authority to implement a phased decontrol of oil prices without requiring Congressional action.

—Decontrol is not contingent upon Congressional enactment of a windfall profits tax. In fact, the reverse is true. The burden falls to Congress to act quickly and responsibly on the Administration’s excise tax proposal if it wishes to restrict excess profits by producers.

—Internationally, the United States would fulfill what is viewed by our allies to be an important Bonn Summit commitment. Failure by the United States to honor this commitment, together with Japan’s failure to implement fully their summit commitments, may be used by others, especially West Germany, as an excuse to back away from some of their own already-implemented commitments. Our failure would also have an adverse effect on U.S. credibility regarding future commitments.

—It would eliminate the need for the complex entitlement and price control programs after September 31, 1981, because the refiner acquisition price for all categories of oil would be equalized.

—Because the date at which the excise or “severance” tax drops to zero is unspecified, companies will have no incentive to withhold production of old oil.

—The major economic impact would not be felt until 1980 or 1981, thereby minimizing adverse effects on your anti-inflation program in 1979.

Some disadvantages are:

—The proposal includes Congressional passage of an excise tax. It may be difficult to get Congressional approval at the time, in the form

and with the tax revenues allocated as envisioned by the Administration.

—Failure to enact the tax would mean that producers of old oil would receive windfall profits when control authority ends on October 1, 1981. These producers would also be likely to reduce production of old oil until that date.

—Small windfall profits will accrue to producers by decontrolling upper tier oil.

—An excise tax which varies with world prices and with the old oil wellhead price may be criticized as too complex. However, it will be less complex than the present entitlements program.

IV. Recommendation

That you adopt the approach described above.⁴

[Omitted here is the schematic diagram described in Section II.]

⁴ There is no indication of approval or disapproval of the recommendation.

176. Telegram From the White House to the Embassies in Saudi Arabia, Iran, and Venezuela¹

Washington, December 15, 1978, 0013Z.

WH81609. Subject: Presidential Message: OPEC Meeting.

1. Embassy is instructed to arrange the earliest feasible delivery of the following message from President Carter to, respectively, King Khalid, or the Shah, or President Perez, with a view to inducing instructions compatible with this message to their delegates to the OPEC meeting:

2. *Text:* (appropriate salutation)

“I have heard a number of reports that the OPEC nations may decide, at their forthcoming meeting in Abu Dhabi this Saturday, on an oil price increase that would average around 10 percent for 1979. I am deeply disturbed by these reports, because I believe that an increase of this magnitude would be highly disruptive and damaging to the world

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 21, Venezuela: President Carlos Andres Pérez, 6/78–3/79. Confidential; Exdis; Flash.

economy, affecting not only my own efforts to stabilize the U.S. economy and strengthen the dollar but your country's economic interests as well. I would stress in particular that the international monetary system is at an extremely delicate stage, in which the United States, in cooperation with other major industrial nations, has committed itself not only to utilize massive foreign exchange resources but to undertake difficult domestic stabilization measures in an effort to restore and maintain world monetary order. The shock of a large oil price increase would seriously jeopardize this effort, in whose success you have a large stake.

"It is for these reasons that I am expressing to you, personally and directly, my strong hope that any oil price increase in 1979 will be extremely moderate, and that delegates to the OPEC meeting will exert their best efforts to this end."² (complimentary close) Jimmy Carter

(End text)³

3. Report transmittal and response.⁴

² On December 17, OPEC members announced their agreement to increase oil prices by quarterly increments in 1979, such that the weighted average for the year would total nearly 10 percent. The Embassy in Abu Dhabi, where the meeting was held, reported: "Decision reflects compromise between moderates who started out at zero and others who pressed for increases of up to 20 percent. Supply shortage caused by Iranian situation as well as impact of inflation and past weakening of dollar were stated to be principal factors which prevented moderates from holding price increase to more modest level. Adoption of quarterly incremental increases poses problems for future since it could set pattern for OPEC pricing which will be very difficult to stop." (Telegram 3293 from Abu Dhabi, December 17; National Archives, RG 59, Central Foreign Policy Files, D780535–0534)

³ Poats sent a memorandum to Brzezinski on December 18, in which he wrote: "The White House used my revised press release expressing hope that OPEC will reconsider before the next steps take effect. We need to follow up officially and confidentially on this. Lonely US protests are not likely to avail much. For the first time, Japan and Germany may be willing now to consider joint approaches to Saudi Arabia because they may no longer enjoy oil price insulation due to dollar depreciation. Our best hope is to get high Saudi production along with resumed full production by Iran, creating a glut that leads to price-shaving by the OPEC hawks before the June OPEC meeting." (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil: 8/78–2/79) The December 17 White House press release is printed in *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, p. 2271.

⁴ King Khalid replied: "When the Kingdom sensed that the OPEC states, under pressure of economic conditions, sought a large increase in petroleum prices, the Kingdom did its best in order to have that increase made in steps and within very reasonable limits so that its total would not exceed (10 percent) from the beginning of 1979 and so that it would not harm the world economy. Your Excellency is well aware of the efforts in this direction exerted by the Kingdom." He added: "In order to avoid continuing rises we hope that you will continue your efforts towards raising the value of the dollar and reducing or stabilizing the price of manufactured materials. These steps will restore economic balance so that there will be no justification for raising petroleum prices in the future." (Telegram 8857 from Jidda, December 18; National Archives, RG 59, Central Foreign Policy Files, D780522–1020)

177. Memorandum From Secretary of State Vance to President Carter¹

Washington, December 26, 1978.

SUBJECT

Mexican Natural Gas

As requested, I have reviewed Jim Schlesinger's memorandum on Mexican gas negotiations.² It is a thorough analysis of the technical aspects of the gas question. From the perspective of our overall relationship with Mexico, however, I am concerned that the analysis does not fully take into account the critical importance of increased U.S.-Mexican cooperation in areas such as migration, trade, and energy. In particular, I believe that Jim's proposed strategy of going back to the Mexicans with an offer essentially the same as the one rejected by Lopez Portillo a year ago could adversely affect your trip³ and the longer-term prospects for U.S.-Mexican cooperation.

The Mexicans view these gas negotiations as an indicator of our interest in over-all cooperation. They have displayed anger and bewilderment over the events which led up to the suspension of discussions last year. While their reaction may be part of the bargaining process to some extent, the outcome apparently has left Lopez Portillo personally troubled and has provided a major focus for domestic criticism of his efforts to strengthen ties with the U.S. The Mexicans see us as paying very high prices for Algerian or Indonesian liquified gas, but vetoing a deal negotiated between PEMEX and U.S. companies which would cost American consumers much less than this other imported gas—or than the gas we are planning to bring down from Alaska. While they can understand our concern with the effect of a Mexican deal on the Canadian price, they are also aware that this concern has not deterred us from arranging for gas from these other sources at even higher prices than the Mexican proposal.

Against this background, I fear that Jim's going-in offer will not provide a basis to continue the discussions. It is essentially the same offer we made a year ago—\$2.60 price when the gas starts flowing in 1980, with an escalator related to the inflation rate and/or world oil price increases. It would come after another round of OPEC price increases and after press reports of high level attention to Mexican policy

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P860136–2560. Secret. Printed from an uninitialed copy.

² Document 174.

³ A State visit to Mexico was scheduled for February 14–16, 1979.

in the U.S. Government. Lopez Portillo could cut the dialogue short and your visit would take place under adverse conditions.

This is not to say that we should simply accept the Mexican price. At the very least, I think Jim should consider how to make sure that our positions are presented in such a way as to keep the negotiations going forward. He might emphasize that he is talking about general pricing concepts (not hard and fast numbers) and that the actual purchase would be negotiated in detail between private companies and PEMEX. When you visit Mexico, you could discuss the gas issue briefly and in general terms (since in any event the Mexicans would not want a commercial transaction to become the focus of your state visit) and set the stage for serious commercial negotiations commencing *after* your visit, in an atmosphere that will increase—rather than diminish—the chances for growing cooperation between our two countries in the decades ahead.

In preparation for these negotiations, I question whether our ultimate fallback should be, as Jim proposes, a link to residual fuel oil that closes less than half of the price gap between us and the Mexicans. In light of the larger stakes we have in U.S.-Mexican cooperation, I am not sure we can afford to adopt as a final bottom line a proposal that refuses to meet the Mexicans half way.

Mexico's population may exceed ours in a few decades. With a 2,000-mile border and 160 million *legal* crossings (and about a million illegal crossings) a year, with narcotics a major concern, with a level of bilateral trade exceeded by only four countries, with Hispanics soon to be our largest minority, with the real possibility of social turbulence in Mexico in the coming decades as migration, income-disparity, urbanization and unemployment all increase, it is in our interest to work closely with Mexico—not antagonistically.

A policy of waiting three or four years to pressure a weaker Mexico into submitting to our terms would, I believe, be detrimental to our national interest. A more dramatic concrete example of North-South confrontation could not be imagined—right on our own borders. We are likely to pay for it in many ways—in reduced cooperation on narcotics, migration, trade, border issues, and also politically within the Hispanic community. Although Jim may be correct that Mexican gas will flow into the U.S. market in the next few years, the Mexicans have demonstrated over the years that they are capable of making decisions to their economic detriment where national pride is involved.

178. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, December 29, 1978, 0327Z.

326855. Subject: U.S. Position on OPEC Price Increase.²

1) At their discretion Ambassador and senior Economic Officer should take the occasion, when it is appropriate, to inform senior levels of the host government of the U.S. Government's reaction to the OPEC oil price increase. We do not wish you to make a formal *démarche* at this time, but we also do not wish to leave an incorrect impression about this government's position. Talking points follow:

2) The U.S. very much regrets the recent OPEC price increase, which we do not believe warranted by underlying market conditions or by other considerations.

3) Prior to the OPEC meeting, we had made clear our desire that, if an oil price increase could not be avoided, it should be an extremely moderate one in order to minimize damage to international economic recovery. The four-stage price increase just announced, culminating in OPEC oil prices 14.5 percent higher nine months from now, cannot be considered moderate in its impact on the world economy.

4) This large price hike clearly has prejudiced the U.S. and world economic outlook, and will impede programs to maintain world economic recovery and to reduce inflation.

5) The oil price increase will also unfavorably affect global trade. It will not only impose the burden of additional import costs on all oil-importing countries but will also reduce overall export opportunities as economic growth becomes more difficult to achieve in all industrialized and oil-importing developing countries.

6) The strong reaction by other oil-consuming nations to the price increase gives ample evidence of the serious and widespread concern over the harm it will likely do to the achievement of the universal economic goal of sustainable non-inflationary growth.

7) The OPEC members themselves have an important stake in the world economy. They must share the responsibility for the success of programs designed to improve payment balances, maintain economic growth, and reduce inflation. We are disappointed, therefore, that

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D780539–0146. Confidential. Drafted by James C. Todd (EB/ORF/FSE); cleared by Rosen, Bosworth, Katz, Twinam, Solomon, and in NEA/RA; and approved by Cooper. Sent to Riyadh, Abu Dhabi, Algiers, Baghdad, Caracas, Doha, Jakarta, Jidda, Kuwait, Lagos, Libreville, Quito, Tehran, Tripoli, and Dhahran.

² See footnote 2, Document 176.

OPEC's decision to date has not given adequate consideration to the world economic situation, and the basic oil market conditions.

8) For Jidda: FYI—We are considering further approaches to the Saudis concerning their production ceilings and the Iranian production situation. But you should proceed now to make appropriate use of the points in this message.

9) For Tehran: Department leaves to your judgment the advisability of making an approach at this time.

Newsom

179. Telegram From the Embassy in Saudi Arabia to the Department of State¹

Jidda, December 31, 1978, 0511Z.

9044. Subject: Aftermath of OPEC Price Increase. Ref: Jidda 8735.²

1. We have attempted to reconstruct both the political and economic happenings which led to the higher than expected OPEC price increase at Abu Dhabi.³ In this connection we have talked informally with numerous Saudi officials as well as private sector Saudi business persons who are generally knowledgeable about SAG policy matters.

2. We conclude that the following factors were primarily determinative of the final action taken at Abu Dhabi:

A) A conclusion reached early on that Saudi Arabia could not withstand another split in OPEC ranks, and would at all costs avoid the two-tier system which resulted from the Saudi action at Doha in 1976.⁴ The Saudis were determined because of the 1976–77 experience to prevent a recurrence.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790001–0049. Confidential. Repeated to Riyadh and Dhahran.

² In telegram 8735 from Jidda, December 13, West reported that Yamani told him that “the Saudi ultimate compromise position at the December 16 OPEC meeting would be for a 5 percent increase on January 1 with subsequent periodic increases so that the total cost of oil for 1979 would be no more than 10 percent above that of 1978.” Yamani also noted that “the feeling of most OPEC countries was strong and beginning to be bitter toward Saudi Arabia for its stance for a freeze or modest increase” and pointed out “conditions in Iran as substantially weakening the Saudi argument for a minimal increase.” (Ibid., D780518–0104)

³ See footnote 2, Document 176.

⁴ See Document 113.

B) The Saudis, therefore, were unwilling to face their OPEC colleagues alone; at the 1977 December meeting⁵ they had the support, which was essential to the ultimate action taken, of Iran. This year they recognized that they would have no support from Iran and, in fact, the Iranian situation undercut their influence and leverage at the OPEC meeting.

C) Accordingly, in looking for other substantial support, they turned to Kuwait. The general outline of the agreement was reached during the visit of Kuwait's Crown Prince approximately ten days prior to the OPEC meeting. The Saudis gained what they considered to be a major concession from Kuwait in having them agree to a phased-in series of small increases rather than a single large increase at the beginning of the year.

3. The agreement reached with Kuwait was essentially that there be a phased-in price rise which would average 10 percent over the year. This agreement was discussed and probably approved by the Oil Minister of the UAE during a visit to Saudi Arabia immediately after the Kuwaiti delegation departed.

4. The Saudis feel that the price increase as finally adopted was a creditable achievement for them and the interests of the U.S., and point out the following arguments which were being advanced by the other OPEC countries as a reason for a much larger increase:

A) The report of the Economic Commission Board of OPEC reportedly showed that the purchasing power of oil had declined 38 percent since the last price increase (I have requested a copy of this report and have been told that one would be made available).

B) All of the OPEC countries with the exception of Kuwait and Libya, but specifically including Saudi Arabia, had negative cash flow positions for 1978, and even with the projected increase there will probably be a similar situation existing in 1979.

5. There is some resentment being expressed by Saudi officials on two points in connection with the increase:

A) The price characterization by the press of the increase as a 14.5 percent increase. At least two high Saudi officials have expressed resentment at such characterization, pointing out that the increase for 1979 is only 10 percent (overlooking of course that the ultimate price increase is the higher figure).

B) A feeling that the U.S. does not appreciate the efforts made by the Saudis in holding the increase to what the Saudis consider to be an acceptable level.

⁵ See footnote 2, Document 142.

6. *Comment:*

A) The visits of Secretary Blumenthal and Senator Byrd⁶ were, in my judgement, most helpful in strengthening the Saudis' resolve to hold for a moderate increase. The principal reason assigned by the Saudis for not keeping the increase at or below the 10 percent level is the situation in Iran which continued to deteriorate rapidly in the days just before the OPEC meeting.

B) Whether or not this was in fact the controlling reason for the Saudis' ultimate decision to compromise at a higher figure, we can use this happening as an argument to the Saudis that they should make a commitment now to increase substantially their productive capacity. As long as they do not have productive capacity to compensate for a sudden reduction in the world supply, then their influence on OPEC measures is diminished as well as their leadership position in the Arab world.

C) In my judgement the chances of any favorable change in the decision reached at Abu Dhabi is small. If the Iranian situation stabilizes and production returns to pre-crisis levels, and if the dollar strengthens, we would then have some basis to ask Saudi Arabia to take a lead position in postponing some of the proposed quarterly increases. Even with these two favorable developments, however, it would be difficult for Saudi Arabia to take this action in view of their stated position, including the post-OPEC statement by Oil Minister Yamani at Geneva.⁷ The loss of face and the appearance of responding to U.S. pressure are difficult to overcome.⁸

West

⁶ See Document 168. Senator Byrd visited the Middle East in early December.

⁷ In a press conference at Abu Dhabi on December 17, Yamani commented that he had wanted a lesser price increase, "but when you look at what happens in the market, and particularly at the shortage caused by the Iranian situation, it is very difficult to hold the prices down under such circumstances." (*The New York Times*, December 18, 1978, p. A1)

⁸ A January 5, 1979, intelligence memorandum, much of which was characterized as "speculative" reads: "Saudi Arabia's participation in OPEC's decision last week to raise oil prices was not in itself a *specific* 'message' to the United States. The Saudis believe there are valid economic reasons for the price hike. In addition, they were subject to intense pressure at the Abu Dhabi meeting from other OPEC members, and their ability to enforce a lower price in the market by expanding production was virtually nonexistent." The memorandum continues: "There may well be, however, a broader message in the Saudi support of the price hike that goes beyond just the issue of oil. The Saudis could be demonstrating to the United States their willingness to pursue policies—on issues ranging from Middle East peace efforts to future oil production and pricing rates—that risk strains in ties with Washington." (Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 67, Saudi Arabia, 1–3/79)

180. Telegram From the Embassy in Saudi Arabia to the Department of State¹

Jidda, January 2, 1979, 0606Z.

13. Subject: Potential Impact of OPEC Price Increase—Saudi Arabia. Ref: Jidda 8880 and 9044.² The following message represents a consensus of the Embassy's Oil Committee members including USLO Riyadh and Consulate Dhahran.

1. The 14.5 percent price increase decided at the OPEC Ministerial conference in Abu Dhabi possibly represents the over-riding decision of Saudi Arabia to maintain OPEC unity over its somewhat weaker wish to be responsive to Western, and especially US, pleas for price moderation. The desire to maintain OPEC unity was exemplified by the intensive bilateral consultations that preceded the conference. These began in early fall, with Saudi Oil Minister Yamani leading off with his first visit to Venezuela in several years. This was followed by a series of visits by Abu Dhabi's Oil Minister, Mani al Utayba, to virtually all the Middle East OPEC capitals. In the final days before the conference, the Oil and Finance Ministers of Qatar and Abu Dhabi, as well as Kuwaiti Oil Minister Ali Khalifa and Iranian NIOC official Parviz Mina all visited the Kingdom. These visits are believed to have set the stage for the price decision taken at Abu Dhabi.

2. At the same time, external factors contributed pressure for a price increase. Most significant was the early December drop in Iranian production occasioned by renewed internal difficulties. This, combined with pre-conference liftings by oil companies in anticipation of a price increase, and usually high fall demand in Europe combined to soak up surplus production. At the same time, the renewed strength of the dollar in response to the U.S. support program had only limited impact on Saudi thinking. Saudi officials commented that it was still too early to base oil price judgments on this strengthening, and stated that several months would be necessary to tell if the program was indeed working.

3. In contrast, the West's efforts to contain a price increase were primarily intensive high-level representations by the United States, and

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790001–0551. Limited Official Use. Repeated to Abu Dhabi, Caracas, Algiers, Doha, Jakarta, Kuwait, Lagos, Libreville, Manama, Muscat, Quito, Tehran, Tripoli, Vienna, Baghdad, Dhahran, Riyadh, Bonn, London, Mexico City, Paris, and Oslo.

² In telegram 8880 from Jidda, December 19, the Embassy informed the Department that the Saudi and English press "reported extensive comments by Crown Prince Fahd defending the OPEC decision to increase the world oil price." (Ibid., D780524–0707) Telegram 9044 from Jidda is Document 179.

relatively mild public statements by EC Energy Commissioner, the FRG's Brunner. These were obviously not enough to convince the Saudis to take a hardline stand against the concerted pressure of the other OPEC members. The end result was the decision to boost prices an average of 10 percent for all of 1979, with the overall increase totaling 14.5 percent to be applicable in the whole of calendar year 1980, in the absence of any further increases. These figures contain something for both the moderates and the price hawks. Both can quote the figure that serves them best.

4. Initial local reaction has been reported in reftel. In his press conference immediately following the conference, Zaki Yamani indicated that Saudi objectives had been a smaller price-hike³ but Crown Prince Fahd's statement of following day, while emphasizing the 10 percent average, called the price hike "logical and objective" and blamed the deterioration of the dollar and high inflation in the West which made such a hike necessary.

5. An initial calculation indicates that the Saudis will receive roughly an additional \$3.8 billion in 1979 as a result of the price hike if a production level of 8.5 billion B/day is maintained. Obviously, this will assist the Saudis in meeting any further short-fall in the current fiscal year budget and provide something of a cushion for next year's expenditures if production falls. It will not provide sufficient funds to undertake any ambitious new plans beyond those already projected, but, with the recent emphasis on cost cutting and tighter control of expenditure, together with the maintenance of a domestic inflation rate of 10 to 12 percent, well below earlier levels, further cuts in current project spending are unlikely.

6. To the extent that the dollar deteriorates as a result of this price hike, so will the over 80 percent of Saudi assets and reserves denominated in dollars. However, this loss in dollar values will actually be applicable only when the Saudis need to exchange them for other currencies to pay for imports or services. On the other hand, to the extent that this price increase fuels U.S. inflation, Saudi purchases of U.S. goods and services will be directly affected.

7. We do not expect this price increase to have any major effect on Saudi foreign aid. Aid will probably be sustained at current levels, with Arab and Islamic political considerations continuing to be the overriding factors in aid decisions. There may be some aid given in the form of oil grants as claimed by Mobutu of Zaire⁴ after a recent visit to the Kingdom.

³ See footnote 7, Document 179.

⁴ Mobutu Sese Seko, President of Zaire.

8. In the longer range, the new base for possible OPEC price increases for 1980, will be 14.5 percent higher than the current price. The Saudi third five year plan is scheduled to begin in April, 1980. This plan is expected to be more costly than the second plan, and there is a growing sophisticated realization among Saudi planners to match revenues with expenditures. What impact this will have on long-term pricing policy is uncertain, but will become more apparent as precise outlines of the third plan emerge.

9. Another interesting, but as yet unresolved, question is what impact this price increase will have on maintenance and expansion of oil productive capacity. The possibility that some of this additional profit be diverted to maintenance and expansion of oil facilities will, in some measure, be determined by how sales and budgeting procedures of the to-be-nationalized ARAMCO are organized.

10. One of the most significant effects of the Abu Dhabi conference, from the Saudi point of view, was the restoration of OPEC unity which was badly shaken by the Saudi break and the resultant two-tiered price in 1977. The willingness of Saudi Arabia to accept the majority decision has redeemed Saudi Arabia and banished, at least temporarily, lingering doubts as to its pro-OPEC stance towards the other members. The Saudis see this as a positive good, and this accounts for the spirited defense of the price increase now appearing in the local press.

11. Some element of Arab unity may also be involved. Perhaps more concretely, the Saudi action has played a major role in the significant improvement of relations with both Kuwait and Iraq. Here, the Saudi posture can be interpreted as pro-Arab following on the results of the Baghdad conference,⁵ as well as pro-OPEC.

12. It is still too early to say how the Saudis evaluate the impact of the price increase on Saudi-U.S. relations. The instant defensive reaction leads us to believe that they are perhaps nervous over what the impact will be, especially if they are singled out for blame by the U.S. press as they were praised after the 1977 price split. Certainly, there are no current indications that they will respond positively to President Carter's request for reconsideration of the step increases later next year.⁶ If anything, the general tenor of remarks is that the Saudis will stand by their OPEC brethren for 1979, and closely watch the progress of the dollar before committing themselves to any course of action for 1980.

⁵ Leaders from 20 Arab states and the Palestine Liberation Organization met at the Arab League summit in Baghdad November 2–5. In a show of Arab solidarity, the leaders rejected the Camp David Accords and ejected Egypt from the Arab League.

⁶ See Document 176.

13. They have and will continue to argue both publicly and privately that the price increase would have been even greater if not for Saudi moderation, and will point to the OPEC decision to continue use of the dollar as a pricing mechanism to be the result of their defense of U.S. interests. What other steps they may take to alleviate U.S. disappointment over the price increase are not clear, but may include stepped up dollar purchases from the United States.

14. The biggest danger arising from this most recent OPEC decision is that OPEC and Saudi Arabia may find themselves locked into a continuation of the system of quarterly phased increases. Yamani much earlier publicly advocated such a system, and this is probably one of the questions being studied by the OPEC Ministerial Long-Range Strategy Committee. Since OPEC pricing decisions are in the last analysis more political than economic, such a procedure, once institutionalized, may be very hard to undo. As a result, another inflationary factor will be built into the world economic system. Significantly, although potential future price increases are stated to be hinged to the fate of the dollar, there is no assurance that the dollar's strengthening will lead to any price decrease.

West

The Iranian Oil Shortfall, January 1979–January 1981

181. Memorandum From Secretary of Energy Schlesinger to President Carter¹

Washington, January 4, 1979.

SUBJECT

Iranian Oil Situation

Summary

The shortages that are currently projected to result from the cessation of Iranian oil production are manageable in the short-term. Continuation of the curtailments through the summer of 1979, however, could lead to actual supply shortages during next winter's peak demand period.

The elimination of Iranian exports since Christmas² is now being offset by increases in production in other producing countries. On balance, world oil markets have lost 5.0 to 5.5 million b/d of Iranian oil exports. Increased production elsewhere, the largest portion of which is from Saudi Arabia, is adding almost 3.5 million barrels a day. The current worldwide shortfall is, therefore, approximately 1.5 to 2.0 million barrels of oil a day.

In the short-term, this shortfall can be managed by stock draw-downs. This, however, requires the consuming nations to borrow against future supplies. Before the onset of winter, petroleum stocks are normally high so they can be drawn down to meet high winter demand. If higher than normal drawdowns occur this winter to compensate for Iranian shortfalls, and if Iranian exports are not resumed in the next month or two, the normal build-up of stocks that occurs in the spring in preparation for summer demand peaks could be jeopardized. If Iranian production remains at substantially curtailed levels beyond the summer of 1979, it is clear that supplies will be inadequate to build-up inventories for next winter's peak demand, even if we experience no actual supply shortages this summer.

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 44, Rutherford Poats File, Chron, 1/1–21/79. Secret.

² The strikes and ongoing unrest in Iran led to a sharp reduction in oil production, and all exports were stopped by December 27. By the next day, oil production was at a standstill.

In the very near-term, minor product shortages and rising prices for small volumes of spot purchases could trigger hoarding by private citizens and businesses, thereby creating a more serious, psychologically-induced shortage. This possibility makes it critically important that the Administration reassure the public that the current situation is manageable while urging prudent, voluntary conservation efforts as a hedge against possible longer-range curtailments.

During the duration of any Iranian production curtailment, the world's oil supply system will have virtually no reserve capacity should some other crises develop. With a major portion of the Iranian shortfall being made up by increased production in Saudi Arabia, the ability and willingness of the Saudis to maintain such levels of production also becomes critical. If the Saudis continue to produce at full capacity for several more months, the reservoir problems that were an important factor in the Saudi decision to restrict the volume of production to 8.5 MBD last year could reappear. If these problems become serious, the Saudis will be under increasing pressure to once again order production cutbacks.

The technical concerns over the Saudi fields have not disappeared, and each day output stays above the 8.5 million barrel per day ceiling, some of the reservoir pressure improvements made in 1978 are lost. It will be up to the Saudi leadership to decide at what point the technical damage that results from sustaining production is greater than the political damage that would be sustained by lowering output.

Another major variable during the duration of any continued Iranian curtailment is the weather. The warmer-than-average winter being experienced in the United States reduces the level of required stock drawdowns and improves the chances for successfully rebuilding stocks for the next peak demand period. The colder-than-average winter now being experienced in Europe places increased demands on an already oil-short world market. Even if supplies prove sufficient for the duration of any curtailment, the price effects of the demand for oil that will be needed to rebuild stocks may well have a serious inflationary impact on U.S. prices.

We will be monitoring all of these world oil market factors closely, and have developed a set of domestic contingency plans which could be activated quickly, if necessary.

World Oil Production

Until strikes began in late October, Iranian oil production was averaging about 6 million b/d. As a result of intermittent strikes and slowdowns, production during November and December averaged less than 3 million b/d. Since Christmas, production has averaged less than .4 million b/d, sufficient to meet less than half of Iranian domestic

consumption, and all exports have ceased. Expatriate supervisory personnel of the Iranian oil consortium companies are being evacuated.

The prospects for increased production and resumption of exports are uncertain:

- Under current conditions, production is not likely to be restored beyond the level necessary to meet domestic demand (.8 million b/d).
- If the political/security situation improves, but expatriate personnel do not return, restoration of production to even 3 million b/d could take up to 90 days.
- If political stability and security are reestablished and foreign personnel return promptly, production could be restored to a level of 4–4.5 million b/d within 60 days.

In the most pessimistic case, world oil markets will have to accommodate the loss of 5.0 to 5.5 million b/d from Iran for a prolonged period. Increases in production elsewhere of up to a maximum of 3.5 million b/d have reduced the net shortfall to a range of 1.5 to 2.0 million b/d, with Saudi Arabia representing the single largest source of this additional production.

General Worldwide Impacts

Thus far the impact of the Iranian oil cutbacks on world oil markets has been limited by transportation lags, the rapid availability of alternative supplies and the high level of world oil stocks. World oil stocks, including oil currently at sea, are sufficient to cover the net shortfall resulting from a complete loss of Iranian exports for at least 2 to 3 months. Based on the experience of 1973–74, the international oil companies will probably redistribute world supplies to spread the shortfall relatively evenly among the various consuming regions.

Next Several Months

Over the next three months, however, some problems can be anticipated:

- *Prices.* As the oil market continues to tighten, spot prices for both crude oil and refined products will rise rapidly. Isolated bids of \$20/barrel have already been reported.
- *Distribution.* While worldwide stocks in the aggregate are adequate to make up the shortfall for 2–3 months, there is the possibility that certain countries or regions will be more severely impacted than others. If redistribution efforts by the international oil companies prove insufficient, one or more of the seriously affected member countries might seek to activate the International Energy Agency's emergency sharing system, which goes into effect when any country experiences a 7% reduction of normal supply. Based on discussions with the governments of the Netherlands, Japan, the UK, and other IEA gov-

ernments which are heavily dependent on Iranian supplies, it appears unlikely that the IEA emergency sharing system will be triggered in the near future.

- *Hoarding.* Rising spot prices and isolated regional shortages could trigger hoarding by individual consumers. If gasoline and heating oil tanks are constantly being topped off, working inventories would be further reduced, leading to more serious spot shortages.

Outlook for 1979

Over the next 6–12 months the outlook varies considerably, depending on the assumed level of Iranian and Saudi Arabian oil production:

- If Iranian production is restored to a level of 4–4.5 million b/d, and the Saudis continue production at a level of approximately 2 million b/d above their ceiling of 8.5 million b/d, market conditions would return to normal. Stocks would be rebuilt in time for next winter and a margin of spare capacity to cope with other supply cutbacks would be restored.

- If Iranian production rises to a level of 2–3 million b/d, the world oil market will remain extremely tight even if the Saudis continue their increased production. Stocks may not be fully rebuilt for next winter and there will be little if any spare capacity to accommodate any additional supply interruptions. Spot prices are likely to stay above OPEC official price levels.

- If Iranian production remains between 0 and 1 million b/d, even with a continuation of increased Saudi production, world oil markets would clearly experience actual supply shortages no later than early next winter. Additionally, spot prices could be substantially above official OPEC prices by late fall, encouraging OPEC to impose another large official price increase in late 1979 or early 1980.

Effect on U.S. Markets and Measures to Reduce Domestic Petroleum Demand

The U.S. share of the net worldwide shortfall of 1.5 to 2.0 million b/d of oil production will be approximately 500,000 b/d. U.S. stock levels are sufficient to accommodate additional drawdowns equal to this rate for approximately 60 days. Because of tankers already at sea, it will be another 30 to 40 days before the shortage is actually felt in reduced tanker deliveries.

Continuation of Iranian curtailments beyond the next several months could turn an already tight gasoline market into one of spot shortages this summer, and may well jeopardize distillate fuel supplies and prices next winter. In an effort to minimize the difficulties of rebuilding stocks whenever production is restored, it will be important to

both assure Americans that the current problem is manageable while urging them to undertake voluntary conservation efforts such as observing the 55 mph speed limit, reducing discretionary driving, turning back thermostats, and using natural gas wherever possible as prudent steps in anticipation of any prolonged curtailment. A more detailed description of potential effects on various U.S. markets is attached in Appendix I.³

If the curtailment continues beyond the next several months, a list of initiatives that can save approximately 750,000 barrels of additional oil per day has been prepared. The following table summarizes the oil savings associated with these initiatives:

	Required Action	Oil Savings (MB/D)
Oil to Natural Gas Switching by Utilities and Industrial Operations	Finalization of FERC–DOE rules	up to 300–400*
Oil to Coal Switching	Environmental waivers	35
Transfer of Electricity from Coal or Nuclear Facilities to Oil Dependent Facilities	Coordination of utility wheeling of power	100–150**
Higher Lead and MMT in Gasoline	Temporary suspension of EPA enforcement	45–50
Deferral of Deliveries to the Strategic Petroleum Reserve	Negotiation of time exchanges	300
TOTAL		up to 775–935

*The variation in the estimate depends upon the severity of the winter weather.

**The higher figure includes north to south wheeling along the West Coast from the Pacific Northwest.

A more detailed discussion of these and several other possible measures is attached in Appendix II:

Conclusion

The cutback in Iranian production does not pose substantial problems in the short-term. The measures outlined above should be adequate to deal with a prolonged shortfall caused by virtually no Iranian exports over an extended period of time. The greatest short-term danger, outside of another crisis elsewhere in the world, would be an

³ Appendices I and II are attached but not printed.

overreaction by the public,⁴ leading to panic buying and hoarding. I have therefore taken steps to urge the public to conserve where possible as a prudent step in anticipating any longer-term curtailments while offering the assurance that these developments do not currently pose significant oil supply problems for the U.S.⁵

⁴ In a January 15 memorandum to the President, Owen argued: "One lesson of events in Iran is that you were right in stressing the need for a national energy policy, which would reduce our dependence on imported oil. We should make more an effort to stress this lesson in public discussion of Iran, in order to: —increase public support for your energy policy; —focus public attention on the future policy implications of events in Iran, instead of merely their past causes; —enhance the Administration's prestige by reminding people that you weren't far off in warning about the insecurity of oil supplies." (Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 29, Iran, 12/78–1/79)

⁵ In an undated memorandum to the President, Aaron wrote: "Jim Schlesinger's January 4 assessment of the prospective impact of the Iranian oil situation on US energy supply is generally consistent with CIA, State Department and NSC estimates." He added that "the likelihood of continued instability in Iran points to a probable tight oil market throughout 1979, with little chance of market forces' undermining the OPEC price increases," and concluded: "The policy implications are heightened priority for oil conservation, for accelerating Mexican oil/gas development and exports, for clearing obstacles to investment in pipeline capacity to deliver Alaskan oil and gas to markets, and for substantial expansion of Saudi Arabia's oil production capacity." (Ibid., Staff Material, International Economics File, Box 44, Rutherford Poats File, Chron, 1/1–21/79)

182. Action Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Katz) to the Under Secretary of State for Economic Affairs (Cooper)¹

Washington, January 15, 1979.

U.S. Oil Strategy Toward Saudi Arabia

Issue

The uncertain conditions in the world oil market, as a result of the cessation of Iranian oil exports, emphasize the need to update our strategy to encourage Saudi Arabia to continue to meet the world's essential energy needs.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P790016–0363. Secret. Drafted by Todd on January 12 and concurred in by Crawford (NEA).

Our immediate objective is:

—to convince Saudi Arabia to continue to produce all the oil it can to help offset the shortfall owing to the Iranian situation.

Over the longer term, we seek:

—to obtain a Saudi decision to expand production capacity more rapidly; and

—to produce conditions propitious for a freeze of OPEC oil prices in 1980.

Background and Analysis

The strikes in Iran's oil sector, which began to interrupt oil exports in late October, led other OPEC nations—particularly Saudi Arabia—to produce higher than normal levels of oil in November and December. Tight oil market conditions and uncertainty over the likely course of events in Iran were important factors behind the Saudis' failure to press OPEC members to decide upon a lesser price increase at the December 16 meeting.²

In normal circumstances, the world oil industry adjusts to seasonal demand by building stocks during the second and third quarters of the calendar year, and drawing down stocks during the first quarter and part of the fourth. Since late December, the cessation of Iranian oil exports has withdrawn about 5.5 million barrels per day (mmb/d) from normal oil supplies. Saudi Arabian production has increased to about 10.5 mmb/d, or 2 mmb/d more than would have been anticipated at this time. Other OPEC members—primarily Kuwait and Iraq—have also increased oil output, and there is ample economic incentive for other oil producers to maximize output. We estimate that an additional 1 mmb/d is being supplied to the world oil market by producers other than Saudi Arabia. The remaining "shortfall" of somewhat over 2 mmb/d is being met by drawing down stocks. World oil stocks were very high late last year, partly as a result of seasonal stockbuilding and partly owing to anticipatory purchases in advance of the expected OPEC price increase.

With restoration of at least half of Iran's normal exports within the next few months and continued additional output by other producers, oil market conditions will be manageable, though tight for the rest of the year. Unless conditions improve more rapidly than now seems likely, however, it would be futile to attempt to roll back any portion of OPEC's announced quarterly price hikes. A more feasible objective would be to ensure that sufficient oil will be available to meet normal

² See Documents 176 and 179.

demand, avoid hoarding, reduce the chance for market-induced price increases in the remainder of this year, and set the stage for a price freeze in 1980.

In the immediate future, there is a danger that Saudi output ceilings or other restrictions could reduce incremental oil output needed to help offset the shortfall in Iranian exports. Since mid-1977, Saudi Arabia has maintained a ceiling of 8.5 million barrels per day, calculated as an annual average. Until the Iranian crisis, oil market demand never tested this ceiling. The Saudis have publicly acknowledged an obligation to meet the world's essential oil needs and since the cutback in Iranian exports have permitted Aramco to produce at maximum sustainable levels.

A Saudi official recently warned Aramco, however, that Saudi Arabia is considering application of the ceiling on a quarterly basis. Aramco responded that this would impede its normal adjustments of output to meet seasonal demand, as well as interfere with the current all-out level in response to the Iranian cessation of exports. A series of exchanges was inconclusive, though it ended with an acknowledgement by a senior Saudi official that Aramco for the present could continue as before. Moreover, Deputy Petroleum Minister Khayyal, in a conversation with our personnel in Dhahran, clearly implied that Saudi Arabia would, at least in the near future, continue to produce over 8.5 mmb/d in order to help meet the Iranian shortfall without referring to the ceiling.³

Even when Iran's production is restored in large measure, it will be necessary for higher than normal liftings from Saudi Arabia to continue. Strict application of the Saudi ceiling could interfere with the satisfaction of deferred demand and normal second and third quarter rebuilding of stocks by the oil industry.

Because the Saudi output ceiling has in the past served as evidence of their willingness to restrain production in order to maintain OPEC prices, we should not expect them to abandon the ceiling publicly or permanently. To do so might provoke cutbacks in production by other OPEC members now helping to offset the Iranian shortfall, especially if they suspected the Saudi action was a prelude to an attempt to freeze oil prices next year. Thus our approaches should be made privately, and we should not make any reference to the price issue while we urge

³ According to telegram 21697 to Riyadh, January 26, Aramco sources informed the Department that Saudi Arabia formally notified the company that the 8.5 million barrels per day production ceiling would be raised to 9.5 million for the first quarter and would be applied on a monthly basis. (National Archives, RG 59, Central Foreign Policy Files, P850027–2555)

continued maximum production in response to the shortfall in Iranian oil.

The current Iranian situation has driven home the dangers of a world oil market with only 5 percent spare capacity. While Saudi production capacity is adequate for foreseeable world demand over the next few years, present Saudi conservation and investment policies prevent the expansion of that capacity which will be necessary to meet unexpected contingencies as well as essential world needs in the mid and late 1980s. We must plan to discuss with some intensity with the Saudis the need for increased investment in production capacity, keeping in mind the danger that a premature approach might detract from our efforts to encourage the continuation of maximum Saudi production for a sustained period.

Tactics

Our immediate goal is to obtain continued maximum Saudi output to offset the Iranian shortfall, stressing that this need does not end when Iranian exports resume, but will continue for a further time in order to enable the oil industry to replace abnormal stock drawdowns and resume normal stock rebuilding. The attached cable⁴ instructs Ambassador West to encourage such a Saudi response. The President was advised to suggest that the Guadeloupe summit⁵ countries also approach the Saudis in this regard. It would be useful if you could inform their Finance Ministers that we will be making our approach shortly.

The next step is to impress upon the Saudis, particularly in light of the fragility of the market balance revealed by the events in Iran, the need to approve additional plans to expand production capacity, both to maintain their own influence within OPEC and to be able to meet increased world oil demand expected in the next few years. This step should be taken by West in a low-key way. It may be desirable thereafter to reiterate it in a more direct way and at a high level, either by the President if Crown Prince Fahd visits the U.S. soon, or by Secretary Schlesinger if he undertakes a trip to Saudi Arabia later this spring.

If we are successful in obtaining Saudi agreement to high production levels throughout the current year in response to the Iranian situation, and if they agree to commence investment in expanded production capacity, this may set the stage for pressing for an OPEC price freeze throughout 1980. Specific presentations on the price issue should be withheld until later in the year unless conditions change markedly.

⁴ Attached but not printed.

⁵ See footnote 2, Document 183.

Recommendation

That you approve the attached instructions for Ambassador West as a first step in the implementation of our strategy.⁶

⁶ A handwritten note dated January 15 reads: "Mr. Cooper requested several changes in the cable and initialed off. Cable returned directly to EB for retyping and transmission." The cable is telegram 11004 to Jidda, January 15. (National Archives, RG 59, Central Foreign Policy Files, D790020–1041)

183. Memorandum From Rutherford Poats of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, January 16, 1979.

SUBJECT

Follow-up to Guadeloupe Discussions on Oil²

All concerned (in State, CIA, DOE and NSC) with forecasting Iranian oil production agree that we should expect a prolonged and substantial shortfall, with a serious possibility of further use of the oil weapon by contending Iranian political factions if not by a new government(s).³ Management of Iranian production by foreign oil companies through expatriate technicians seems to be finished. The necessary programs of investment in oil well rehabilitation and enhanced recov-

¹ Source: Carter Library, National Security Affairs, Staff Material, Middle East File, Box 121, Stoddard File, Oil, 11/77–11/79. Secret. Sent for information. Copies were sent to Aaron, Owen, and Quandt. A notation on the first page reads: "ZB has seen."

² Carter met with Giscard, Schmidt, and Callaghan on the island of Guadeloupe January 4–5 to address common issues, including the Iran crisis and the energy issues associated with it. On January 10, Brzezinski sent a memorandum to Aaron and Owen informing them: "The four agreed informally that we would explore the possibility of obtaining an OPEC price increase stretch-out. The basic notion would be that the first price increase would be delayed by three months; the second by some six months; etc. Our allies are supposed to send messages along these lines to Saudi Arabia prior to the Fahd visit to Washington." (Ibid.)

³ On January 16, the Shah left Iran for Cairo, beginning what became a permanent exile. Ayatollah Ruhollah Khomeini returned to Iran on February 1, after having been exiled himself by the Shah for 15 years, and on February 11, the Bakhtiar government, which Khomeini declared illegal, resigned. Documentation on the revolution in Iran is scheduled for publication in *Foreign Relations, 1977–1980*, volume X, Iran: Revolution, January 1977–November 1979.

ery have been suspended for three months and are unlikely to resume for at least another three months. Meanwhile, world oil stocks will be drawn down, despite partially offsetting increases in other OPEC country exports.

Consequently, the world oil market will be tight through at least the first half of 1979. In this situation, we cannot reasonably expect political appeals to the Saudis or market conditions to cause an undermining of the scheduled OPEC price increases. Our best hope is to avoid real shortages by using the Iranian situation to persuade the Saudis to set aside arbitrary production ceilings and to encourage their Arabian Gulf neighbors to do the same.

State is sending an instruction to West to tell the Saudi government that (1) we appreciate their authorization of Aramco's continued production at maximum levels (10.3 mmbd) to help offset the Iranian shortfall, (2) even after Iran has resumed substantial oil exports there will be a need for continued Saudi and other Arabian Gulf production above normal limits to restock inventories, and (3) the Iranian case further emphasizes the importance of expanding Saudi capacity.⁴

I understand that Dick Cooper plans to suggest to his British, French and German counterparts attending the OECD XCSS meeting tomorrow that they use the first two points summarized above.

Saudi responses to these approaches will help define two issues for the PRC meeting in preparation for the Fahd visit: whether and how to press Fahd during the visit to commit to lifting the 8.5 mmbd limit for all of 1979; and whether and how to influence a Saudi decision to proceed with the stalled investment program to raise capacity to 13 mmbd.

⁴ See Document 182. The instructions were sent to West in telegram 11004 to Jidda, January 15; see footnote 6 thereto. On January 22, West reported that he had a 2-hour meeting with Prince Fahd the previous day. Analyzing his meeting with the Crown Prince, and one with Yamani the day before, he wrote: "Both [Fahd] and Yamani have been extremely sensitive to USG's criticism of the OPEC price increase and it was my sense that he welcomed this opportunity to demonstrate once again SAC's friendship and concern. However, both Fahd and Yamani recognize the leverage they now have in terms of supply because of Iran." (Telegram 567 from Jidda; National Archives, RG 59, Central Foreign Policy Files, D790031–1032)

184. Memorandum From Secretary of Defense Brown to Secretary of State Vance¹

Washington, January 27, 1979.

Dear Cy,

In conjunction with preparations for the President's trip to Mexico and as a part of the ongoing review of our policies toward Mexico, I believe we should address, as a major issue of U.S. security interest, the question of a broad petroleum agreement with Mexico.

I believe Mexican petroleum is, or should be, one of the basic factors in our quest for an improved bilateral relationship. Our PRC deliberations in this area, however, have centered only on the narrow subject of the importation of natural gas.²

The deteriorating situation in Iran has magnified the serious question of continuing availability of oil from the Persian Gulf in the future, causing us to reexamine our military requirements and look for alternative sources of supply. Accordingly, our bilateral relations with Mexico and ready access to Mexican oil have rapidly emerged as extremely important U.S. security interests.

The attached assessment³ prepared by my Assistant Secretary for Program Analysis and Evaluation provides a starting point for consideration of our future requirements and how we should be attempting to satisfy them. If we add to these concerns the potentially precarious political scenarios that could develop in the Persian Gulf area there is even more reason for concern. Given these facts, prudence dictates addressing these issues prior to the President's trip to Mexico. As Secretary Schlesinger has recognized, the pace at which Mexico expands its petroleum production is an important factor in the equation—one which we should be working on at top levels in our bilateral deliberations.

I believe that it is essential that we address this subject in the forthcoming PRC meeting on Mexico, now scheduled for January 31.

Sincerely,

Harold

¹ Source: Carter Library, National Security Affairs, Staff Material, Special Projects File, Box 9, Henry Owen, Chron, 1/27–31/1979. Secret. A copy was sent to Brzezinski.

² See footnote 2, Document 170. Another PRC meeting on Mexico was held on January 19. The Summary of Conclusions is attached to a February 2 memorandum from Brzezinski to members of the Cabinet, informing them that the President had approved the conclusions. None of the conclusions concerned energy, which would be the subject of a future PRC meeting. (Carter Library, National Security Affairs, Staff Material, North/South File, Box 32, Pastor Country Files, Mexico: PRM 41 (Policy, 12/78–1/79))

³ Attached but not printed.

185. Memorandum From Rutherford Poats of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, January 30, 1979.

SUBJECT

Urgent Presidential Message to Prince Fahd

Tony Solomon, Dick Cooper, Bill Quandt and I recommend that the attached Presidential message, prepared in State/NEA and amended here, be sent *this morning* to Prince Fahd. Its purpose is to nail down our understanding of Fahd's commitment to Secretary Kreps² on oil production and pricing before Yamani or others cause him to reverse it or compromise it.

Briefly, the sequence of events was:

1. Yamani instructed ARAMCO to limit production to 9.5 mmbd and to pay for the increment above the normal 8.5 mmbd limit at fourth quarter 1979 prices, i.e., an increase of 9.5%.³

2. Kreps asked Fahd about "rumors" of such a decision.⁴ Fahd denied the report and assured her and West that Saudi policy remained as before: maximum sustainable production during the Iranian crisis and at posted current OPEC prices.

3. West told Yamani of Fahd's statement, and Yamani expressed amazement because he said he had acted on written instructions from Fahd. He said he would seek urgent clarification.⁵

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 67, Saudi Arabia, 1–3/79. Secret. Sent for action.

² Secretary of Commerce Kreps visited Saudi Arabia at the end of January for discussions on trade.

³ See footnote 3, Document 182.

⁴ As reported in telegram 785 from Jidda, January 28. (National Archives, RG 59, Central Foreign Policy Files, D790042–1228) Kreps also read aloud a message from Carter to Fahd welcoming "the fact that Saudi Arabia has maintained its petroleum production levels, thus helping to compensate for the Iranian shortfall." The message continued: "Given the tightness of the current market, our understanding is that Saudi Arabia will continue production at full capacity levels. It is our further understanding that you will continue to sell at the price schedules agreed upon at the OPEC meeting in Abu Dhabi. A pricing change by Saudi Arabia would encourage other producers to increase their prices, and could therefore lead to a general price increase above the OPEC level." The message concluded: "We therefore urge you, as a sincere friend, to reject any thoughts of reducing production from recent high levels or accelerating the schedule of price increases." (Telegram 822 from Jidda, January 29; *ibid.*, P850017–2222)

⁵ As reported in telegram 857 from Jidda, January 30. (*Ibid.*, D790046–0109)

We know that others in the Saudi cabinet favor restricting production and pressing other OPEC countries to increase production.⁶ Libya already is pushing prices up to fourth quarter levels. Saudi profiteering on the Iranian situation would spread like wildfire through OPEC.⁷

We need to bolster Fahd's commitment before it is undermined by his colleagues.

If you can't clear this as a Presidential message during this morning, Secretary Vance is prepared to send it.

Attachment

SUBJECT

Presidential Message on Saudi Oil Policy

Ambassador should deliver urgently following message from the President to Crown Prince Fahd, provided, understanding expressed in second paragraph is consistent with latest statement by Fahd of SAG's position.

Begin Quote:

Your Royal Highness:

I want you to know how delighted I am that we will be getting together in Washington in March. I very much look forward to that opportunity in view of the importance I attach to having a quite thorough exchange of views on matters affecting the strong community of interests between the Kingdom of Saudi Arabia and the United States.

In the meantime, I wish to express my appreciation of your decision to maintain Saudi Arabia's oil production at maximum sustainable capacity of over 10 million barrels daily and at OPEC first-quarter price schedules. This will make a major contribution to world economic stability during the difficulties created by the Iranian situation.

Saudi Arabia's wise decision is particularly important at this time in view of our strong mutual interest in the strength of the dollar in world markets. The dollar has weathered the pressures created by the recent OPEC price decision and the Iranian problem and we now expect that it will maintain stability with some possibility for further re-

⁶ On February 1, West wrote: "Our apparently successful efforts to persuade Prince Fahd to reverse the recent Saudi oil pricing decision may well be a pyrrhic victory. Whatever the economic benefits may be to USG, and in the Saudi view they are infinitesimally small, we will have exacerbated existing divisions within SAG and damaged further Fahd's credibility here." (Telegram 1010 from Jidda; *ibid.*, P850027–2583)

⁷ The Department instructed the Ambassador in Kuwait to seek similar assurances on oil pricing from the Government of Kuwait. (Telegram 37743 to Kuwait, February 13; *ibid.*, P850011–1016)

covery. Any unexpected increase in oil prices could have serious impact on the dollar with consequences that we cannot fully foresee.

The constructive approach of Saudi Arabia to this problem will, I am certain, have a significant and favorable impact on American and world public opinion, and will lay an even stronger basis for the broad cooperative relationship which I am dedicated to building between our two countries.

Sincerely, Jimmy Carter

*End Quote.*⁸

⁸ The message was not sent. A handwritten note at the top of the first page of the covering memorandum by Poats reads: "ZB: Last minute telephone conversation with West conveyed West's belief that Fahd's commitment will stick so no Presidential message is necessary now. State/NEA is asking Vance whether he wants to proceed with this message. He may call you. I still prefer Presidential message and Quandt will settle for Vance message. RP" Above Poats's note, another note in an unknown hand reads: "ZB agrees message should not be sent at this time."

186. Summary of Conclusions of Policy Review Committee Meeting¹

Washington, February 6, 1979, 4:10–5:30 p.m.

SUBJECT

U.S. Policy to Mexico

PARTICIPANTS

State

Deputy Secretary Warren
Christopher
Matthew Nimetz, Counselor
Jules Katz, Assistant Secretary for
Economic and Business Affairs
Luigi Einaudi, Staff Director, NSC
Interdepartmental Groups
Ambassador Patrick Lucey, U.S.
Ambassador to Mexico

OSD

Stanley Resor, Under Secretary of
Defense for Policy

Treasury

Secretary of Treasury Michael
Blumenthal
C. Fred Bergsten, Assistant
Secretary for International Affairs

JCS

Lt. Gen. William Smith, Assistant
to the Chairman, JCS

Energy

Secretary of Energy James
Schlesinger
Les Goldman, Deputy Asst.
Secretary for Policy and
Evaluation
Richard Smith, Director of Office
Coordination

CIA

Admiral Turner, Director of
Central Intelligence
Hans Heymann, National
Intelligence Officer for
Political Economy

OMB

James McIntyre, Director of OMB

Domestic Policy

Stu Eizenstat
Kitty Schirmer

OSTP

Ben Huberman

NSC

Ambassador Henry Owen
Robert Pastor
Rutherford Poats

White House

Dr. Brzezinski
Rick Inderfurth

¹ Source: Carter Library, National Security Affairs, Staff Material, North/South File, Box 32, Pastor Country Files, Mexico: PRM 41 (Policy, 2–7/79). Confidential. The meeting was held in the White House Situation Room. The agenda paper for this meeting, which Dodson sent to the participants on February 2, is *ibid*.

SUMMARY OF CONCLUSIONS

PRC on Mexico

Chaired by Warren Christopher, the PRC met for its third session on PRM-41 (U.S. relations with Mexico)² and considered three issues: (1) energy relations, including Presidential discussions and U.S. strategy for subsequent negotiation of a gas price formula; (2) organization of the U.S. Government for a more coordinated approach to relations with Mexico, and (3) the general approach to the Presidential visit to Mexico.

Energy. It was agreed that the United States should seek to develop an extensive set of energy relationships with Mexico, designed to increase world energy supply, enhance U.S. energy security, and support rapid but stable Mexican economic and social development. The President's visit is critical to establishing a more positive political climate for negotiations on gas supply and a possible subsequent oil supply agreement. He should sensitively refute Mexican suspicion of U.S. intentions. As a way to improve the atmosphere and place the gas issue in a broader context of energy cooperation, he could suggest: (a) joint studies of potential electric power interchange and gas transmission cooperative arrangements along the common border; (b) U.S. technical consultation and R&D cooperation on solar and geothermal development, enhanced recovery of oil, and uranium processing; and (c) if the Mexicans express interest, support of an accelerated rate of oilfield development through long-term U.S. purchase contracts for the Strategic Petroleum Reserve or the Defense Supply Agency. He should indicate to President Lopez Portillo that we are interested in a long-term arrangement for importing natural gas from Mexico.

It was agreed that the President should outline in general terms the U.S. approach to gas pricing (including the fact that our regulatory agencies must approve any agreement), and elicit Lopez Portillo's position, but he should avoid a discussion over whether residual oil is the right price yardstick, referring it to the technical experts.³ The President should express interest in completing negotiations early. To do this, the President would designate a representative who will work with one designated by Lopez Portillo to decide on a formula for natural gas pricing that takes into account market conditions, the prices of compa-

² For PRM 41, see footnote 3, Document 167. The first two PRC meetings were held on December 6, 1978, and January 19, 1979. See footnote 2, Document 170 and footnote 2, Document 184.

³ The Department of Energy's "Staff Discussion Paper Proposing a U.S. Strategy for Mexican Natural Gas Negotiations," January 29, is in Carter Library, National Security Affairs, Staff Material, North/South File, Box 32, Pastor Country Files, Mexico: PRM 41 (Policy, 2-7/79).

rable products, and the long-term relationship we wish to create with Mexico.

We should seek inclusion in the joint communiqué of agreement to an early specified date for negotiation of the gas price formula. Negotiations between Mexico and the gas companies would proceed only after negotiators of the two governments agreed on standards.

In discussions of oil, the President should welcome Mexican interest in swapping Mexican oil for Alaskan in supplying Japan and the U.S. Gulf Coast, but note that this depends on U.S. Congressional approval. He also should encourage Mexico to increase oil exports to Israel.

[Omitted here are conclusions unrelated to energy.]

187. Minutes of Policy Review Committee Meeting¹

Washington, February 8, 1979, 4–5:30 p.m.

SUBJECT

Oil Supply Outlook; US Oil Supply to Israel

PARTICIPANTS

State

Richard Cooper, Under Secretary for Economic Affairs

Stephen Bosworth, Deputy Assistant Secretary, International Resources and Food Policy

Treasury

Anthony Solomon, Under Secretary for Monetary Affairs

C. Fred Bergsten, Assistant Secretary for International Affairs

OSD

Walter Slocombe, Under Secretary for Policy

Energy

Secretary Schlesinger—Chair

Bruce Clarke, Deputy Assistant Secretary for International Affairs

Alvin Alm, Assistant Secretary for Policy and Evaluation

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 44, Rutherford Poats File, Chron, 2/79. Secret. The meeting was held in the White House Situation Room. The agenda paper for this meeting, which Poats attached to a February 7 memorandum to Brzezinski and Owen, is *ibid.*, as is the meeting's Summary of Conclusions.

JCS

Lt. Gen. William Smith, Assistant to the Chairman

DCI

Admiral Turner

[*name not declassified*], Office of Economic Research

OMB

James McIntyre

W. Bowman Cutter

Council of Economic Advisers

Charles Schultze

Robert Litan

DPS

Stu Eizenstat

Kitty Schirmer

White House

Dr. Brzezinski

NSC

Amb. Henry Owen

Rutherford Poats

MINUTES

Turner—In the short run, stocks are adequate to cover the loss in oil production, but are being drawn down at over twice the normal first quarter rate. The market is reflecting anxiety about the future, with spot prices rising and spot sales broadening. A turnaround will depend on political events in Iran and what Saudi Arabia does. If Iran comes back to 3–4 mmb/d of exports soon and the Saudis stay at 9.5 mmb/d, a real shortage can be averted, although supplies will remain tight through the first quarter of 1980. If the Saudis cut back in the latter half of 1979 to maintain an 8.5 mmb/d annual average, stock recovery will be inadequate for next winter and price pressures will be extreme.

Schlesinger—My understanding is that 9.5 is out of the question for the whole year.

Turner—If we try to force this on Fahd, I'm afraid we may be pushing him into a corner politically with serious consequences for our other interests.²

Schultze—Will we get the full benefit of increased supply when Iran comes back into exporting, or will the others revert to their normal production levels?

Schlesinger—If Iran returns to 3 mmb/d, I expect we will get a net 1.5 mmb/d augmentation.

² See footnote 6, Document 185.

Turner—Now, as to the long-run outlook, the prospects have worsened by about 1 mmb/d compared with our predictions before the Iranian crisis. The new Iranian government's policies on oil production are problematical. An unknown amount of permanent damage to the oil fields has occurred. If they don't get back about one-fourth of the expatriate technicians, total production may not exceed 3 mmb/d.

The Saudis could reach 12 mmb/d by 1982 if they make the decision to invest, but they are reluctant, realizing that if they have the capacity they will be pressed to use it. The others are a net wash—increase in Mexico and the North Slope offset by declines in net Communist Bloc exports.

Eizenstat—What correlation can be assumed between this decline in oil supply and GNP?

Schultze—We can't say without defining first the form of demand constraint; for example, a curb on automobile use would have little effect on GNP. Jim, what about deferring SPR procurement?

Schlesinger—We have ceased buying because the response to our last request for offers has been very low. But we ought to have as substantial an SPR as possible next winter.

Schultze—SPR purchases are not in the 500,000 barrel shortfall you've mentioned?

Schlesinger—That's right.

Owen—What could the President announce at his press conference next Monday?

Schlesinger—Administrative action and stand-by mandatory control proposals.

McIntyre—The press will ask him what he is going to do to get oil from Mexico.

Owen—Perhaps he should put off his press conference.³

McIntyre—Agree.

Schlesinger—We are going to have to curtail oil use by 3–5%. We can do it relatively painlessly.

Eizenstat—Jim, your statement yesterday⁴ on steps you were thinking about involve the interests of a number of agencies—environmental protection, for example. You put us in a difficult position if you

³ President Carter did hold a press conference on Monday, February 12. For the text, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, pp. 255–264.

⁴ Schlesinger testified before the Senate Energy Committee on February 7 and warned that the prospect of an oil shortage had "grown more serious in recent weeks" because of political turmoil in Iran. The result was that the dollar fell sharply in foreign exchange markets, and stock prices dropped as well. He also appealed again for voluntary conservation measures. (*The New York Times*, February 8, 1979, p. A1)

scare people but the Administration doesn't have an agreed program to meet the problem. In order to deal with this problem and develop the necessary responses we need a regular interagency consultative process. I propose an interagency task force meet two or three times a week during this period of world oil supply shortage, go over the figures, define measures, determine what opposition there may be from some of the agencies, and in 10 days or so establish a program of action. We should convene such a group right away.

Brzezinski—Yes, and it should be chaired by your shop, Stu, because the primary difficulty will be in dealing with the domestic programmatic conflicts.⁵

Alm—I don't want you to think we have been developing our program in isolation or in the dark. We have been in touch with the interested agencies.

Owen—Let's form it and have the first meeting on Monday.

Schlesinger—The US supply shortfall (net of SPR imports) is only about 500,000 b/d. Under the IEA sharing formula it would be about 800,000 b/d. We can save 500,000 b/d by reducing use of resid and distillates, using coal rather than oil in coal-capable utility plants, halting the phase-down of lead in gasoline, and using natural gas in boilers now using oil.

We should lean on the Saudis very hard.

Eizenstat—These administrative measures such as lead phase-down should be considered in an inter-agency group.

Owen—I agree, we need to assure review by the interested agencies.

Schlesinger—The gas shift-over is underway. No further action or announcement is required. There are a couple of environmental issues that need interagency review—that's it. Costle⁶ is prepared to take these two steps in an emergency situation.

Turner—I don't think it would be wise to push the Saudis very hard, all for a shortrun benefit of 1 million barrels a day of oil.

Owen—What are you saving them for?

⁵ On February 8, Poats sent a note to Brzezinski informing him that Eizenstat intended to "propose formation of an interagency working group to assure coordinated review of issues requiring urgent decision during the present oil supply problem." Poats explained that he or Kitty Schirmer would manage the group and concluded: "Energy won't like the idea, but our experience is that we cannot count on Energy's furnishing advance information on Schlesinger's plans for putting proposals through a proper interagency review process if coordination is left to them. Owen agrees that it is needed. I recommend that you endorse the suggestion." (Carter Library, National Security Affairs, Staff Material, International Economics File, Box 44, Rutherford Poats File, Chron, 2/79)

⁶ Douglas M. Costle, Administrator of the Environmental Protection Agency.

Turner—To establish a sense by the Saudis that the “special relationship” doesn’t mean our pushing them to get what is not in their best interests. And to get Saudi production when we really need it, next winter.

Cooper—We are aware of the fragility of the Saudi political system. We are trying to strike a balance.

Schlesinger—We should distinguish in our pressure between price and production volume. On price they are very sensitive and think they have a case. On production they are more vulnerable to our arguments.

Turner—Are you pressing them now to keep production up?

Cooper—Encouraging them to, yes.

Eizenstat—The President is thinking about making a statement or speech on energy. To what extent must we get back into the oil price issue in that statement?

Schlesinger—It doesn’t absolutely have to include crude price decontrol.

Solomon—Any energy speech by the President that excludes domestic oil prices is incomplete and would be seen by the financial and political audiences abroad as indecisive.

Schlesinger—We could include in it relief for marginal wells and new-new decontrol. I agree that it would be better to cover the whole price issue, but not essential.

Eizenstat—The Iranian situation has sharpened the arguments on both sides of this issue. It shows the danger of dependence on foreign sources and the need to induce more domestic production. On the other hand, it shows the danger of pegging our oil prices to crazy world prices.

Owen—Stu’s question might be rephrased this way: If we assume that the President will decide to decontrol oil prices, when should he make the announcement or speech?

McIntyre—What would decontrol gain us in supplies six months from now?

Schlesinger—It would slow the decline in our production by about 200,000 barrels or so in the first year.

Solomon—Benefits are greater in the long run. Inaction on this is creating the impression that we are not facing up to our energy problem.

Owen—I wonder whether delaying a decision until after the Teamsters’ negotiation would create a shyster appearance if decontrol follows shortly thereafter.

Schultze—This is not a major issue with them.

Brzezinski—We need to consult with the Japanese and the Europeans before announcing a decision on decontrol.

Cooper—We will be consulting with them through the IEA on the subject of conservation and supply-sharing when the IEA Governing Board meets March 1–2.

Schultze—We don't need to let the Iranian problem complicate the decision on domestic oil price decontrol. We could put a ceiling on our definition of world prices.

Owen—Should we put off the speech until that decision is made?

Schlesinger—When to make it depends on the size of the package needed. If it includes deferral of SPR procurement, allocation measures, we are ready to go. Every day we postpone a firm, comprehensive statement past March 15 will be torture.

Eizenstat—Limited action announcements by Jim are fine, but if it appeared that our response to a crisis that may be as grave as 1973–74 is to ask people to turn their thermostats down, we would look foolish.

Owen—Jim can deal with the partial measures, and the Presidential statement could be held until it can include world pricing of oil.

Eizenstat—The President will need to say something at his press conference Monday.

Solomon—We need to show bold action on both the domestic and international fronts. I saw the vice-minister of the Japanese MITI today and he wanted to know what the US is doing about the Iranian oil situation.

Cooper—We should discuss in advance with the IEA members any international action.

Brzezinski—The President also might address in this speech the security of the Middle East region. There is growing apprehension in Europe about this.

Schlesinger—I urge caution on getting into that. It would inject a politically divisive point in a speech that needs to rally American public opinion.

Brzezinski—Domestic measures to reduce oil consumption will be unpopular. If the President is asserting American will and resolve to deal with the whole problem, it will be understood. We must deal with anxiety in the rest of the world.

Owen—Why not say at the press conference that he will have a comprehensive statement within 30 days?

Eizenstat—No more deadlines on energy policy, please.

Schlesinger—He could say he will have a package of measures to announce after consulting with Congress.

A climate of rising oil prices will increase the need for a windfall tax as oil prices rise.

Eizenstat—If he announced tough conservation measures and limited oil production incentives without general decontrol, what would be the reaction?

Solomon—Critical, by the foreign press and exchange markets.

Schultze—You've got to go very strong on the tax side (of a decontrol package). Ask for a sacrifice and be sure it is not profitable for a few.

Eizenstat—Yes, the more you tax the oil companies, the more you blunt the reaction.

Solomon—Would gasoline decontrol be in the package?

Schlesinger—Could be, but the climate is not right now.

Schultze—At a time like this, you sure don't want decontrol of gasoline. You can move the price up but not turn it loose.

Schlesinger—But we could go ahead with a tilt.

[Omitted here is discussion of U.S. oil supply to Israel.]

Schultze—One other point: Your comparison of the present oil situation with 1973–74 is cockeyed in that the big impact then was the four-fold price increase. That was equivalent to a \$12 billion price increase in today's dollars.

Cooper—Yes, but the big worry now is escalation of prices. This is the bleak scenario we are trying to avoid.

188. Telegram From the Department of State to the Embassy in Saudi Arabia¹

Washington, February 9, 1979, 0202Z.

33924. For the Ambassador. Subject: Meeting with Crown Prince Fahd: Oil Matters. Ref: Jidda 1010 and 1104.²

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790063–0770. Secret; Nodis. Drafted by Twinam and Bosworth; cleared by Cooper, Katz, Saunders, Solomon, Schlesinger, and Brzezinski; and approved by Vance. Repeated to Dhahran and the White House.

² For telegram 1010 from Jidda, February 1, see footnote 6, Document 185. Telegram 1104 from Jidda, February 5, reported that the Saudi Foreign Minister presented a detailed explanation of the Kingdom's decision to increase prices on incremental oil production. (National Archives, RG 59, Central Foreign Policy Files, P850027–2594)

1. Please seek meeting with Crown Prince Fahd at next appropriate opportunity for discussion of need for coordinated response to situation caused by loss of Iranian oil exports. You should draw on points contained in para 2 and indicate that you are conveying this message at the request of the President.³ Our objective is to obtain insofar as feasible: (1) assurance SAG will not impose any production ceiling below full capacity levels which, subject to possible temporary fluctuations for maintenance reasons, we believe is from 10.0 to 10.5 MBD; (2) assurances SAG will oppose any effort by OPEC to respond to current oil market situation through a formal price increase; (3) also we wish to prepare the ground for active discussion with SAG on need to expand capacity above current levels. In conversation you should draw on the following:

2. USG regards Fahd's visit to Washington in March as a most important point in our relationship. It will be a time for extensive consultations on the range of major issues which impact upon our common interests.

—We share Crown Prince's sensitivity to the importance of dealing with issues of common concern in a way that will provide an ever stronger basis of public support both in the U.S. and Saudi Arabia for the deepening of our relationship in all its aspects.

—On the security side we will be pursuing an important dialogue during Secretary Brown's visit which we view in part as preliminary to Crown Prince's Washington visit.

—The USG has conducted an intensive review of the current status of the world oil market and its implications for shared US-Saudi interests. We would like to share our conclusions from this review and our views as to how we should deal with the situation with the SAG.

—Thus far, the loss of Iranian supplies has not caused serious economic dislocation. Increased production by Saudi Arabia and a few other producers with spare capacity has covered part of the supply gap.

—However, if, as now seems possible, Iran has not resumed exports of at least 3–4 million barrels per day on a steady basis by the end of March, we will begin to experience growing product shortages, the risk of sharply rising prices, and increasing economic disruption. The longer the Iranian situation persists, the greater the risk of serious damage to the already fragile world economic and financial systems.

³ According to telegram 1398 from Jidda, February 15, West delivered the message to the Crown Prince on February 14. (*Ibid.*, P850027–2619)

—We believe that the US and Saudi Arabia have a particular responsibility to provide strong leadership to meet this situation and minimize its effects.

—USG has begun in the International Energy Agency and in direct contacts with other major industrialized countries to establish a coordinated program to respond to the current situation. We will aim through an intensification of voluntary conservation measures, supplemented if necessary by mandatory government programs, to reduce demand by a significant amount. We will have the framework of this program in place by early March. We will also be working with other consuming countries to assure that any shortfall in normal supplies is being apportioned equitably among all countries and that existing stocks are being used in a rational manner.

—However, if we are to succeed in minimizing the disruptive effects of a prolonged loss of Iranian exports, we must assure that the maximum amount of oil is made available to the market. Saudi Arabia has responded promptly to the Iranian situation by expanding its production to a maximum sustainable level of more than 10 million barrels per day. Saudi production at this level is important, not only because of its critical contribution to meeting essential world needs for oil but also because it serves as an example to other oil producers to do likewise. The Saudi action has been noted with appreciation by the administration and the American public. We hope that Saudi Arabia will continue to use its influence with other producers to ensure that they too respond to the current crisis by producing at maximum levels.

—We recognize that the current tight market situation is causing upward price pressures as reflected by recent spot price quotations. However, these abnormal “distress” prices should not be used to justify a formalized or general OPEC price increase. We hope that Saudi Arabia can exercise leadership to dissuade others from revising OPEC price decisions adopted at Abu Dhabi last December.⁴ Even reports of such an OPEC Ministerial meeting to consider a price increase would add major pressures on the dollar to those which we are already experiencing because of Iranian developments.

—The Iranian situation indicates the need both for consumers to take further steps to conserve and to develop alternate sources and for producers to take steps to expand existing capacity. This is particularly significant in the case of Saudi Arabia and we hope that Crown Prince will give some thought to this question in anticipation of discussions during his Washington visit.

⁴ See footnote 2, Document 176.

—USG intends to be in touch with other governments as appropriate on how we can work together to deal with the several aspects of the oil and economic problems created by the Iranian production cutback, but we look to continued Saudi leadership among the producers in serving our broad common interests in international economic health and related political stability.

3. If the Crown Prince agrees with the foregoing you should add that a public clarification of Saudi production policy would be very helpful to the dollar in the foreign exchange markets as well as reassure American public opinion.

4. With respect to the points noted above (particularly that relating to Saudi production levels) you might at your discretion seek Fahd's concurrence in your going over them carefully with Yamani.

Vance

189. Telegram From the Embassy in Belgium to the Department of State¹

Brussels, February 12, 1979, 1002Z.

2699. Subject: Iranian Oil Squeeze: Time for an IEA Maximum Import Passthrough Price? Ref: Abu Dhabi 339.²

1. Confidential—entire text.

2. The spectacle of across the board cutbacks in oil supplies by the international oil majors to firm contract customers and of rising spot prices for crude and petroleum products in world oil markets brings with it an uncomfortable feeling of “*deja vu*”. When the 1973–74 oil embargo against the US began to pinch, panicky reactions by domestic independents, refiners and public utilities desperate for supplies touched off frantic bidding for non-embargoed crude which at one point reached over \$20 a barrel. During those difficult times, some government officials and top oil executives (e.g. Pocock of Shell) pressed

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790082–0500. Confidential; Immediate. Repeated to Abu Dhabi, Algiers, Baghdad, Bonn, Caracas, Cairo, Damascus, Dhahran, Jakarta, Jidda, Kuwait, Lagos, Libreville, London, Manama, Ottawa, Paris, Quito, Tehran, Tokyo, Tripoli, Vienna, and Geneva.

² Telegram 339 from Abu Dhabi, February 6, reported: “Abu Dhabi Petroleum Department Under Secretary confirms that UAE still reluctant increase its oil production despite approaches by BP, Exxon, CFP, and Japanese oil companies.” (Ibid., D790093–0774)

for rapid institution by the US, Japan and other important consumer countries, of a maximum import passthrough price to thwart a senseless upward spiralling. This fleeting effort foundered largely for two reasons. First, Congressional sentiment was judged to be unsympathetic to such tampering with the oil market mechanism. Moreover, the availability of substantial US domestic crude raised the overall composite price for a barrel of imported and domestic crude by a comparatively marginal and acceptable amount. In retrospect, more than any other single factor, our failure to even attempt to dampen this willingness to buy at any price demonstrated to OPEC that the sky might be the limit.

3. In the coming oil squeeze of 1979–80 (assuming a continuing Iranian shortfall and unwillingness or inability of the Saudis, et al, to cover it), it would seem pointless to permit a repetition of our earlier experience. Spot prices already are approaching the \$20 a barrel figure. Beyond the inflationary impact on our economy of a price scramble, under the International Energy Agency sharing agreement, the US cannot as a country outbid its partners in the hope of gaining a larger share of available supplies. We are prohibited from importing more than our fair share regardless of price. But an individual enterprise could still obtain a larger share of the US national allocation by aggressive price competition—unless the USG adopted a maximum import passthrough price system.

4. The idea is comparatively simple and its enforcement would seem no more difficult than with previous ticket allocation schemes. Any oil importer, including independent oil company, refinery or public utility purchasers, would be inhibited from paying more for imported oil than a specified fair market price to be determined on a periodic basis by the USG or IEA. The allowable price of any further sale of such imported oil, or of goods or services stemming from the use of it, would be limited to an amount based on this maximum passthrough figure. Beyond limiting the sales price of crude or its derivative petroleum products, for example, the price of electricity produced by a public utility from imported oil would also be controlled. To insure equitable domestic distribution of imported oil, an allocation system based on prior consumption needs (instead of price competition) would insure survival of independents and utilities as well as the majors and their long-time customers.

5. Although the US theoretically could implement a maximum passthrough system on its own initiative, prudence and common sense dictate that all IEA countries (and possibly other important consumers such as France and the advanced LDC's) should be persuaded to adopt a similar scheme. It would be tempting fate to expect the IEA sharing mechanism to function effectively without across the board adherence

to buyer discipline. Given common commitments to oil sharing and the same interest in maximizing availability at the lowest possible price, there should be little reluctance by our IEA partners to go along. A more difficult question is what will be the reaction of OPEC. If posed in a way which appears to be a threat to its “sovereign” right to fix world oil prices, we naturally risk a direct confrontation which we can expect to lose. But prior consultation with the Saudis and other moderates pointing out the temporary nature of the passthrough device as a means of avoiding market disruption, speculation and panic during a period of still fragile recovery from economic recession and inflation might very well find a receptive audience.

6. Time is of the essence. Once spot prices skyrocket and the scramble really starts, it will be impossible to put the genie back in the bottle. This time around do we act or react passively on the price side of the supply equation?

Chambers

190. Memorandum of Conversation¹

Mexico City, February 15, 1979, 9 a.m.–noon

SUBJECT

Discussion of U.S.-Mexican Bilateral Issues

PARTICIPANTS*U.S.*

The President
 Cyrus Vance, Secretary of State
 Dr. Zbigniew Brzezinski
 Patrick Lucey, U.S. Ambassador
 to Mexico
 Viron Vaky, Assistant Secretary of
 State
 Jules Katz, Assistant Secretary,
 Economic Affairs
 Matthew Nimetz, Counselor,
 Department of State
 Stuart Eizenstat, Assistant to the
 President for Domestic Affairs
 Jody Powell, Press Secretary to
 the President
 Robert Pastor, National Security
 Council Staff

Mexico

President Jose Lopez Portillo
 Santiago Roel, Foreign Secretary
 Hugo B. Margain, Mexican
 Ambassador to Washington
 David Ibarra Munoz, Secretary of
 Finance and Public Credit
 Miguel de la Madrid Hurtado,
 Under Secretary of Finance
 and Public Credit
 Ricardo Garcia Sainz, Secretary of
 Programming and Budget
 Dra. Rosa Luz Alegria Escamilla,
 Under Secretary for
 Evaluation
 Jorge de la Vega Dominguez,
 Secretary of Commerce
 Hector Hernandez Cervantes,
 Under Secretary for Foreign
 Commerce
 Jose Andres Oteyza Fernandez,
 Secretary of National Wealth
 and Industrial Development
 Ing. Jorge Diaz Serrano, Director
 General, PEMEX
 Oscar Flores, Attorney General of
 the Republic
 Jose Ramon Lopez Portillo,
 Director General for
 Documentation and Analysis,
 Department of Programming
 and Budget
 Rafael Izquierdo Gonzalez,
 Advisor to the President
 Fernando Rafful Miguel, Head of
 Department of Fisheries

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 37, Memcons: President, 2–3/79. Confidential. The meeting was held at Los Pinos, Mexico's Presidential residence. All brackets, except those indicating material omitted by the editor, are in the original. Carter was in Mexico City February 14–16 for a State visit.

Lopez Portillo: Yesterday, Mr. President, we began our discussions on international topics.² It is proposed that today we take up bilateral matters. If you agree, you may wish to initiate the discussion.

Carter: I would like to do so. Let me say first that we are eager to conclude this visit with an agreement between us—and with a perception by the peoples of our two nations—that this has been a successful visit and constructive. Of all the visits I have made, this one has aroused the greatest interest in my country. This is an accurate measure of the importance we attribute to Mexico and our relationship.

There are serious problems and issues, but we want to turn them into opportunities. Some of the major issues are energy, trade, border questions and future collaboration on technology and the achievement of a better quality of life for our two nations.

Let me begin frankly with energy:

We are pleased and excited over your prospects for developing major energy resources. We have no desire to influence such matters as your production, exploration, distribution of your resources. This is entirely your prerogative. We would like to be good customers for what you may want to sell to us. We want to pay a fair price and would like to negotiate long-range arrangements without delay.

As far as oil goes, a fairly standard world price pattern exists in terms of long-term contract and spot-price purchases. At present our purchases of your oil are normal and routine—and are satisfactory. We do think that there is an advantage to you in selling to us because our location means lower transport costs. At present we import 45 percent of our consumption. For a number of years therefore the U.S. will be a ready market for whatever oil you decide to sell to us.

As regards gas, for now and the immediate future we have ample supplies of gas. We have increased local production and are constructing the Alaskan pipeline which will increase supplies. But my expectation is that when your gas development reaches the point where you are ready to sell, we would be prepared to buy it. Obviously the terms of delivery and price would have to be arrived at through negotiation.

I regret last year's misunderstandings on gas.³ It was embarrassing to both. Our problem is that our government does not play a role in the purchase, commercialization and distribution of gas and oil. That is in the hands of private companies. But our regulatory agencies must con-

² The memorandum of conversation of the February 14 meeting is *ibid*. It is scheduled for publication in *Foreign Relations, 1977–1980*, volume XXIII, Mexico, Cuba, and the Caribbean.

³ See Document 170.

trol prices and protect consumer interests. Private oil companies are interested in keeping prices as high as possible because they control reserves they would like to sell in the future.

Our desire would be to have our government representatives meet without delay to determine the terms of such future sales as you deem it best to make. Then within those parameters, the companies would be free to purchase gas or oil. I have studied the history of the negotiations last summer, and I believe we can negotiate an agreement satisfactory to the interests of both countries. There is no doubt that our market will be a growing one. We want to be good neighbors and customers, recognizing your patrimony over your own resources. Would you like to comment on these points?

Lopez Portillo: I am afraid my answer will be long, because I want you to understand our views. Oil for us is a symbol as well as an energy source. The Cardenas expropriations⁴ were historic milestones. Our whole history has been a fight for decolonization. In the 19th century it was a political fight. In the 20th it was oil expropriation. Thus oil is a symbol and surrounded with great emotion here. We define our identity in terms of oil.

Oil is also a non-renewable resource. Thus we must plan carefully for the future, and exploit oil on the premise that we do so to improve renewable resources. We must “sow the oil.”

This year we will produce 1.5 million BPD. We are increasing at an approximate daily rate of 25,000 barrels. All this requires considerable investment; it also means we must import large amounts of goods for this exploration and exploitation. Our studies show that we have oil throughout the territory of Mexico. Thus two points come up with regard to our economic structure—the amount of investment and the level of imports. The first relates to indebtedness. We have agreed with the IMF to respect certain limits regarding indebtedness—both public and foreign. A great speed-up of investment could deform the whole structure, and create inflation. Because we need imports we must also watch the level of imports to avoid a balance of payments problem. We have in short to be cautious with regard to our oil investment.

As far as production goes, there will come a time when we will have export surpluses, and relatively soon. We thought by 1982, but now it appears that point may be reached as early as 1980. What volume of exports? We do not want to go too fast. We need to develop projects first to use the petro-wealth we will earn, projects relating to poverty and unemployment. That takes time, and we want them in

⁴ Reference is to Mexico's nationalization of its oil reserves and its expropriation of foreign oil company equipment under President Lázaro Cárdenas in 1938.

place first. Even if we have projects they must be implemented with a certain rhythm. We do not want to go so fast we provoke inflation or create a capital surplus and capital exports.

In short, we must link oil to internal development. We want to use oil as the trigger for our development “take off.” We have a globally congruent plan for development, centered around reorienting industrial development and helping create a more equitable population distribution. Simple import substitution does not serve us now. We must produce to satisfy the needs of the masses, not the middle and upper classes. We must organize to export. Oil enables us to do this, and we have a number of plans covering such things as agriculture, forestry, tourism, marketing education, etc.

The general structure of our plan was to divide my Administration’s period into three 2-year periods. The first two years were aimed at recovering from deteriorated conditions and reactivating the economy. We have been successful. The present two years will be aimed at consolidating our economy, and the last two years to acceleration. What does consolidation mean? Maintaining the indices, resolving certain bottleneck problems—petro-chemicals, trained labor, transport infrastructure. We have identified some seven to eight bottlenecks. Transport is a good illustration. We need the infrastructure to move the oil and the products of development. If we just produce oil we cannot take advantage of it without transportation infrastructure. What do we do first?

The fact that we found that gas was associated with oil meant that to activate oil production we had to decide last year how to handle the gas. Our alternatives were either to sell the surplus rapidly or use the gas to foster our industrial development. At that time—a year ago—we decided to sell the gas to our natural market quickly, i.e., the U.S. So I authorized PEMEX to negotiate with private companies who were interested. An agreement was not possible. This created political problems, but we have overcome those. We then decided to route the pipeline to Monterrey and circle our territory. This gas will replace other fuels which are easier to export.

Let me now relate specific conclusions regarding production. By 1980 we should reach our first production plateau of 2.25–2.5 million BPD. This will produce four billion cf of gas. Of this we will probably have 600–700 million cf to export, and with some increasing trend. There is a gas line from Reynosa to Monterrey that can carry this amount now. When we reach that production plateau we will review the economic situation to determine what we do next. Obviously we are flexible. We will then decide on the next plateau.

Within the range of all that I have said, then, we are in the market; we will respect the rules of the game. The U.S. is a natural client. We

have of course had relations with you for a long time, selling both gas and oil. It would be absurd if for whim's sake or xenophobia we withdrew from the market. Negotiations should be opened to reach sales agreement. Price and terms should be worked out.

On price, I repeat that the economic order is not designed to help LDC's. We want to rationalize flows. We need to revalue our assets because our terms of trade deteriorate. With reference to gas, price was one of the objections to last year's negotiations. Gas can be considered a fuel; it has caloric value. Is it not reasonable to give it a price equal to other fuels even if it is the lowest price? I put these considerations on the table. This is the rationale that should govern the price of gas. We are ready to talk about gas and oil. We should come to some agreement on a system for long-term relationships, established on a rational basis as regards terms for trading in this crucially valuable and emotionally charged resource.

But I must say clearly and frankly, Mr. President, that the basis we established for gas sales cannot be modified by us without domestic difficulties and without damage to my own credibility and position. This is not abusive; it is realistic.

In short, we are disposed, once the U.S. has determined its policy (and we do not wish to interfere in its domestic politics or policies) to negotiate. This is not a bluff. Neither you nor we are in a hurry. It would not be a failure if we could not agree on price. What we should do, however, is establish permanent bases for the long term. If these are well balanced, flexible, there should be no problem.

Carter: I presume, then, that you think it would be advisable to resume discussions at the government level, recognizing that we are not in a hurry, and with respect for each other's interests, looking to the future.

Lopez Portillo: Let me clarify this. You are talking about government negotiations? Because an alternative is to have the companies negotiate with PEMEX.

Carter: Government to government.

[Lopez Portillo nodded assent.]

Good. Your explanation has been very helpful. I believe I understand the special symbolic importance of energy to your country. Many of these considerations are not unique to Mexico. The question of depletion of non-renewable energy resources is certainly a concern of ours. Problems of debt, balance of payments, trade—these issues are on my plate as well.

As is true of Mexico, the U.S. also has a rapidly growing number of adults entering the job market. We are also concerned about invest-

ments to provide employment for these people coming into the labor market.

It would be a mistake for the U.S. to blame Mexico or for Mexico to blame the U.S. if we sometimes have difficulties. There is no question of the need for fair play. I am determined that my country will always act in good faith.

There are ways in which we could collaborate and cooperate. In nuclear energy, we would be glad to cooperate with you, if you wish, depending on what your plans are. Solar energy is another area in which we would welcome close collaboration. We could study electricity exchanges along the border. Transportation systems in both countries have needs. Railroad as well as other types. We could collaborate in exchanging information in that regard. There would be a great advantage in increasing tourism for both countries and expanding student exchanges, and these areas offer opportunities for cooperation. As your country industrializes, we would be glad to share our experiences with you so that you could profit by our successes as well as by our mistakes. Mutual financing arrangements and inflation control are additional areas in which we could exchange information and ideas. We have made full progress in the area of water resource management, but there is a need for cooperation in sanitation and pollution problems, and these should be tackled jointly.

I could mention other areas, but the point is that the bases for cooperation in all these areas would be complete equality and mutual respect and with no intention to influence each other against each's interests. We established a Consultative Mechanism in 1977 to pursue some of these subjects. It made some progress but my assessment is that it needs to be improved. The ones that consult should have more authority to decide and act, specific assignment should be broadened and agenda items expanded.

Our Ministers should explore all this without delay—and you and I can be in touch with each other personally or in writing to handle differences that may arise. We can explore this more at our private meeting at breakfast tomorrow.

I want our frankness to result in tangible accomplishments and future agreements.

And I hope we won't wait two more years to get back together to resolve our differences.⁵

Lopez Portillo: I would like to go a little bit deeper into energy. I want to ratify Mexico's position that oil will be treated as the heritage of mankind. I want to reopen the idea of establishing an international

⁵ Carter and López Portillo met in Washington February 14–15, 1977.

order to manage consumption, production, distribution—not only of oil but all energy sources. I note, by the way, that Mexico buys butane and propane at American market prices.

Let me refer to uranium. My associates tell me that the U.S. has not authorized the return of uranium sent up for enrichment, adducing the need for some security safeguards. This illustrates the problem of dependence, which we don't want for other areas because it would encourage us to turn to other sources. We are a peaceful country, and we will not use atomic energy for anything but peaceful purposes.

On electricity, let us by all means explore such exchanges. We are totally willing to enter into such arrangements.

We believe the technological development of the United States is extraordinary. We are certainly interested in making use of your technology. We need to explore its links to financing and markets. We are interested greatly in solar energy and alternative sources of energy, and we offer what we have. I believe we can find a just and fair exchange. What you said is very interesting to us.

In general all these things would be part of the general system I talked about yesterday.

Carter: I am pleased that we can move on electricity exchanges. On nuclear fuels, I think I can assure you that the problem will be resolved when you are ready for it. I will give this my personal attention when I return.

As you know, Congress has passed a non-proliferation law that has caused problems and delays in regard to nuclear fuels,⁶ but these are being resolved.

We can also explore the possibility of an oil swap between Alaska, Mexico and Japan to save transportation costs and benefit all concerned.

I suggest that we allow our strengthened consultative group to explore all these things and then you and I get together again sometime, perhaps this summer if that is convenient to you, to assess what has happened and resolve any differences that exist. If we announce we will meet personally to assess their work, this might stimulate our staffs to move more expeditiously. We have done so well in narcotics cooperation, under the leadership of Attorney General Flores. This shows that when we work well together the progress can be great.

Lopez Portillo: I want to underline the importance of the possibility of supplying oil to Japan from Alaska which we would deliver to you. This is just the kind of rationalization of oil flow I referred to when

⁶ The Nuclear Non-Proliferation Act was signed into law on March 10, 1978. (P.L. 95–242)

I talked of international cooperation and organization. For ideological reasons and clients we distort and make prices higher than necessary. We accept the idea of a swap with enthusiasm.

Carter: Do you agree that we should meet early this summer or at the beginning of summer?

Lopez Portillo: In view of the similar views of our associates about the meeting [all around the table smiled after the President's remarks on the matter to expedite decision making by a Presidential meeting], I am in agreement with your ideas.

[Omitted here is discussion of trade, narcotics, and immigration.]

191. Memorandum From James Cochrane of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, February 23, 1979.

SUBJECT

Energy

Last evening, in Rud Poats' absence, I attended a meeting on energy. This committee doesn't officially exist, but meets regularly after dark. It's chaired by Kitty Schirmer and is (often) called the Interagency Energy Working Group.² Two major issues were discussed last night.

First, the group worked through alternative ways the US could absorb its share of an anticipated world crude oil cutback of two million b/d. DOE's projected US 1979 demand is 19.2 million b/d. DOE has developed a series of multiple responses which would reduce US oil demand from this status quo estimate, beginning in summer 1979. Much of the meeting was devoted to discussing the economic and political costs associated with various response measures. It was obvious after about an hour of discussion that a great deal of econometric work remained to be done, while political speculations are not in short supply. Both the CEA and DOE were to return at the next meeting, scheduled for February 26th, with additional analytical results.

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil, 8/78–2/79. Confidential. Sent for information.

² See footnote 5, Document 187.

The second major topic discussed at the meeting was the issue of the USG position to be taken at the next International Energy Agency (IEA) meeting, March 1–2.³ Steve Bosworth (State/Economic and Business Affairs) argued that the US should make a quantitative commitment to cut back crude oil imports. The group agreed that the US commitment would be a 4–5 percent reduction in oil imports. Bosworth pointed out that the promise would probably not be carried out by summer, but rather as 1979 went by. Bosworth argued that the actual percentage reduction in US oil consumption was less important to other IEA members than implementation of a *mandatory* USG conservation program. He further pointed out that the FRG is being tough on the issue of quota reductions. The FRG wants to maintain the status quo. The other IEA members will look to the US for resolution of this difference between the USG and the FRG. Finally, Bosworth pointed out that an OPEC Ministerial was scheduled for late March so that any actions taken by the IEA could possibly be reacted to quite soon.

³ See Document 192.

192. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, February 23, 1979, 2001Z.

44863. Subject: U.S. Proposals for Meeting of IEA Governing Board, March 1–2. Ref: Paris 5576.²

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790084–0923. Confidential; Immediate. Drafted by Bosworth and Richard E. Hecklinger (EB/ORF); cleared by Bergold, Poats, Eizenstat, and Hormats and in EUR/RPE and the Treasury Department; and approved by Cooper. Sent to Athens, Bern, Bonn, Brussels for the Embassy and USEC, Copenhagen, Dublin, London, Luxembourg, Ankara, Madrid, Oslo, Ottawa, Rome, Stockholm, The Hague, Tokyo, Vienna, Wellington, and Canberra. Repeated Immediate to Paris for the Embassy and USOECD and Priority to Caracas, Kuwait, Jidda, and Abu Dhabi. In a February 21 memorandum, Poats informed Owen and Brzezinski that this telegram was being sent. (Carter Library, National Security Affairs, Staff Material, Special Projects File, Box 9, Henry Owen, Chron: 2/10–28/79)

² Telegram 5576 from Paris, February 20, reported that the IEA Standing Group on Emergency Questions (SEQ) had accepted the IEA Secretariat's estimate that the world oil shortfall was likely to average 2 million barrels per day in 1979. As a result, a majority of the IEA members supported the idea of restraining oil demand by an amount to be agreed upon, a decision that the Governing Board would make at its March 1–2 meeting. (National Archives, RG 59, Central Foreign Policy Files, D790079–0089)

1) (C—entire text)

2) Posts are requested to convey on Saturday³ if appropriate, if not, as soon as possible, the following points concerning the world oil situation and the March 1–2 meeting of the IEA Governing Board to high-level host government officials. OECD please pass to IEA (Lantzke).⁴

—The U.S. believes strongly that the IEA countries must take coordinated action to meet the problems posed by the current shortfall in global oil supplies. We are sharing our thoughts with IEA governments in advance of the meeting of the Governing Board on March 1 and 2 and urge that all delegations come to that meeting prepared to join in a strong and effective Governing Board decision.

—Events in Iran have resulted in 5 million barrels of oil per day (MMB/D) being taken off the world market. Increased production by other countries has reduced the cumulative loss to about 2 MMB/D.

—The situation in Iran remains uncertain. We cannot predict when Iran will resume oil exports. Even when production is resumed, it could again be reduced or terminated. Other producers may not exceed current production levels. And as Iran resumes exports, other nations could decide to lower their production before stocks are at satisfactory levels.

—We thus face a serious situation requiring effective, coordinated action by all countries, consumers and producers. While we must take care not to stimulate panic and hoarding of oil, we must act prudently to minimize the economic disruption which could result from a protracted shortage of oil supplies.

—The U.S. believes that since we cannot be assured that oil production prospects will improve considerably within a short period of time, the oil-consuming countries will have to take effective steps to reduce their demand for oil through use of a variety of measures, mainly conservation and fuel switching. This could entail some political, social, and possibly economic costs, but these are of a far smaller magnitude than the potential costs of other alternatives.

³ February 24.

⁴ Christopher informed the President about the U.S. proposal to be presented at the March 1–2 meeting in a February 23 memorandum. After explaining the proposal's objectives, Christopher concluded: "The strongest resistance to our proposal will probably come from the Germans and the Japanese. The Germans prefer to avoid demand restraint measures and instead rely on a rise in oil prices to balance supply and demand. The Germans are, of course, more able than most other IEA nations to manage the economic consequences of such a course of action. The Japanese are wary of demand restraint measures, claiming that in their case the only alternative would be to cut oil supplies to industry which would slow economic growth." (Carter Library, National Security Affairs, Staff Material, Special Projects File, Box 9, Henry Owen, Chron, 2/10–28/79)

—Relying on accelerated stock drawdowns to cover the shortfall in the hope that Iranian production will soon return to pre-crisis levels simply will not work. Those holding stocks will not be willing to draw them down substantially. And if they were, this would only result in inadequate stocks to take us through the next winter and in serious spot shortages by the summer and possibly well before.

—Relying on oil price rises to balance supply and demand would have serious economic costs, including increased inflation and international monetary instability, severe disruptions in certain industries and sectors, a likely recession, and inordinate transfers of resources to producing countries. Another very disturbing consequence is that this is likely to result in a permanent increase in the OPEC price.

—The U.S. administration has called for voluntary conservation by all users, including governments at the Federal, State, and local level, industry, the driving public, and the residential sector, and we are currently preparing a major public program to maximize the effect of voluntary measures. We are also preparing a series of mandatory conservation and fuel switching measures and are prepared to impose them if the savings from voluntary actions are not sufficient. Other nations are also considering or are taking such measures. However, in order to have the desired effect on the oil market, the oil-consuming nations must act together. A carefully coordinated international effort in the IEA will enable us to have the maximum effect on the oil market—both by reducing demand and establishing a positive psychological climate—and will assist each government to gain the support of its Parliament and public for strong and effective domestic measures.

—The U.S. therefore believes that the Governing Board in its March 1–2 meeting should call on IEA countries to implement measures in whatever way is appropriate to their individual circumstances, voluntary to the extent feasible and mandatory to the extent needed, to achieve a substantial reduction in oil demand to be shared equitably by all IEA countries. We do not believe it would be feasible to attempt to dictate what specific measures should be taken by individual governments, rather each government would commit itself to take whatever measures would be necessary to achieve a common reduction in demand. The exact amount of the reduction will have to be decided at the GB meeting in light of the current IEA analysis of the oil market. But we believe it must be at least equal to the IEA countries' group share, based on projected 1979 demand, of the current shortfall in world production. (FYI—While we will not be prepared to propose a specific reduced demand target until we have completed our review of the U.S. contingency plans, we believe a common IEA percentage target of 4–5 percent will be required to produce the necessary reduction in projected demand.)

—The purpose of this initiative is twofold: to achieve a significant improvement in the world energy market, and to demonstrate, particularly to key producer countries, that the major oil-consuming nations are taking this situation seriously and are willing to do their share to improve it.

—The U.S. would suggest that the GB also recommend that strong measures be taken to increase IEA oil production to the extent possible.

—The GB should also recognize the efforts of some OPEC nations to increase production of oil in response to the cut-off of exports from Iran. We should stress the shared responsibility of oil producers and consumers to meet such a situation in a way that will maintain the health of the world economy.

—In order to make credible this demand restraint effort, the GB should establish a system to monitor the progress of IEA members toward reaching the collective target. The Standing Group on Emergency Questions (SEQ) should be charged with meeting periodically over the next 30 to 150 days to review member country demand restraint programs in terms of effectiveness and equivalence of efforts.

—The GB action would constitute an important commitment for its members. The U.S., as the largest energy consumer in the IEA, would take such a commitment very seriously. We are developing a series of demand restraint measures that we believe will enable us to do our part. We will explain them in some detail during the meeting.

—We would appreciate any comments on these proposals member countries might wish to make in advance of as well as during the meeting.⁵ Embassies may note that they are broadly consistent with the approach suggested by IEA Executive Director Lantzke at the SEQ meeting February 19 (reftel).⁶

Christopher

⁵ On March 9, the Embassy in Brussels wrote: “our suggestion made a month ago [see Document 189] for placing a ceiling on spot market petroleum prices probably came too late to be acted on at the March 1–2 IEA Governing Board meeting. Demand restraint measures undoubtedly were more readily acceptable to IEA and possibly OPEC governments as well. But the recent moves of Iran, Libya, etc. to divert into the spot market increasingly substantial amounts of crude produced ordinarily for shipment under long-term contracts impels us to raise the ceiling price issue once again.” (Telegram 4564 from Brussels, March 9; National Archives, RG 59, Central Foreign Policy Files, D790109–0075)

⁶ Telegram 57501, March 8, reported that the IEA Governing Board agreed IEA member countries should reduce their demand for oil by some 2 million barrels per day, equivalent to about 5 percent of IEA consumption. (Ibid., D790107–0810) The Governing Board decision, “Action on the Oil Market Situation in 1979,” is printed in Scott, *The History of the International Energy Agency*, vol. III, pp. 110–113.

193. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter¹

Washington, March 16, 1979.

SUBJECT

Crude Oil Intelligence

Today you have received the Domestic Policy Staff's status report on the Interagency Energy Group. The group is charged with producing options papers for you on several interrelated energy issues, including domestic crude oil pricing and a program to reduce US oil consumption by 5 percent.²

The NSC Staff is actively participating in the group. Independent of that activity, I thought you might want to read the DPS report in conjunction with best present estimates of the international crude oil situation. Three documents are attached:³

- 1979 Oil Supply Expectations (Tab A)
- OPEC: Price and Production Developments (Tab B)
- Free World Oil Market Through First Quarter 1980: Possibility of Supply Shortfalls (Tab C)

To summarize, there is substantial uncertainty about the Saudi crude oil production response to the Egyptian-Israeli peace treaty.⁴ We should have a clearer picture of this after Warren Christopher, General Jones and I return from Saudi Arabia and Jordan. We do know that the *Iranian* crude oil production this week was 2.5 million barrels, low when compared with mid-1978 daily takes of 6 million barrels, but higher than many experts predicted possible. At the March 26 OPEC Ministerial, Ali Ardalan, Iran's Minister of Economic Affairs and Finance, will state that Iran is technically unable to produce more than 3–3.5 million barrels per day during the next three months. One key to the outcome of the OPEC Ministerial is the Saudi reaction to this information, both their production response (moving above or below the current daily take of 9.5 million barrels) and their position on price. The

¹ Source. Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil, 3–6/79. Secret. Sent for information.

² See Document 191.

³ Tabs A–C are attached but not printed.

⁴ While the peace treaty was not formally signed in Washington until March 26, the Israeli Government announced on March 14 that the Cabinet had voted to accept a compromise on the remaining two issues that stood in the way of an accord. (*The New York Times*, March 15, 1979, p. A1)

Saudis appear to want the OPEC Ministerial to result in immediate imposition of what would have been fourth quarter 1979 prices.

On March 26, the OPEC Ministers will have to weigh the Iranian production information, and the Saudi production response, with estimates of market demand. It is evident that consensus on price has not yet been reached.⁵ Therefore such a consensus can be shaped by energy decisions taken within the major oil-consuming nations.

⁵ OPEC held an “extraordinary” meeting in Geneva March 26–27, after which it released a closing statement. The conference: 1) agreed to “take steps to instruct lifting companies to guarantee the quantities supplied to developing countries”; 2) agreed to “monitor the prices charged by the lifting companies to developing countries continuously”; 3) expressed concern about “the price speculation practices on the part of the major and trading oil companies in the open market” and “the lack of necessary measures” taken “by the industrialized, developed countries with a view to controlling the market situation”; and 4) “decided to undertake only a moderate and modest adjustment in the price by bringing forward the price adjustment of the fourth quarter, 1979” and “applying it as of 1st April, 1979,” making the market price of crude \$14.546 at that time. (Telegram 3036 from Vienna, March 29; National Archives, RG 59, Central Foreign Policy Files, D790146–0535) The OPEC statement was published in full in *The New York Times*, March 28, 1979, p. D11.

194. Memorandum From James Cochrane of the National Security Council Staff to the President’s Assistant for National Security Affairs (Brzezinski)¹

Washington, March 23, 1979.

SUBJECT

Defense Energy Consumption and the Iranian Response Plan

During the Interagency Energy Group’s deliberations on reducing US oil consumption by five percent, an options paper on defense energy consumption was developed.² The options were

- no reduction in defense energy use
- a three percent reduction
- a five percent reduction

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 29, Iran, 4–10/79. Confidential. Sent for information. A stamped notation reads: “ZB has seen.”

² Neither a record of the meeting nor the paper has been found.

Last night, Stu Eizenstat was convinced of the merits of the no reduction case. The issue is now dead, an options paper on this subject will *not* be part of the energy package going to the President.³

³ Presumably for the President's speech; see Document 196.

195. Memorandum From Secretary of State Vance and Secretary of Energy Schlesinger to President Carter¹

Washington, March 30, 1979.

SUBJECT

US-Mexico Natural Gas Negotiations

As follow-up to your meeting with Lopez Portillo,² we have proposed and the Mexican Government has agreed to begin discussions on April 3 and 4 in Mexico City on possible United States purchases of Mexican natural gas.

Our objective at this first meeting will be to resume the previously terminated discussions and to obtain a better understanding of the current Mexican position. Specifically, we will seek to ascertain the readiness of the Mexican Government to proceed with gas sales in the near future, the volumes which might be available, the term of a possible contract, and, finally, the pricing mechanism.

The indications we have so far are that the Mexicans may not be in a hurry to conclude an understanding. They may continue to maintain that they have not yet determined available volumes. They will undoubtedly open with the position that the price should be determined on the basis of the BTU equivalent of distillate fuel oil—a formula which would yield a price in excess of \$3.30 per mcf.

¹ Source: Carter Library, National Security Affairs, Staff Material, North/South File, Box 31, Pastor Country Files, Mexico: Gas Negotiations Briefing Book, 1–3/79. Confidential. Sent for action. Brzezinski sent this memorandum to the President under a March 30 covering memorandum, in which he concluded: "Before too long, I believe we will be faced with some hard decisions on how much we will be willing to pay to develop a good relationship and to contribute to the development of Mexico. We will be in a better position to know after these negotiations." He recommended that Carter approve Vance and Schlesinger's strategy, and the President indicated that he did by checking the Approve option. (Ibid.)

² See Document 190.

For these reasons we propose to use the initial meeting to probe Mexican intentions, to analyze the market for Mexican gas, and to seek to establish what are the competitive alternatives for Mexican gas in the US market in order to determine the appropriate BTU equivalency. In this manner, we believe that we can find areas of agreement and avoid prematurely an impasse on the question of price. After this initial meeting we can better determine our follow-on strategy.

In preparation for our meetings with the Mexicans, an advisory group was formed, made up of a number of representative groups from the private sector including interstate pipeline companies, natural gas distribution companies, state regulatory authorities, and gas consumers. In the first meeting, held on March 26, there was a useful exchange of views which established a clear interest in the importation of Mexican gas at an acceptable price.³ The general view was that a price of \$2.60 per mcf at the present time would be in the interest of natural gas consumers but that a price as high as \$3.30 would limit the market severely. The advisory group suggested a number of useful areas for discussion with the Mexicans. We intend to consult with the advisory group following our meeting with the Mexicans and as our negotiations with the Mexicans proceed.

We will, of course, keep you closely advised of the progress of the discussions with the Mexican Government.

Recommendation

We recommend that you approve the exploratory approach we propose to have the United States delegation take at the first meeting with the Mexicans.⁴

³ No other record of this meeting has been found.

⁴ Below this recommendation, the President wrote: "Do *not* let the Mexicans nor US oil companies adversely affect the interests of American people. Do *not* assume the role of supplicant. Do *not* let imported gas prices boost overall domestic prices." Brzezinski returned the memorandum to Vance and Schlesinger on March 31, informing them that Carter had approved their strategy and asking them to "note the President's handwritten comment." (Carter Library, National Security Affairs, Staff Material, North/South File, Box 31, Pastor Country Files, Mexico: Gas Negotiations Briefing Book, 1–3/79)

196. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, April 5, 1979, 0024Z.

84259. Action for USEEC. Subject: The President's Energy Speech.²
Reference: State 83465.³

1. As explained in reftel Ambassadors or senior Embassy officer are to deliver the following personal message from the President on April 5. In the greeting post should insert just the first name of the chief of government except Tokyo which should insert Mr. Prime Minister.

2. Additional information on speech will follow septel.

3. Any initial reactions should be reported.

4. *Begin text.*

Dear

Thursday night I will announce my decision to let US oil prices beginning June 1st to rise to world levels. This increase will take place gradually, but with increased domestic production and reduced consumption emphasized early in the process. Full decontrol will be achieved in September 1981.⁴ The phasing-out of some controls past the December 1980 deadline set at the Bonn Summit will minimize the

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790155–0557. Confidential; Immediate. Drafted by Carol K. Stocker (EUR/RPE); cleared by Schlesinger, Owen, and in EA and EB; and approved by Cooper. Sent to Bonn, Brussels, London, Ottawa, Paris, Rome, and Tokyo.

² The President's April 5 address to the nation on energy is printed in *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, pp. 609–614. He began the speech with the statement: "Our Nation's energy problem is very serious—and it's getting worse."

³ In telegram 83465 to Bonn, Brussels, London, Ottawa, Paris, Rome, Tokyo, Jidda, and Riyadh, April 3, sent in anticipation of the President's speech, the Department instructed Ambassadors or senior Embassy officers to "seek an appointment with high-level energy official to provide briefing before the President's speech." Briefing materials would be provided on April 4, and Carter would send "a personal message to the heads of state of the Summit countries and Jenkins of EC notifying them of his speech and asking them to make a public statement of support." (National Archives, RG 59, Central Foreign Policy Files, D790153–1227)

⁴ The Embassy in Paris reported that Lantzke "thought U.S. decision to decontrol oil prices would be very welcome to International Energy Agency partners." Lantzke also said that he "doubted that there would be significant criticism of the nine-month slip-page" from the U.S. pledge at the Bonn Summit to reach world price levels by the end of 1980. "Given U.S. domestic considerations," he commented, "the President's program goes as far as can reasonably be expected." (Telegram 11139 from Paris, April 6; *ibid.*, D790157–0620)

burden on our anti-inflation program, which the Bonn Declaration defines as the United States' top priority.⁵

In my speech, I will describe measures to restrain oil imports in fulfillment of our recent pledge at the International Energy Agency.⁶

I will also announce a major program for developing and testing new energy technologies, which will involve substantially increased expenditures. The costs of this intensified US energy research and development will be met from the proceeds of new taxes which I will ask the Congress to enact, in order to capture excessive oil company profits resulting from decontrol. My decision to decontrol oil prices is not contingent on passage of these taxes.⁷

The actions that I will announce are intended, in large measure, to stabilize the international oil market and currency markets, on which all our economies depend. I would appreciate any public or private comment you may wish to make. The initial international reaction will be important in shaping public opinion and future decisions of energy producers and consumers.

While my speech will deal with domestic measures, I will also state that success in developing new energy technologies requires intensified international cooperation. I hope that a wider international effort to this end can be mounted, which we can discuss at the Tokyo Summit meeting.

Sincerely,

5. *End text.*

6. Posts except Tokyo should use "Jimmy" as signature line. Tokyo should use "Jimmy Carter".

Vance

⁵ See footnote 3, Document 157.

⁶ Carter was referring to the March 2 IEA decision to reduce consumption by 5 percent. See footnote 6, Document 192. At its March 30 meeting, the IEA Governing Board noted that member countries "had made a start toward implementation" of its March 2 decision "to restrain aggregate demand for crude oil on world markets by five percent by the fourth quarter of 1979." The Board agreed that "the oil supply crisis was far from over," and speakers at the meeting "repeatedly stressed that only strong, collective action could forestall a 'disastrous' upward price spiral." Some delegations, as well as the IEA Secretariat, "thought the time had come to actively seek contacts with OPEC" but most "appeared to share the US delegation's skepticism in that regard." (Telegram 85953 to OECD capitals, April 7; National Archives, RG 59, Central Foreign Policy Files, D790159–0265)

⁷ Carter proposed a new windfall profits tax on the "unearned" profits of oil companies. The taxes would fund an Energy Security Trust Fund to develop alternative energy sources.

197. Notes of Summit Preparatory Group Meeting¹

Hakone, Japan, April 5, 1979.

Notes on Summit Preparatory Meeting
Tokyo Summit

[Omitted here is discussion unrelated to energy.]

There was a brief discussion of the impact of Iran on the world energy picture. Hunt added that because of Iran, and for other reasons as well, the United States' energy situation took on even greater significance than it did in Bonn. The United States should indicate what it had done since Bonn. Owen agreed that the United States should be prepared, and will be prepared, to provide information on developments in its energy program. He further added that six points should be covered in the energy paper:² 1) efforts to reduce consumption, 2) increased investment in energy either through target pledges or increases in specific types of investment, such as coal, 3) an understanding on trade and coal, 4) R&D paper, multilateralizing the Japan-U.S., US/EC arrangements, 5) a progress report on INFCE and 6) aid to LDC energy production including R&D, support for new World Bank exploration and financing programs and greater bilateral efforts. Froment-Meurice said he was "pleased" that the United States will explain how it has fulfilled its commitments at Bonn. The Summit at Tokyo should say more about energy than Bonn. Amaya's target for reduced oil imports is a good idea. We should also attempt to have our efforts to build more nuclear plants supported by the Summit. We should agree on a stepped-up energy dialogue with the developing countries, but the question is how to do it. This is a Saudi proposal and we should not forget about it.

Cooper stressed that energy might be the theme of the Summit. Owen agreed that the United States should provide a paper on this subject, explaining what we had done, along with other countries. Miyazaki said it was his impression that on the dialogue point Denmark is exploring the issue with the Saudis. There are risks. If the atmosphere is friendly we should encourage the dialogue, but we should avoid

¹ Source: Carter Library, Staff Office Files, Council of Economic Adviser File, Box 86, Tokyo Summit, 1979–1. No classification marking. Drafted by Hormats. The full text of the notes of this meeting is scheduled for publication in *Foreign Relations, 1977–1980*, volume III, Foreign Economic Policy. The Preparatory Group for the Economic Summit met in Hakone to draft papers for the Summit. See Document 203.

² Not found.

alarming noises. In any case our own conservation efforts must be pressed.

Owen added that we should point out that energy is a long-term problem, but we must begin confronting it in the short-term. Hunt indicated that we should deal with this issue quietly and do all we need to do at the Summit to strengthen our individual and collective efforts. This will build confidence. The IEA has been helpful. We need to do something in addition to what we are doing and it would be helpful to focus on this issue at the Summit. The situation will be bleak in the next year or two. We need to strike a note of confidence. I am encouraged that the U.S. will provide a paper.

Schulmann said he agreed with the thrust of the discussion. Some progress had been made in reducing consumption, but we will have to figure out how we can do more. On production, the Summit might give a strong commitment to nuclear energy. A focus on coal might be useful—for instance, improved mining and trade arrangements. We should also discuss the LDC aspects of the energy problem and consider the idea of a dialogue, including an assessment of its pros and cons.

Tickell pointed out a danger in duplicating the IEA and the EC. He pointed out that the European Council had discussed this problem, and the EC was taking fundamental action. Hunt said this was not a problem; the Summit could give things a push. Owen stressed that the paper should not, as last year,³ be a consensus document. It should not drop promising ideas just because one or two countries cannot agree with them. Miyazaki indicated that Amaya will chair the group.

Johnstone pointed out that a lot of things were happening in the energy field. Energy people will meet in the context of the OECD and in the period leading up to the IEA. The Summit should go beyond the work of other occasions and not be brought down to the level of other organizations. We should raise our sights above other institutions. Owen, responding to a question by Johnstone said the group should not deal with INFCE.

Froment-Meurice said that the energy group should deal with the 1979–82 energy situation. Hunt agreed with Owen that the Amaya group should avoid trying to seek the lowest common denominator. Hunt argued that there should be only a small number of people, say three, working under Amaya to avoid the lowest common denominator approach. Schulmann indicated that all participants should be represented. It was agreed that the paper should be presented by the end of April. There would be a meeting of one or two from each

³ Reference is to the Bonn Declaration; see footnote 3, Document 157.

country to help Amaya with the paper. Johnstone said that the key energy people will be getting together in Paris in April so that Amaya might hold his meeting in conjunction with that gathering.

Schulmann indicated his concern with the lack of progress in following up the Bonn commitment to coordinate programs in the area of renewable energy. In his view progress had been too slow; we should speed up progress so that a report will be ready for the Tokyo Summit. Cooper indicated that there was an important distinction between the coordination of bilateral programs, which in his view was what the group established at Bonn was supposed to do, and a coordinated program. Schulmann agreed that Cooper's formulation was accurate.

Johnstone indicated that he was satisfied that while the group had begun slowly it was now well on its way to completing its report.⁴ Hunt said that the group had already exchanged valuable information on programs in this area and had good potential. Tickell reported that a Commission official who was a member of the group was reasonably pleased with progress, and that a meeting will be held on April 3 to examine drafts which contain a description of the needs of the developing countries and how developed countries should respond. Schulmann underlined again two concerns: first, that the Bonn Summit undertook a commitment to coordinate efforts within one year, and that unless we did this we would have a credibility problem with the developing countries, and second that sometimes countries are reluctant to get into new fields, so that an international effort will be needed to help squeeze adequate sums out of ministries in the capitals. Miyazaki said that the Amaya group will need to examine the work done in this area to make sure that adequate progress has been made.

[Omitted here is discussion unrelated to energy.]

⁴ Not found.

198. Letter From President Carter to French President Giscard d'Estaing¹

Washington, April 11, 1979.

Dear Valery:

Thank you for your generous letter.² It was good of you to signal so forcefully and promptly your approval of the decisions that I have taken on energy. Your statement was noted in the U.S. press, and this was helpful.

We would be delighted to receive Minister Giraud, in order to exchange views about what has been done and needs to be done by the European Community and the United States to conserve and produce energy. I believe this visit would be most useful if it took place in late May. I am sure that such an exchange would contribute greatly to a successful Summit, where energy will be one of the main items for discussion.

We are fortunate that you are President of the European Community at this time. The Community's leadership and contribution will be essential, if there is to be an effective energy program by the industrial countries. I look forward to working closely with you to this end, in the months immediately ahead and at the Tokyo Summit. The helpful statement of support that you were kind enough to send me is a good start, and a hopeful augury, in this cooperation.

I close by expressing my appreciation for the constructive attitude shown by your government in recent MTN negotiations.

Sincerely,

Jimmy Carter

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 6, France: President Valéry Giscard d'Estaing, 12/78–4/80. No classification marking. Deputy Chief of Mission of the Embassy in Paris Christian Chapman delivered Carter's letter on April 13 to François de Combret, Deputy Secretary General of the Foreign Ministry, who made "no substantive comments but expressed "genuine appreciation for the tone of the letter." (Telegram 12093 from Paris; National Archives, RG 59, Central Foreign Policy Files, D790174–0310)

² Brzezinski forwarded Giscard's letter to the President on April 6, calling it "a very positive message from Giscard complimenting you on your energy speech. He particularly stresses the agreement by the European Community to reduce its energy consumption in 1979 by about 25 million tons of oil. He wants to send his Minister of Industry here to compare notes on both European and American energy programs. The French will announce public support for your speech on Friday April 6." Carter wrote on Brzezinski's memorandum: "Zbig—Good response. J" Both Brzezinski's memorandum and Giscard's letter are in Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 6, France: President Valéry Giscard d'Estaing, 12/78–4/80.

199. Briefing Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Hormats) to the Deputy Secretary of State (Christopher)¹

Washington, undated.

SUBJECT

Producer-Consumer Conference on World Oil Market Conditions

This memorandum responds to your request² for an analysis of the advantages and disadvantages of a conference or informal discussions between oil producing and consuming countries on world oil market conditions.

We have been and are interested in any dialogue with oil exporters that is likely to be productive. Such a dialogue ideally would further convince OPEC countries of their stake in the health of the world economy, and the importance to that health of stable supplies of oil at reasonable prices; it would also be a way of mobilizing pressures from developed and developing countries alike for moderate OPEC policies. We actively pursue these ends in our bilateral relations with key OPEC countries—notably Saudi Arabia, but also Venezuela, Kuwait, Abu Dhabi and others. We favor a multilateral dialogue as well, but as yet we have no reason to believe that the time is ripe for formal or informal multilateral discussions between oil exporters and oil importers on the key questions of oil prices and supply.

We made a major effort to achieve a meaningful dialogue in the 1977 Conference on International Economic Policy (CIEC)³ but we were stymied by the strong opposition of OPEC countries as a group, notwithstanding indications that the Saudis and perhaps a few others were disposed to engage in further discussions so long as they did not deal directly with price. Since then, OPEC countries have strongly opposed attempts within the UN (e.g. by the Secretary General and in relation to the preparations for the 1981 Conference on New and Renewable Energy) to promote discussions of oil supply and demand, even when they were assured there would be no explicit references to price. They appear to consider any multilateral discussions as a threat to their freedom in making pricing and production decisions.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P790149–2314. Confidential. Drafted by Rosen on April 12 and concurred in by Robert M. Beaudry (EUR/RPE) and Twinam. Sent through Cooper.

² Not found.

³ See footnote 2, Document 125.

The time for pursuit of a broad initiative for a dialogue is particularly bad now, because the oil market is tight and we have little bargaining power. We would risk appearing not only as *demandeurs* but as supplicants. We will be in a somewhat better position when concrete results are visible from the consuming countries' recent decision to reduce oil imports by 5 percent. (Even then, it is probable that OPEC would insist on broadening any discussion to include a whole range of North/South issues on which we would have limited flexibility, in effect a replay of CIEC.) In this regard, in a recent memorandum prepared for Dr. Brzezinski, Walter Levy concluded that before undertaking any joint discussions with OPEC, oil importers need a joint policy and course of action—including the allocation of oil among and within countries, and measures for the support of financially weaker nations.⁴

The Saudis appeared to be inviting a broader dialogue in a communiqué issued in February.⁵ They have since backed off, making it clear that they are unwilling to discuss the topic of most interest to the US—oil prices—in a multilateral forum. Saudi Petroleum Minister Yamani told our Ambassador that he was not present when the Saudi royal court issued the communiqué, implying that its form and substance would otherwise have been substantially altered.

In Europe there is a vague but widespread desire for such a dialogue. The French are currently pressing the European Community to seek a dialogue with OPEC. We understand that the French have received little encouragement from Yamani, though they may not have been entirely candid in their reports to other EC countries. Moreover, we are concerned that the French may be trying to achieve a short-term advantage in the oil market through distancing the EC from the U.S. with respect to the Middle East peace effort. Guido Brunner, Energy Commissioner of the European Communities, has been trying to sell his own plan for a five man experts group, including representatives from the U.S. and Japan. West German Chancellor Schmidt apparently has been urging bilateral contacts between oil producers and consumers but there are contradictory reports on whether he believes the time is ripe for a multilateral dialogue.

We believe we should continue to explore the possibilities for a dialogue between oil exporters and importers. This should be done in a

⁴ In an April 18 memorandum to Brzezinski, Poats described Levy's paper as "strong on analysis of the problem and short on feasible remedies." The paper is Tab B to Poats's memorandum. (Carter Library, National Security Affairs, Staff Material, International Economics File, Box 45, Rutherford Poats File, Chron, 4/12–30/79)

⁵ *The Washington Post* reported on February 28 that Saudi Arabia had issued a Royal court decree announcing that it would not raise oil prices during the first quarter of 1979 and calling for a meeting of oil producers and consumers.

low key way, however, mindful of the implications for both our Middle East policy and for our relations with key European allies.

200. Telegram From the Department of State to the Embassy in Saudi Arabia¹

Washington, April 16, 1979, 2210Z.

95864. Subject: Saudi Production Ceiling.

1. Embassy is instructed to approach SAG soon at an appropriate level to inform them of USG concern over reimposition of 8.5 million barrels per day production ceiling on Aramco, to stress the oil market's continuing need for incremental output, and to urge SAG to continue to permit production at 9.5 MMBD level throughout this quarter. You should make it clear you are making this approach under instructions, and it may be made written or orally at your discretion. You should draw upon the following points:

—We appreciate the fact that the Saudi Government has permitted Aramco to produce at near-maximum capacity levels since late last year in order to help offset the shortfall in world oil supplies owing to the interruption in Iranian oil exports.

—Despite the recent resumption of Iranian oil exports (at a level still far below previous years),² there is a continuing need for increased production by other OPEC countries in order to permit orderly oil market conditions and the rebuilding of working stocks. In any event, Iranian production levels are uncertain and Iran cannot be firmly counted upon for 3.5–4.0 MMBD output levels for some time.

—World oil stocks were drawn down during the December–March period by about 2 MMBD more than otherwise would have occurred. These stocks must be rebuilt prior to the heavy demand period of the 1979–80 winter in order to meet the essential energy needs of all oil consuming nations.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790175–0949. Confidential; Immediate; Exdis. Drafted by Todd; cleared by Rosen, Katz, Twinam, Bergold, Owen, and Helen B. Junz (Treasury Department) and in EB/ORF; and approved by Cooper. Repeated Immediate to Riyadh and Dhahran.

² Iranian oil production had reportedly recently risen to its highest level since December 1978. (*The New York Times*, April 11, 1979, p. D7)

—Market is very unsettled and a “shortage psychology” is developing. Production cutbacks now will reinforce shortage psychology and will help sustain high spot oil prices, which will both further unsettle the world market and undermine the agreed OPEC price decisions.

—The industrialized oil consumers are attempting to help offset the effects of the Iranian situation by reducing their collective demand on the world oil market by 2 MMBD by year-end. The President has just announced the steps the US will take to meet our share of the demand restraint commitment. It will take time to implement demand restraint and other measures, however, and the greatest impact will likely not occur until the fourth quarter.

—At a time when there are differences on some issues between our two countries, we should seek to reinforce our longstanding history of mutually beneficial relations through cooperation wherever possible.

—We believe that the steps the USG is taking to restrain demand for imported oil provide ample evidence of our good intentions and the seriousness with which we view the current oil situation; we urge continued cooperation by the SAG in permitting maximum feasible output in order to help meet the world’s essential demand for oil and re-establish stability in the world oil market.

2. Ambassador West will discuss the production ceiling and other issues more generally when he returns, but Dept. believes it important that our views be made known to SAG very soon. Chargé should therefore proceed to target most appropriate SAG official for making above approach, keeping in mind likely Yamani sensitivity to recently released SFRC Subcommittee staff report on Saudi oil³ and possible need to let dust settle a few days before making above approach.⁴

Christopher

³ The report by the Subcommittee on International Economic Policy noted that the future output of Saudi oil would be “far less than predicted.” (Ibid., April 15, 1979, p. A1)

⁴ Chargé Daniels met with Deputy Foreign Minister Abd al-Rahman Mansuri on May 6 and made his presentation as instructed. Daniels reported: “Mansuri was quick to the point and said that, in sum, our message was that we wanted increased production *pari passu* with Iranian shortfall. He promised to pass the information on to the appropriate authorities.” (Telegram 3544 from Jidda, May 7; National Archives, RG 59, Central Foreign Policy Files, D790206–1126)

201. Memorandum of Conversation¹

Washington, April 23, 1979, 5 p.m.

SUBJECT

Tokyo Economic Summit with Under Secretary Cooper at 5:00 p.m.—April 23,
1979, The Secretary's Office

PARTICIPANTS

[See Distribution]²

Mr. Bergold opened the meeting by noting he would be leaving the next day along with Mr. Poats and Mr. Rosen for Tokyo to discuss the preparations for the June Economic Summit. Mr. Poats then noted that the NSC had not sought formal interagency clearances of the various initiatives outlined in the attached NSC draft paper,³ wanting to encourage the development of "fresh ideas." The participants then reviewed the various options outlined by Mr. Poats.

- *Oil Import Target*—Secretary Schlesinger indicated either of the two approaches outlined in the NSC paper⁴ was acceptable, but preferred to substitute the phrase "traditional exporters of oil" for "OPEC" to avoid a confrontational tone. He also suggested that the Summit or the IEA propose a comprehensive study of the advantages of rationalizing world refinery utilization, with a view towards increasing gasoline production and minimizing the production of boiler fuels, which are more easily substitutable.

- *Coal*—Participants agreed that a coal initiative and creation of an International Coal Advisory Board were highly desirable.

- *Nuclear Safety*—Secretary Schlesinger stressed the need to make a positive statement about the need for nuclear power as an alternative to

¹ Source: Department of Energy, Executive Secretariat Files, Job #8824, International Affairs: 1/79–6/79. Confidential. Drafted by John E. Treat who initialed at the bottom of the last page.

² Brackets in the original. The list is at the end of the memorandum of conversation.

³ The April 19 draft, sent to Naohiro Amaya, chairman of the multilateral group drafting the energy issues paper for the Summit, is attached but not printed. According to the drafters, "These suggestions have not been fully reviewed and approved within the US Government and thus do not at this time constitute US proposals for Summit action." Regarding the Amaya group, see Document 197.

⁴ The first approach, under the heading "Oil Imports and Prices," delineated that the G-7 seek to preclude further oil price increases by reducing demand for oil through individual and cooperative action. The second approach added that the G-7 should reaffirm the commitment of the seven heads of government to reduce oil imports by 5 percent in 1979 before looking beyond that year. It also noted that, regardless of the "recovery of Iranian oil production," there would "continue to be a need to ease demand and price pressures on the world oil market."

imported oil, while simultaneously pushing for expanded IAEA work on nuclear safety.

- *LDC Energy Development*⁵—Mr. Poats discounted this initiative as unlikely to succeed.

- *Energy RD&D*—All participants agreed that there is a clear need for financial support of technologies which are ready for commercialization. Mr. O'Leary stated his strong support for the initiative developed by the Treasury Department. Mr. Deutch stressed the need to distinguish between research (capability) and demonstration (capacity). He stated that no new institutions are needed for international cooperation in research; bilateral agreements and the IEA provide the necessary frameworks. Mr. Deutch agreed that new financing efforts to support demonstration facilities were warranted, but stressed the need to remain flexible on the institutional approach. Secretary Schlesinger agreed that a financing initiative should be explored.

- *Renewable Energy Development in LDCs*—Mr. Poats described this initiative as a “reaffirmation” of the work already underway. Mr. Deutch and Mr. Rosen agreed that more emphasis should be given in national R&D programs to the development of appropriate technologies for the LDCs. Mr. Owen opined that there was an urgent need for improved coordination of bilateral programs and noted a World Bank meeting on this issue has been scheduled for June. Mr. Cooper observed that the development of “a coordinated global program” for LDC cooperation was a laudable goal, but that previous multilateral efforts had failed.

- *Investment Targets*—Mr. Poats described this initiative as of limited merit and primarily an effort to respond to a Japanese suggestion. Secretary Schlesinger noted that the U.S. has little to fear since our record on the federal R&D budget is excellent and will continue to be so; he suggested the idea be further explored.

DISTRIBUTION

Department of State

Richard Cooper, Under Secretary for Economic Affairs

Julius Katz, Assistant Secretary, Economic and Business Affairs

Gerald Rosen, Director, Office of Fuels and Energy

⁵ The fourth heading of the NSC draft paper was “Immediate Development of LDC Hydrocarbon Resources.” The last part of this section reads: “The heads of government expressed satisfaction with the positive response of the World Bank to their request at the Bonn Summit for expansion of the Bank’s assistance to oil, gas and coal exploration and development in developing nations. They agreed that additional measures may be required to encourage the risk-taking participation of private foreign companies in energy exploration and production in developing nations and expressed readiness to consider support of sound private or public initiatives to assure greater reliability of agreements and contracts in this field.”

National Security Council

Ambassador Henry Owen, Special Representative of the President for Economic Summits

Rutherford Poats, Senior Staff Member

Department of Energy

James R. Schlesinger, Secretary of Energy

John F. O'Leary, Deputy Secretary of Energy

Harry E. Bergold, Jr., Assistant Secretary for International Affairs

John Deutch, Assistant Secretary for Energy Technology

Les Goldman, Principal Deputy Assistant Secretary for Policy and Evaluation

John Treat, Director, Office of Producing Nations International Affairs

202. Paper Prepared in the Department of State¹

Washington, April 23, 1979.

PRC Meeting on Saudi Arabia, April 27, 1979

Discussion Paper

We need to determine a strategy for managing our relationship with Saudi Arabia over the next few months in a manner which will further both our short and our long term interests in a number of areas of major importance—the peace process, energy and other economic questions, and regional security including our bilateral military relationship and Saudi financing of US arms sales to other countries.

The last year has witnessed an unprecedentedly intense US-Saudi contact involving frequent high-level discussions on a number of key issues. It has been a period of testing the limits of mutual interest, and in the process we have developed a finer appreciation of where the Saudis feel their basic interests on key issues part company with ours. In furtherance of Middle East peace, we have been willing to place significant strain on the overall relationship, while at the same time we have done much in the security area to strengthen it.

[Omitted here is discussion unrelated to oil.]

Oil and Other Economic Issues: The Saudis have clearly demonstrated their resistance to our persistent urging to increase sustainable production capacity, and recently have brought production back to the self-imposed 8.5 million b/d limit, over a million barrels per day below existing sustainable capacity. In the tight oil market foreseeable for at

¹ Source: Carter Library, National Security Council, Institutional Files, Box 74, PRC 102, Saudi Arabia, 4/27/79. Confidential.

least the rest of this year and for most of the next decade, the Saudi attitude toward oil pricing, however moderate, becomes less relevant in the absence of greater Saudi production.

While the overall quality of our relationship, particularly the Saudi perception of our pursuit of Middle East peace, does set the environment in which the Saudis listen to our concerns on the oil front, there is increasing evidence that they perceive our interests diverging on energy. Conservationist pressures on Saudi oil policy have intensified. There is no convincing evidence that Saudi Arabia's income needs in the near future will require producing above the present production level. We have devised no persuasive economic incentives for increasing Saudi productive capacity, and both industrial prospects and social/economic concerns within Saudi Arabia work against the case for increased production.

We have, however, a pressing national need to continue to urge the Saudis to keep production near sustainable capacity and to bring sustainable capacity promptly up to at least 12 million b/d. Absent economic incentives such as protection of financial assets and advantages for Saudi petrochemical industrialization, we have to base our arguments primarily on the substantial Saudi perception of mutual economic interest, an argument which has particular weight because of Saudi interest in protecting the value of their substantial dollar assets, and on the Saudi sense of responsibility toward the international economy. (It can be also argued that it is cheaper for the Saudis to increase capacity now rather than later.) This suggests that we need a sustained and sophisticated bilateral dialogue on the relationship of the energy problem to the overall health of the world economy, and the related impact on the internal security stability. As they approach such a dialogue, however, the Saudis will be looking with increased skepticism at what the consumer nations, and the US in particular, are doing to bring use of energy under control and to assure economic stability in other areas.

[Omitted here is discussion unrelated to oil.]

6. Oil

—How to encourage greater production

We need a sustained low-key and sophisticated dialogue with the Saudis on oil. It should focus convincingly on what we are doing in this country to lessen our dependence on foreign imports. This dialogue should be cast in the broader context of the international economic situation, with emphasis on the sacrifice we are making in this country to strengthen the dollar and to curtail inflation.

The Saudis are well aware that we want them to increase production and productive capacity. What is required in the coming months is not exhortation but a sophisticated exchange of views to set a better

context of strong mutuality of economic interests as basis for our long-term persuasive effort on production. We need to engage the Saudis in serious discussion of the long-term supply and demand outlook for crude oil.

In this dialogue we should appear receptive to seriously examining Saudi ideas on financial or industrial incentives we might provide for greater Saudi production. We should also seek wherever possible to draw the Saudis into the international economic dialogue and to exhibit interest in Saudi ideas on the range of North-South issues.

While the main burden of sustaining such a dialogue must fall on the diplomatic channel, it is essential that our diplomatic contacts be supported by sophisticated documentation and the occasional visit to Saudi Arabia of appropriate economic experts. Last year's visit by a senior economic policymaker to brief the Saudis on the Bonn Summit was quite useful and might be repeated this summer.²

Our tactical goal should be constructive Cabinet level discussions with the Saudis during a Fahd visit to Washington and a subsequent Joint Economic Commission³ meeting here in the fall.

[Omitted here is discussion unrelated to oil.]⁴

² At the President's request, Cooper briefed Prince Fahd on the Bonn Summit on July 22, 1978. (Telegram 5680 from Jidda, August 2, 1978; National Archives, RG 59, Central Foreign Policy Files, D780316–0648)

³ Documentation on the meetings of the U.S.-Saudi joint commissions is scheduled for publication in *Foreign Relations*, 1969–1976, volume E-9, Documents on Middle East Region; Arabian Peninsula; North Africa, 1973–1976.

⁴ At the April 27 PRC meeting, "all agreed that some progress would be necessary on the peace negotiations and/or security issues" before the United States "could weigh in seriously with the Saudis on increasing their long-term production capacity." The Summary of Conclusions of the meeting also noted: "With regard to current production levels, we probably cannot affect their decision to resume production at the previous level of 8.5 million barrels per day. However, we should be prepared to object if their production drops below this level. We should make clear that it is our understanding that they are reducing production in response to the resumption of a substantial level of Iranian exports, and we would anticipate a reconsideration on their part if Iranian production should again drop off." (Carter Library, Plains File, Box 10)

203. Memorandum From Rutherford Poats of the National Security Council Staff to Henry Owen of the National Security Council Staff¹

Washington, April 30, 1979.

SUBJECT

Output of Energy Working Group for Economic Summit

Two and one-half days of committee drafting (including a session ending at 2:25 a.m.) produced the attached energy issues paper (Tab A)² for your Summit Preparatory Group. It is so written that communiqué material can be readily excerpted; however, the group refused, on the basis on instructions uniformly differing with mine, actually to draft the energy section of the communiqué. In fact, no other delegation came to the meeting with specific proposals for action at the Summit.

We agreed to meet on May 23 in Paris, immediately after the IEA Ministerial meeting, to draft the communiqué language in the light of IEA decisions and the Preparatory Group comments.

Much of the debate was devoted to two of the proposals that I submitted in writing and one contained in the Japanese draft of the issues paper:

- Our proposal of continued restraint on oil demand beyond 1979;
- Our proposal of an international finance corporation to lend at market rates directly to commercial scale energy project enterprises employing innovative technologies.
- The Japanese proposal to invite a resumption of multilateral dialogue between oil producer and consumer nations.

Differing views of the weight to give the Three-Mile Island incident³ in pronouncing on the nuclear option also consumed many hours. The result is at Tab A, paragraph 17–D, Nuclear.

We reached general agreement on continued oil demand restraint, as reflected in the first strategy statement (paragraph 16(i)) and first concrete policy guideline (paragraph 17(a)(1)(i)). I believe the commu-

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 45, Rutherford Poats File, Chron, 4/12–30/79. Confidential. Copies were sent to Schlesinger, O'Leary, Cooper, Solomon, Katz, Brzezinski, Eizenstat, Press, Schirmer, and Cutler.

² Tabs A–C are attached but not printed. Poats is presumably referring to meetings of the Amaya group. See footnote 2, Document 201.

³ The core of the nuclear power plant on the Susquehanna River near Harrisburg, Pennsylvania, experienced a partial meltdown on March 28. It was the worst nuclear accident in U.S. history.

nique language I submitted (Tab B)⁴ can be adopted, after haggling over the Mexican “out” for the US.

No delegation was ready to endorse our new IFI for energy commercialization without a detailed paper and governmental study, but Amaya personally supported it and McPhail was very positive. Lantzke of IEA also was enthusiastic. The text of my proposed communique language on this initiative is at Tab C.⁵ Note that it does not estimate total capitalization. I did not pass out the Treasury paper because it contained capitalization figures (contrary to Stu’s instructions to avoid numbers), implied that the institution would finance pre-commercialization projects, and was too heavy on technologies of primarily US interest or source. Despite these precautions, the Japanese evidently briefed the press during the last day of the meeting, leading to at least one news account that included the \$20 billion figure. I am baffled as to the source of that number, unless it was retained by Sawada from his prior meeting with us in Washington.

I promised to send to each member of the working group by the end of this week a paper stating the rationale, functional fields, financing methods, capitalization, etc., of the proposed international energy finance corporation. Chairman Amaya urged that this paper express a firm USG proposal, subject only to Presidential review in the light of responses from the other six governments. As you know, I could not present a firm US proposal at Hakone because of OMB reservations.

The paper should spell out answers to the following questions, which I fielded orally at Hakone:

—What evidence do you have that ad hoc arrangements won’t be sufficient, that is, that the number of large commercialization projects

⁴ The “Oil Import Restraint” statement at Tab B reads: “The heads of government reaffirm their commitments to achieve as early as possible in 1979 reduction of their nations’ demand for oil on the world market by the equivalent of 5% of previously projected 1979 oil consumption. Looking beyond 1979 they agreed that, irrespective of the recovery of Iranian oil production, there will continue to be a need to ease demand and price pressures on the world oil market. The seven governments will take individual and cooperative action to restrain demand for oil, increase production of oil, and expand production and use of alternative fuels, so as to avoid significant increases in their demand for oil from traditional suppliers while their economies continue to grow.”

⁵ The text at Tab C reads in part: “In order to assure that diverse, adapted technologies are ready for large-scale, privately-financed investment in the 1990s, the first generation of commercial applications should be operating by the mid-1980s. Accordingly, governments should act now to assure project financing to competent enterprises willing to take a substantial share of the investment risk in establishing commercial-scale projects employing innovative energy technologies. The seven heads of government decided, therefore to appoint representatives to prepare the charter of an international corporation which would provide or guarantee long-term loan capital at market interest rates to selected energy production projects.”

requiring public international financing will be great enough to warrant the struggle to create a new IFI? Why not use the same informal consortium arrangement we use for grant-supported demonstration projects?

—What's in it for us? The technologies you mention are either US or German, and your proposal states that a project could be in an LDC that is not a subscribing member of the finance corporation, and the assisted sponsors must agree to license the technologies to all comers on non-discriminatory and reasonable terms. So why should my country put up money?

—Private money will be available when output costs minus subsidies are seen to be equal to oil or gas prices. Until that is sure, you will need to offer subsidies (grants or off-take contracts) more generous than market rate loans to induce private companies to risk big money on commercialization projects. A lending corporation can't solve this problem.

—In some cases, commercialization projects will be sponsored by state corporations such as utilities, which don't need to borrow internationally; if the project makes sense, their parent governments will or should put up the loan capital.

—How can we make it attractive to OPEC governments to subscribe capital?

—Can we create an international finance institution to support innovative energy projects while continuing to refuse public financing for other high-risk energy investments, such as oil exploration?

My answers satisfied some members of the working group, but I doubt that Sir Jack Rampton, the British delegation head, or Francois de Wissocq, the French Director General of Energy, was persuaded. The most persuasive argument in our favor is this: The world will need the equivalent in energy supply capacity of a present Saudi Arabia about every 10 years beginning around 1990; only wide commercial application of several new technologies starting in the 1980s can promise that; we would be reckless to count on private investment decisions on commercialization of new technologies to be made early enough in the 1980s to lay the basis for a broad proliferation of commercial applications by 1990.

204. Note From Henry Owen of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, May 15, 1979.

Zbig,

You asked for two memos:

1. A memo on contingency plans for reacting to OPEC use of its pricing power as a means of short-term pressure on the US, e.g., in connection with the Arab-Israeli dispute. Such a memo (by Rud Poats) is attached at Tab A. It describes the ways in which we would cooperate with other countries to cushion the effect of oil shortages. It does not describe how we would counterattack; neither Rud nor anyone else has any good idea as to how to do this. Rud suggests a group review of possible counter-measures; let me talk to Dick Cooper and Tony Solomon and I'll be back to you about this.²

2. A memo on our long-term response to continually rising oil prices. Such a memo (by Jim Cochrane and me) is attached at Tab B. As you will see, although this memo mentions possible counter-actions, its main emphasis is on the need to reduce demand and increase production.

Henry Owen³

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil, 3–6/79. Confidential. Sent for information.

² Brzezinski wrote "OK" next to this sentence in the margin.

³ Owen initialed "HO" above this typed signature.

Tab A**Memorandum From Rutherford Poats of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski) and Henry Owen of the National Security Council Staff⁴**

Washington, May 14, 1979.

SUBJECT

Contingency Plans for Coping with or Countering Severe OPEC/OAPEC Actions

We have three contingency plans for absorbing a serious interruption of foreign oil supply: the "International Energy Program" (IEP) agreement for allocation of an oil shortage among the 20 IEA member countries; withdrawals from the US Strategic Petroleum Reserve; and domestic crude and product allocations. In all likelihood, the three measures would be combined in a severe, prolonged shortage.

We have no agreed contingency plans for taking counter-measures against various combinations of oil producing nations that might conduct a long-term embargo. Nor do we have a contingency plan for retaliating against a further radical price increase by OPEC or some of its members.

Supply Interruption

The IEP scheme provides for sharing the burden of either a targeted embargo or a random interruption of production. It may be triggered when either a member or the entire group faces a loss of more than 7% of total oil supply as compared with a recent 12-month consumption average. The IEP has been simulation-tested and its international aspects have been de-bugged. A refresher training program is scheduled next month for oil company officers who would work with the IEA secretariat in operating the program. The regulatory framework of USG participation is in place: the third of three Energy Department regulations required to carry out mandatory allocations, refinery controls and import-restraints was published today. OMB now is reviewing an Energy Department legislative package including extension of authority expiring June 30 for US oil companies to get anti-trust clearances to cooperate in the IEP supply allocations.

Plans for domestic execution of the IEP may need re-thinking in the light of the Congressional action rejecting three of the four DOE

⁴ Confidential. Sent for information.

mandatory conservation programs and the rationing plan. However, the basic US response plan is built on mandatory DOE allocations of crude to refineries and control of refinery slates. The allocation plan leaves end-user shares to the option of private distributors, with limited exceptions, probably meaning long lines and shortened hours at gas pumps and supply of oil to homes and other customers based on a fraction of last year's use. At a level of 15–20% gasoline shortage, rationing would be necessary to minimize outrage and mayhem.

At least annually since the 1973 OAPEC embargo there have been reviews by State, Energy, Treasury and other USG staffs of proposed countermeasures against embargoing nations. Recently several suggestions for retaliating against a further radical increase in OPEC prices have been examined. A US counter-embargo of key exports such as grain, arms and machinery has been judged likely to be futile because the principal perpetrators of an oil embargo have very small populations, great financial reserves, and very little need for our key exports; in most foreseeable situations they could get substitute supplies from non-US sources. A USG export price surcharge equal to a further OPEC price increase or oil surcharge probably would have the same consequence as a US embargo, simply shifting the business to the countries that won't join us in concerted price reprisals. An export price surcharge in the form of a tax on US exports is unconstitutional; no manageable alternative to an export tax has been found.

Systematic contingency planning on active countermeasures has not been undertaken since 1975, to my knowledge. Energy policy makers have considered the risks of military or extreme political countermeasures as disproportionate to the costs of foreseeable oil price increases. The probability of a further Arab oil embargo has been discounted heavily in recent years, but this optimism could change if the Israeli-Egyptian negotiations fail to produce movement on the Palestinian-Jerusalem issues by early in 1980.

You may wish to commission a limited group review of contingency measures in this field, bearing in mind the small likelihood of finding a usable reprisal tool and the risk of leaks during Phase II of the peace process.

Tab B**Memorandum by James Cochrane and Henry Owen of the
National Security Council Staff⁵**

Washington, May 15, 1979.

SUBJECT

Long Term Response to Rising OPEC Oil Prices

Ever since the embargo of 1973, there has been discussion within the United States about how to deal with the long-term pricing problem posed by the OPEC cartel. It is easy to think up gimmicks, but most of these don't get to the core of the problem: how to ease the world oil market, by increasing supplies of energy and reducing demand. Unless progress is made on these fronts, "dialogues" between crude oil producing and consuming countries will not get very far, since we will lack needed bargaining power.

Nor are threats of the industrial countries acting as a monopoly—either in purchasing oil or in boycotting exports (e.g., of food) to oil-producing countries—apt to be credible, given the evident distaste of Japan and European countries for such policies. The only idea along this line that may be worth exploring is Charlie Schultze's notion of imposing a tax on some of the Summit countries' exports to OPEC countries, in an amount sufficient to offset the effect of any future increase in oil prices. Even this would probably be objectionable to European countries and Japan.

In the end, we come down to the plain fact: OPEC decisions are shaped largely by judgments of what the world oil market will bear. Indeed, the OPEC price of oil is now probably a bit below the price that would clear the world oil market. Market forces are, if anything, pushing upward instead of downward on the Saudi market price.

So the question is how to affect these market forces. We will submit to the President specific proposals to increase production and reduce consumption, which could be acted on at the Tokyo Summit. Each of these proposals will run up against powerful domestic objections, since restricting consumption is unpopular and increasing production involves costly investments. If we can't overcome these objections, there is little prospect of devising a successful long term oil price strategy.

⁵ Confidential.

205. Memorandum to President Carter¹

Washington, May 17, 1979.

FROM

Cy Vance
Mike Blumenthal
Jim Schlesinger
Henry Owen

SUBJECT

Economic Summit Energy Initiative: International Energy Finance Corp.

At your direction, we have begun exploratory discussions with our Summit partners on Economic Summit initiatives to attain greater energy supply security for all nations. The Tokyo meeting, coinciding with likely OPEC decisions on further price increases, will be expected by world public opinion to come up with specific and important initiatives to this end.

We need to submit to the Preparatory Group meeting here Friday morning² any US proposals requiring extensive consideration by Summit governments if we are to get agreement at Tokyo. One of our draft proposals needs to be reviewed by you before we ask the other governments to consider it thoroughly.

Proposal

We propose to initiate consultations with other Summit governments and members of Congress looking to a possible Tokyo Summit decision to establish an *International Energy Finance Corporation*. It would pool resources of Summit and other interested governments to provide long-term capital financing for the first generation of projects using commercially unproved technologies in large-scale production of energy. It would be limited to projects that cannot obtain sufficient private financing. By including some OPEC countries (e.g., Venezuela) it would create a practical partnership of producing and consuming countries to expand the world's energy supplies.

This decision could save what may be a critical number of years in launching additional energy production processes that the world will need by the 1990s.

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 45, Rutherford Poats File, Chron, 4/12–30/79. No classification marking. Sent for action. The memorandum is on White House stationery.

² May 18.

It also would save money as compared with present plans for financing energy demonstration projects. First, capital would be raised internationally; we would be mobilizing subscriptions from other countries on a scale about double our own. Second, the Corporation would borrow its project-financing funds in relatively low-cost markets. Third, by financing projects largely on a loan basis, a larger portion of risk would be assigned to project sponsors than would be the case with either US Government equity financing or ad hoc international equity funding by several governments. This more efficient system would yield more projects for the same amount of governmental capital outlays.

Paid-in US subscriptions to support a lending-only program would be \$100 to \$150 million annually for each of the first three years. Appropriations would be the same unless appropriation of callable capital also were required, in which case callable capital might be subscribed and appropriated incrementally over three or four years.

The Corporation would speed the application of processes coming out of our intensified energy R&D programs—initially using heavy crude, shale oil, tar sands, coal (in solid, liquid, and gaseous forms), wood and other biomass, and ultimately direct solar and other technologies. Projects supported by this corporation would produce fuels usable in existing combustion and transport or transmission systems. The Department of Energy lists many promising technologies (Tab A),³ some of which are ready now, some likely to be ready in the early 1980s for commercial demonstrations.

Background

The IEA Secretariat predicts that, even with optimistic assumptions about Mexican and other oil production and with heroic assumptions about nuclear and coal production, the world will need to create the equivalent of another Saudi Arabia by the early 1990s. The alternative is increasingly severe and damaging energy price increases.

We believe it would be imprudent, perhaps recklessly so, to wait until private companies and banks are likely to finance fully the initial production scale projects demonstrating promising energy technologies in commercial settings. These pioneer projects' billion dollar costs, coupled with great uncertainties as to actual production costs, virtually preclude full private financing, at least so long as projections of oil prices are subject to widely varying estimates.

Dependence on wholly private financing thus guarantees years of delay, so that commercial-scale models will not be available during the

³ Not found.

1980s, when private investment decisions must be made to assure large-scale production using new technologies in the 1990s. The Energy Department believes that promising technologies, now or soon to be available, will require a substantial number of large-scale commercial demonstrations in the 1980s.

Three alternative mechanisms for international public financing of such commercial demonstration projects have been considered:

1. An ad hoc consortium for each project, primarily with equity contributions by interested governments. This single-project consortium approach is being used in the US-German-Japanese public funding of SRC-2, the coal liquefaction demonstration project. DOE believes that it is unlikely we could put together additional ad hoc consortia, in view of the laborious and lengthy negotiations, as well as multiple national budgetary and/or appropriation action, required on each project.

2. An international energy technology fund providing both capital financing *and subsidies* to projects selected for support by its international board of directors. We believe that international pooling of subsidy costs would involve greater US appropriations and capital subscriptions than necessary. Other governments will probably take the same view. Host governments and sponsoring companies should share those risks not covered by capital financing which require subsidies because these risks depend partly on host government policies.

3. An international finance corporation confined to financing part of the capital costs of projects, largely in the form of long-term unguaranteed project loans at market interest rates. We believe that this alternative is preferable and that consultations about it should be initiated. Such a corporation would greatly enlarge international participation in cost-sharing. It would be the least costly of the three options in budgetary outlays, assuming an equal set of energy projects. Any subsidy requirements would be borne by host governments. Moreover, the corporation's long-term loans would marginally reduce the required scale and duration of public subsidies as compared with alternative financing by DOE loan guaranties in today's market.

The alternative of an international group without financial commitments, disposed to consider joining consortia on a project-by-project basis, may be proposed by some other countries. We believe it has most of the disadvantages of the ad hoc approach indicated above.

The Corporation would enable us to get international financing for some of the planned DOE commercialization projects and would thus free up US budget funds for support of a more extensive global effort to create new energy capacity. For example, it would provide a politically acceptable vehicle for certain international projects such as the initial

commercial scale use of new technologies for extracting and processing Venezuela's vast deposits of heavy crude. DOE believes, however, that over time a larger proportion of the Corporation's funds would be devoted to US-sponsored projects than was subscribed by the US, because we have more diverse technological and resource potential than other prospective members.

The Corporation would not duplicate planned DOE support of projects. Rather, it would give us a means of lowering the DOE capital outlay and/or lowering DOE budget subsidies to some projects.

Ideally the US subscription should be drawn from the Energy Trust Fund,⁴ but this decision need not be made immediately.

The Corporation would normally require a sponsoring company or group to raise at least 25% of the capital as equity and to obtain required legal and other clearances, host government floor price guarantees or other subsidies before obtaining a loan from the Corporation. The Corporation would lend to a project and in some cases take a minor equity position when desirable.

Fears have been expressed that an international corporation would foster "white elephant" projects, whose production costs would far exceed oil or natural gas prices. This risk is inherent in any action, whether national or international, to commercialize new technologies. A corporation controlled by an intergovernmental board, weighing risks and balancing national interests in different technologies and feedstocks, seems at least as likely to be prudent about risking limited funds as individual governments acting singly in pursuit of locally promoted technologies.

There also are fears that the US would be forced, in such a corporation, to support technologies and projects that do not commend themselves to us. Our experience in international financial institutions to date suggests that we will have little difficulty in blocking unsound projects. It also suggests that we will be able to mobilize substantial resources from other countries for projects that we *do* favor.

Critics also may assert that the proposed corporation would tend to support projects sponsored by the biggest international energy companies, because only they have the capacity to meet requirements for large amounts of risk capital, alongside the corporation's loan funds. On the contrary, the fact that the corporation would increase the amount of loan capital that could be offered to sponsors over what would otherwise be available, and would provide it directly to project

⁴ See footnote 7, Document 196. The Energy Security Trust Fund was part of the second National Energy Plan submitted to Congress on May 7. See *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, pp. 816–817.

enterprises without requiring parent companies to guarantee repayment, would make possible sponsorship of projects by a broader universe of companies than seems likely otherwise to be involved.

Cost

The corporation would be established by international agreement among the Summit governments, which would subscribe about 70 percent of the stock. By objective criteria, the US share should be about 30–40 percent. The remaining 25–30 percent of shares would be offered to other industrial and OPEC countries. Subscriptions would be 90 percent callable capital and 10 percent paid in over a period of two or three years.

Initial capitalization might be \$10 billion—sufficient to permit financing 12–18 large projects over the first four to five years of operation. If this capitalization were agreed, the nominal US share would be \$3–4 billion, requiring annual pay-in of \$100 million to \$150 million over the three initial years. If defaults requiring additional pay-in of capital occurred in some projects, the net additional pay-in after liquidation should not be so large as to alter the above orders of magnitude. Recovery on failures would be higher in a loan program than in the alternative of grant/equity financing.

As you know, we hope to persuade the Congress to approve a procedure to require appropriations only for *paid-in* capital of established international financial institutions. In this case, however, the likelihood of calls being made on some part of the callable subscriptions is greater than in the multilateral development banks.

If appropriations were also required in this case to establish the *callable* portion of a new international corporation's capital, incremental capitalization could be adopted so as to spread appropriations over three or four years.

Recommendation

We request your authorization to propose active preparatory consideration of this initiative in the Summit Preparatory Group, reserving your personal decision on it pending our securing preliminary reactions of the Summit governments through this Group and pending further exploration of the idea in the Executive Branch and in consultations with key Members of Congress.⁵

⁵ Carter did not check either the Agree or Disagree option, but wrote: "This proposal leaves me cold. OMB idea has *some* merit. I'll read NSC ideas. Consultations should be conducted on a very tentative basis—JC" The OMB proposal has not been found.

206. Memorandum From Henry Owen of the National Security Council Staff to President Carter¹

Washington, May 18, 1979.

SUBJECT

Energy and the Summit

A dinner discussion last night with other heads of governments' personal Summit representatives leads me to suggest that we should submit to them *both* of the energy proposals now being submitted to you:

—The Solomon proposal for an international public corporation to finance the development of alternative energy sources that Mike Blumenthal, Cy Vance, Jim Schlesinger, and I have put to you.²

—The proposal for an international agency *without* funds but *with* the mission of mobilizing support for alternative energy prospects that OMB is submitting to you.³

The other personal representatives say that each of their heads of government believes that agreement and action on energy should be the centerpiece of the Tokyo Summit (Giscard has written Ohira in this sense). The other representatives are, as usual, looking to the US for ideas as to how to translate this interest into action. Whatever ideas we submit will be discussed by the group and then probably refined into options among which the heads of government can choose. Hence this seems to me the time to canvas the field of possibilities, not to narrow it by submitting *only* the idea that State, Treasury, and DOE favor, or *only* the OMB proposal. We will get the best result if the preparatory group looks at the entire range of possibilities, and then tries to define the options for review by you and the other heads of government.

Recommendation

That you authorize me to submit both the State–Treasury–DOE and the OMB proposals to the Summit Preparatory Group.⁴

¹ Source: Carter Library, National Security Affairs, Staff Material, Special Projects File, Box 11, Henry Owen, Chron: 5/18–28/79. Confidential. Sent for action.

² See Document 205.

³ See footnote 5, Document 205.

⁴ Neither the Approve nor Disapprove option is checked. Brzezinski wrote at the top of the page: "HO, just do it on an *informal* basis, to take soundings. ZB"

207. Memorandum From the President's Assistant for Domestic Affairs and Policy (Eizenstat) to the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, May 19, 1979.

SUBJECT

Policy Toward OPEC

As you know, the economic stability and strength of this country is now dependent in good measure on OPEC oil pricing decisions. Adverse OPEC pricing decisions can break the back of our anti-inflation program and jeopardize prospects for continued economic growth and high employment.

I believe that the perception of our own citizens, and a source of their frustration with whatever Administration is in office, is that the U.S. passively acquiesces in, and acts thankful for, whatever decisions the cartel happens to reach. I think we should study (on a confidential, high-priority basis) the feasibility of a more effective policy toward the pricing actions of the cartel itself *and* its individual members, particularly those (e.g., Venezuela) which have been heavily dependent on the United States. I know that such studies have been undertaken by prior Administrations to little end, but I think we should try again and harder. There must be some stance the U.S. can take between acquiescence and military intervention and some diplomatic/economic levers we can utilize to achieve better results.

Would you please convene a meeting of Secretaries Vance, Brown, Blumenthal, and Schlesinger to consider this matter? If you think this would be worthwhile (and I hope you do), then I would like to be included.²

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil, 3–6/79. Administratively Confidential.

² On May 22, Brzezinski responded: "Your proposal is indeed worthwhile. We have had the issues of OPEC pricing and supply under review for some time. Let me review those plans with your suggestion in mind and on that basis convene a meeting in which you would of course take part." (Ibid.) See Document 209.

208. Editorial Note

The Energy Ministers of the member states of the International Energy Agency convened in Paris May 21–22, 1979. The group observed that the oil market was extremely tight and concluded that it would likely remain so through the 1980s. While the Ministers noted that the member countries had substantially strengthened their energy programs, they also believed that they should make additional efforts to strengthen these programs. An earlier decision to enact measures to reduce IEA demand for oil on the world market by 2 million barrels per day was confirmed, and the Energy Ministers decided that it would be necessary to continue such efforts in the following year. In addition, they agreed on a set of principles and policies for enhancing coal utilization, production, and trade, and stressed the importance of natural gas, nuclear power, and conservation for reducing oil import dependence. (Telegram 135815 to all diplomatic posts, May 26; National Archives, RG 59, Central Foreign Policy Files, D790240–0976) The meeting's final communiqué was transmitted in telegram 16460 from Paris, May 22. (Ibid., D790232–0857) The communiqué is printed in Scott, *The History of the International Energy Agency*, volume III, pages 358–363.

209. Memorandum From Secretary of the Treasury Blumenthal and Henry Owen of the National Security Council Staff to President Carter¹

Washington, May 25, 1979.

SUBJECT

Oil Prices

You asked us for preliminary thoughts about possible approaches to the oil-pricing problem.

We met Thursday² with Zbig and a group of your senior advisers to discuss prospects and remedies. This memorandum summarizes that discussion, and outlines how we intend to proceed.

¹ Source: Carter Library, National Security Affairs, Staff Material, Special Projects File, Box 11, Henry Owen, Chron, 5/18–28/79. Secret. Sent for information.

² May 24.

Oil prices are rising rapidly and the rate of their rise could increase still further. The exporters have learned how to earn more by producing less, and the oil importers haven't yet acted to reduce their reliance on oil imports. US inflation, unemployment, and external accounts could be worse than our present "worst case" projections suggest. Effects on the world economy would also be highly adverse.

Possible responses to this problem include:

I. Measures by Oil Importers to Affect the Market

1. *Measures to restrain demand.* Such measures are, as you know, being considered as part of preparations for the Summit, notably an extension of the IEA 5% cut into 1980 and a specification of the measures that each country will take to achieve this cut.

2. *Measures to increase production.* This involves national actions, e.g., moving ahead with nuclear power and tempering environmental regulations to permit increased use of coal; some of these actions could have early effects. It also involves international cooperation to mobilize resources for development of alternative energy sources; most of these actions would have only long-term effects. (As part of Summit preparations, we have given you a Treasury–DOE–State proposal³ to this end.)

3. *Control over purchasing.* This could include unilateral efforts to improve the US position, e.g., centralized purchasing of oil imports. It could also include agreement by the oil-importing countries to boycott the spot market; this would involve a deeper cut in oil imports for some countries than envisaged under the presently pledged 5% reduction. It would, therefore, have to be accompanied by a decision to set in motion the agreed international contingency plan for allocating scarce oil supplies among industrialized countries, which none of the other oil-importing countries want. Each of these actions would run into very serious legal, administrative, and probably political obstacles.

II. Agreements with Oil Exporters

4. *Separate bilateral deals* with individual oil-exporting countries to guarantee supplies for the United States. This would violate IEA rules and risk triggering self-defeating competition among oil-importing countries.

5. *Separate agreement* with Saudi Arabia, to assure higher levels of present production and of investment to increase capacity for future production. This agreement could be sought by the United States alone, or by several industrial countries together. It is at least uncertain whether such an agreement could be secured without giving Saudi Arabia assurances regarding the West Bank and Jerusalem.

³ See Document 205.

6. *A long-term collective agreement* between oil-importing and exporting countries, which would guarantee adequate oil exports in return for gradually rising real prices and possibly other specified economic favors from the industrial countries. It will be difficult to persuade the main oil exporters to join such an agreement unless they become worried about the possibility of a future softening in the oil market. This will only happen if the industrial countries reduce their oil imports. Domestically, it would be difficult to sell an agreement that would guarantee OPEC the kind of steep price increase that would probably be involved.

III. Joint Counter-Action By Industrial Countries

7. The industrial countries might collectively tax or embargo certain categories of exports to the OPEC countries, relating such actions to OPEC price increases. (Export taxes raise constitutional problems in the United States.) It is possible to think of other actions along these lines. Any such measures would only be effective if virtually all industrial countries joined in. So far, other industrial countries have been unwilling even to contemplate “confrontation”.

As you can see, the obstacles to these measures, other than those to reduce demand and increase output—which we are already considering, are very great. Most of them have been examined, or discussed with other countries, in the past. Nonetheless, we believe that the situation is sufficiently serious to warrant close examination of every possibility.

We will submit to you within ten days a paper outlining prospects and possible courses of action. Ed Fried, whom you may remember from the campaign (he was then at Brookings) and who is now US Executive Director of the World Bank, will work full time on its preparation. He will work closely with Jack O’Leary, Tony Solomon, Dick Cooper, Henry Owen, and others under the supervision of Mike Blumenthal. We will consult outside experts, as well.

Proposals for vigorous action will be hard to sell other industrial countries. If we come up with such proposals, we should plan to talk to Schmidt when he is here; and to the French Energy Minister who will visit Washington at the same time. We may also want to visit Thatcher and Giscard thereafter, in an effort to secure their agreement to any proposals that look promising.

210. Memorandum From the Military Assistant to the President's Assistant for National Security Affairs (Odom) to the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, May 31, 1979.

SUBJECT

Oil Policy: Sense and Nonsense

The staff meeting discussion on oil today² provokes me to make some points which have been lost in a lot of nonsense talk.

Supply and demand. These remain the key variables. We cannot affect supply greatly in the short turn, but decontrol will not reduce supply, and it might increase it. Demand, therefore, is the key variable for our policy in the coming months and year. We can affect demand in the following ways: (a) pricing; (b) administrative allocation system.

—*Administrative ways to allocate:* First, gas rationing can be used, but that will affect only auto transport, not other types of demand. Second, we could use the French approach, set a maximum import level and disallow imports above that quantity. This would limit use by all kinds of consumers. There are other possibilities, but these are the familiar administrative tricks for regulating demand administratively. Administrative approaches are unlikely to induce a rational domestic economic adaptation to decreased supply.

—*Pricing:* If the price goes high enough, demand will drop. There are two ways to push up the price rapidly. First, let the present OPEC dynamic drive up the price. Second, use present statutory authority under which the President can impose an import tax on oil. We cannot easily avoid the first effect of OPEC's actions and the probable drop in world oil production (Iran, etc.) *We have a choice*, however, about use of the second way.

If the President were to impose an import tax on all oil, and a *large one*, two-to-five dollars per barrel, it would have the following highly desirable effects:

(a) It would cause a large price rise which at some point would *reduce domestic consumption*, driving out the least profitable consumption.

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil, 3–6/79. Confidential. Sent for information. Brzezinski wrote "good" at the top of the first page.

² No record of this meeting has been found.

(b) It would reduce the flow of dollars abroad. It would put them into the U.S. Treasury rather than into foreign bank accounts. This advantage is of enormous importance. The tax receipts might well make it possible for the President to *balance the budget*, and in any event, it would *put large fiscal power* into his hands (for Defense, HEW). At the same time, it would *reduce the trade deficit*.

(c) The impact on our allies would be strong and positive: we would signal our seriousness about the problem, our seriousness about *international monetary affairs*, and about our concern with *vulnerability to foreign supply*.

(d) It could, after a time, cause some OPEC producers to *reduce prices*. It might even break up OPEC.

(e) It should expedite the search for alternate sources of energy—gas from coal, shale, etc.

There are a number of counter-arguments but none very compelling. For example:

(a) An import tax would fuel domestic inflation. *Not so*. To tax is to take money out of circulation. That is deflationary. Inflation could only come from the “transfer” of this money through government spending.

(b) It would penalize the “wrong” people. This argument begs the larger issue: everyone is being punished by inflation and the growing trade deficit. How do we best attack that structural problem? By a market-wide price adjustment for oil, forcing an economic rationalizing response throughout the economy. Protecting the “right” people through gas rationing, etc., retains the dysfunctional structural rigidity.

(c) It will induce a recession. This is a valid argument, but it has become a moot one. We are heading into a recession this summer or fall. The unhappy reality of the energy crisis is that economic recession is inevitable until new sources of energy are found.

Of course, de-regulation must accompany a policy of taxing oil imports. Finally, the most politically compelling feature of this oil import tax approach is that it combines its simplicity and boldness with a comprehensive solution. It hits everyone and allows no one, not the Arabs, not the oil companies, not the consumer, to escape the reality of an energy shortage. At the same time, it increases the premium on new energy sources and gives the Government more fiscal control.

211. Memorandum From Henry Owen of the National Security Council Staff to President Carter¹

Washington, May 31, 1979.

SUBJECT

Summit Energy Initiative

1. *Problem.* Recently you reviewed alternative State–DOE–Treasury and OMB proposals for international support of development of alternative energy sources, indicated your preference, and said that any consultation with other Summit countries should be tentative.² We have consulted on that basis. It is clear from this consultation that no initiative will be seriously considered by other Summit countries unless they know what the US Government's position is. We need to communicate that position this week to the other Summit countries' planners, so as to get decisions in time for the final Summit declaration-drafting session on June 15.

2. *Background.* We need at the Tokyo Summit to act on two fronts: restraint of oil consumption to meet the short-term problem, and accelerated development of alternative energy sources to deal with the longer-term problem. First priority should go to immediate oil demand restraint, about which I am writing you separately.³ But if that's all we do at Tokyo, the Summit's only message will be one of belt-tightening; there will be no light at the end of the tunnel. To generate longer-term hope of reducing our dependence on the OPEC cartel, we need to take some visible and promising action on the production front. (See attached article by Art Okun at Tab A.)⁴

We have tentatively sounded out other Economic Summit governments on two proposals to this end: an International Energy Finance Corporation, which would lend capital to the first commercial-scale projects using promising technologies; and an unfunded international consultative body to promote such projects, as proposed by OMB. Your cool reaction to the corporation proposal sets that idea aside. Finance ministries of at least two other governments were also opposed to creating such a corporation now. The Japanese doubt that we can get

¹ Source: Carter Library, National Security Affairs, Staff Material, Special Projects File, Box 32, Henry Owen, Summit: Tokyo. Confidential. Sent for action. Initialed by Carter and Brzezinski.

² See Document 205.

³ Not found.

⁴ Not found. In this paragraph Carter underlined "belt-tightening" and wrote in the margin "should be main message."

agreement in Tokyo to start with anything more ambitious than the OMB proposal.

This proposal offers an opportunity for modest constructive action without committing us or any of the other countries now to increased expenditures. It would create an International Energy Technology Group, whose small staff would search out opportunities for joint or parallel action to accelerate energy demonstration and commercialization projects involving use of new technologies. It would seek to arrange project financing by governments and private capital markets, much as an investment banker does. Each member government would be free to decide whether it did or did not wish to join in providing financial support for a proposed project. The Group would be guided by a Board consisting of the member countries' energy ministers.

The only expenditures required from the US (or from other members) would be for very limited planning and administrative support. If we decided to contribute to a project, we would draw on the regular DOE budget or the Energy Security Trust Fund.

Other nations with the desire and capability to aid new technology projects would be invited to join this Group. If some OPEC countries joined, the Group would promote producer-consumer co-operation in pursuing the one energy objective that the industrial and OPEC countries appear to share: slowing depletion of oil reserves. The Group could, for example, engage such key oil producers as Saudi Arabia and Venezuela together with industrial countries in developing such new sources of energy as Venezuelan heavy crude.

3. *Conclusion.* We should indicate to our Summit partners our willingness to join them at the Tokyo Summit in appointing a steering committee to establish an International Energy Technology Group, with the understanding that the steering committee's plan would have to be reviewed by governments before the Group comes into being. We should suggest this action to increase supply as a complement to, not a competitor with, proposals to reduce demand. Hence we should not use bargaining chips to secure Summit acceptance of this proposal which may be needed to secure agreement on proposals for demand restraint.

4. *Recommendation*

That I be authorized to transmit the proposal for an International Energy Technology Group in the manner described above to the Economic Summit Preparatory Group for consideration at its final meeting June 15. State, Treasury, DOE, and OMB concur.⁵

⁵ The President checked the Approve option and initialed. The proposal was transmitted in telegram 143818 to Tokyo, June 5. (National Archives, RG 59, Central Foreign Policy Files, D790255–0185)

212. Paper Prepared by the National Security Council Staff¹

Washington, undated.

The Politics of the Tight Oil Market

The tight oil market is tempting governments of middle-rank oil powers to rattle the oil weapon and is multiplying the significance of political turmoil in oil exporting nations. Five current cases outline the shape of the future:

Nigeria's Obasanjo threatens to end US "preference" in Nigeria's oil export market if the long-pending joint project to provide LNG to the US east coast is frustrated by US Government action. Meanwhile, lesser Nigerians are passing the word that our oil interests may suffer in some way if we lift economic sanctions against Zimbabwe Rhodesia.²

Libya lets it be known that the Qadafi government is thinking of denying oil to the United States in retaliation for our denial of export licenses for large commercial transport aircraft.

Revolution in Iran, the prime cause of the present tight oil market, now threatens further reduction of the world's oil supply, enhancing the political and economic power of the remaining producers. The current Arab rebellion in the Kuzestan oil fields, if not promptly suppressed, is almost certain to involve the rebels' internal use of the oil weapon against the Tehran government, which cannot function without domestic revenues from oil.

Our current search for a way out of the oil supply/price bind leads us back to Saudi Arabia, whose cutback in oil production to normal levels seems to have been designed in part to build leverage over the Middle East peace process. Now, as we plan a new appeal for increased Saudi production, coupled with more credible restraint on oil imports by the industrial nations, we must consider the political price we may be asked to pay, now or next winter.

Finally, France and several European allies are probing for a new "dialogue" with the Arab oil producers in which Europe might dis-

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil, 3-6/79. Confidential. The paper is attached to a June 1 note to Brzezinski in which Poats wrote: "Here is a hurried response to your request for a paper for the President on the new politics of oil. Please let me know whether you want it further developed." Poats added that Gary Sick concurred.

² International sanctions had been imposed on the white minority Rhodesian Government of Ian Smith, which had declared unilateral independence from the United Kingdom in 1967. In April 1980, the United Kingdom granted independence to Rhodesia, which was renamed Zimbabwe, and Robert Mugabe became the first Prime Minister.

tance itself somewhat from the United States should a climacteric in the Middle East peace process next winter evoke oil reprisals from the Persian Gulf.

None of these signals portends disaster. Nigeria has only limited alternatives to the use of the US oil companies' distribution network and cannot afford a prolonged reduction of export revenues. Saudi and other conservative leaders in the oil world would be unlikely to support Nigeria over the Zimbabwe issue. Libya is unlikely to get Saudi or other conservative Arab OPEC members' collaboration in an embargo against the United States, and a lone Libyan sanction against us would simply cause shifts in the world oil marketing pattern without reducing US supply.

A targeted anti-US embargo by all the Arab OPEC countries would, if not coupled with reduction in their total oil exports, send shock waves through the world economy, but the IEA sharing system would be likely to work in minimizing actual economic distress. However, a simultaneous cutback in production by the OAPEC nations would be a different, far more serious, matter than the 1973–74 embargo. Today Iran would be an ally of the Arabs rather than a collaborator with the United States, and the international oil companies would have much less latitude to increase other countries' production than five years ago.

Nothing in our present political intelligence suggests Arab planning for an embargo. Rather, more subtle pressure, designed to impose pain on industrial nations capable of influencing US policies as well as directly on Washington, appears to be the strategy of Arabian peninsula leaders. Their objective is both political—movement in favor of Arab interests in the West Bank/Gaza and Jerusalem—and economic—reduction of the pace of depletion of their oil reserves.

It is in the formerly very marginal area of a million or so barrels daily oil production that prices and political clout are formed today. This seems likely to be the main arena of oil politics in the near future. In any event, the broader availability of the oil weapon is likely to whet the international political ambitions of oil state political leaders.

213. Memorandum by the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, June 1, 1979.

MEMORANDUM FOR

The Secretary of State
The Secretary of the Treasury
United States Permanent Representative to the United Nations
Director, International Communications Agency

SUBJECT

Mobilizing LDC Pressure Against Oil Price Increases

The President wishes to stimulate more effective pressure by both the developing nations and industrial countries against further oil price increases.² He asks that you take appropriate steps, especially during the period before the June 26 OPEC meeting, to develop official and public awareness in all countries of the economic costs to poor countries of radical oil price increases. Such steps may include diplomatic discussions with officials of LDC, OPEC and IEA governments, public statements in speeches and press conferences, and encouragement of similar efforts by governments of other consumer countries.

Attached is a brief background paper which may be drawn upon for these purposes.

Zbigniew Brzezinski

Attachment³

Oil Price Impact on LDCs

Oil price increases again are postponing hopes for economic progress by oil-importing LDCs. A further price increase when the OPEC oil ministers meet June 26 will deepen the distress of a majority of the world's nations.

Soaring oil prices—already more than 30% above December 1978 levels—have hit LDCs three ways:

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil, 3–6/79. Secret.

² On May 30, the President sent a note to Brzezinski that reads: "Re OPEC price increases effect on LDCs. We should organize a PR campaign about this with help of Andy and others. Do so." (Ibid.)

³ No classification marking.

Directly, adding \$2 billion on an annual basis to the aggregate LDC foreign exchange deficit.

Indirectly, adding about \$4 billion to their annual foreign exchange deficits by aggravating inflation globally and thus raising prices of all other goods LDCs must import and by reducing global economic growth and consequent demand for LDC exports.

Bigger current account deficits will require LDCs to go deeper into debt or cut back on investment and consumption.

The inflationary impact of oil prices on LDCs has been particularly disheartening. In each of the last three years, LDCs as a group had gained in their battles against inflation. Now the resumption of radical oil price rises is reversing that hopeful trend.

The impact of OPEC price increases on LDCs is more severe now than in 1973–74 because modernization has greatly increased their dependence on oil imports.

214. Memorandum From the Executive Secretary of the Department of State (Tarnoff) to Secretary of State Vance¹

Washington, June 7, 1979.

SUBJECT

Your Breakfast Meeting with the President Friday, June 7

1. *International Energy Policy*. As you know there has been considerable foreign criticism of some recent decisions that we have taken in the field of international energy. The \$5 per barrel entitlement decision has drawn the most attention in foreign government and press circles.² You

¹ Source: National Archives, RG 59, Executive Secretariat Files: Lot 84D241, Box 3, President's Breakfasts, 5/1/79–8/31/80. Secret; Nodis.

² According to an undated NSC briefing paper, the Economic Regulatory Administration of the Department of Energy announced a temporary program, lasting from May 1 to August 31, "for a \$5 per barrel credit within the entitlements program on imports of middle distillates," or home heating oil, because of "concern over low levels of U.S. distillate stocks." The paper noted that officials at the OECD "howled" about the decision, with the EC Executive Commission telling the Ambassador in Brussels that the Community viewed the "subsidy" as "an attempt to shift U.S. energy difficulties to them." In addition, Schlesinger "was criticized for failing to warn his IEA colleagues during the May 21–22 meeting," and Van Lennep "privately told the U.S. Government that the program 'undercut the credibility of the IEA.'" (Carter Library, National Security Affairs, Staff Material, International Economics File, Box 32, Rutherford Poats File, Summit: Tokyo)

might want to alert the President to the full dimensions of the problem along the following lines:³

—Energy may be the most important single issue discussed at the Tokyo summit, and we have to make sure that the moves that we make in the energy field are coordinated with our Summit partners and allies. While the U.S. will have to make energy decisions on its own, we have an interest in gaining the maximum understanding from our major trading partners whenever possible. The senior administration officials charged with developing energy policies—including Cabinet officers—should be fully aware of the foreign policy dimensions of our energy policy decisions. We cannot afford a repetition of some of the shocks given our friends by several of President Nixon's unilateral decisions in the economic field. The State Department will be working closely with other government agencies and the NSC to make sure that our approaches to foreign governments on energy issues are well coordinated.

—With the Schmidt visit, we have made considerable progress.⁴ One reason for this success was the work of the recently organized oil policy inter-agency task force directed by Secretary Blumenthal. It might be useful to continue the task force beyond the Summit to insure that all aspects of our foreign oil policy are under continuous inter-agency review.

—On a substantive point, we should hold open the possibility of triggering the IEA sharing mechanism and controlling spot market bidding, if our approach to the Saudis this weekend on increasing production gets negative results. These steps may be the only way to curb further price increases until additional conservation efforts begin to take hold.

Attached is the summary section of a recent S/P paper on policy options in the international energy field at Tab 1.

[Omitted here is material unrelated to energy.]

³ Carter held a breakfast meeting on June 7 from 7:30 to 9 a.m. with Vance, Harold Brown, Brzezinski, and Hamilton Jordan. (*Ibid.*, Staff Office Files, President's Daily Diary)

⁴ Chancellor Schmidt visited Washington June 6.

Tab 1**Briefing Memorandum From the Director of the Policy Planning Staff (Lake) to Secretary of State Vance⁵**

Washington, June 5, 1979.

U.S. Oil Policy

Attached is a memorandum describing the present oil market situation and summarizing a number of steps that the U.S. and other oil importing nations might take to counter the present critical surge in world oil prices.⁶

The paper has not been cleared with other bureaus in the Department. But in view of the urgent need for strong and concerted action by the oil importing countries, I thought it would be useful for you to have a paper which pulls together the basic facts and summarizes various policy options. Almost every idea in this paper is controversial, within the government as well as outside.

Immediate Measures

—Announce at the Summit that the major industrial countries have agreed a) to stop purchasing oil in the spot market above official OPEC prices, b) to trigger the IEA sharing agreement to assure equitable distribution of available supplies and c) to take additional conservation measures to reduce consumption by 5–10% in 1980.

—Press the OPEC members, jointly or individually, in light of this determined consumer action, to exercise moderation in setting official prices.

—Ask Saudi Arabia to increase production, or at least use a potential increase to press for an OPEC price freeze.

—In the event OPEC continues to hold back supplies and push up prices, consider a consumer agreement not to import oil priced above the present levels.

—Conclude a gas purchasing agreement with Mexico.

Medium Term Measures

—Seek continuous discussion or dialogue among consumers, OPEC, and non-OPEC oil exporters to examine the future world oil supply and demand situation.

⁵ Secret. Drafted by K. Lissakers. Copies were sent to Cooper and Katz.

⁶ The memorandum was not found.

—Encourage closer contact between OPEC and non-OPEC oil exporters like Canada, Britain, Norway and Mexico, which can act as a moderating force on OPEC. Perhaps encourage them to seek membership.

—Provide multilateral financing and investment guaranties, and unilateral tax incentives to stimulate petroleum exploration and development in the developing countries.

—Examine the desirability of negotiating a long-term commodity agreement for oil to provide predictability in production and pricing.

—Create a U.S. Government purchasing agency to act as an independent check on private oil company transactions in the international oil market.

215. Telegram From the Department of State to the Embassy in Saudi Arabia¹

Washington, June 8, 1979, 1614Z.

147000. For Ambassador West from Under Secretary Cooper. Subject: International Oil Situation.

1. As we discussed during your consultations, I hope that you will be able in next few days to meet with Crown Prince Fahd, Yamani, and other appropriate Saudi leaders to convey our concerns about oil supplies and prices. Prior to OPEC meeting we would like to do whatever possible to restrain inevitable price increase, but more fundamental problem is supply shortage which Saudis in particular are in some position to alleviate.

2. In your discussions you may draw on following points:

—Present price situation, in which spot market prices and surcharges are increasing in an uncontrolled fashion, presents a truly critical situation for the international economy.

—We fully understand and appreciate that SAG has been a force for price restraint and does not wish to see the sort of price escalation world is presently experiencing. We realize that present supply short-

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790260–0365. Secret; Immediate; Exdis. Drafted by Twinam and Rosen; cleared by Katz, Solomon, Owen, and Schlesinger and in NEA, ARA, EA, EB/ORF, EUR/RPE, and AF/EPs; and approved by Cooper. Repeated Immediate to Quito, Abu Dhabi, Algiers, Baghdad, Caracas, Doha, Jakarta, Ottawa, London, Bonn, Rome, and Brussels for the Embassy and USEEC.

age has permitted market to drive prices upward, and that decisions at upcoming OPEC meeting may to some degree reflect that reality.

—There is also, however, the related reality of the impact of price increases on the international economy, including poorer countries.

—As we look ahead over rest of year there is even more profound problem that oil supply at current production rates will sharply exacerbate world economic difficulties without contributing to energy conservation measures now in train.

—In the absence of corrective action, international community faces a critical economic situation which could well have unpredictable effects on political stability in developing world and on the political strength of US and its allies as well as Japan. This is a major long-term problem, affecting efforts to control inflation, to maintain a strong dollar, and to promote the sort of constructive economic growth which will permit industrial world to maintain a global balance of power conducive to world peace.

—As SAG is aware, the US administration is making a major effort to deal with this problem, as are other industrial nations. The industrialized countries as a group have committed themselves to reduce their demand for oil from the world market by an amount equivalent to five percent of projected 1979 consumption by the end of the year. In the US we are on track to achieve this goal. As you know, we have already begun implementing an extensive program of fuel switching, voluntary demand restraint measures, and mandatory measures to restrain US demand for oil from the world market. In spite of strong domestic political opposition, the President has put in place a phased program to bring domestic oil prices up to world levels. We are making substantial progress, and intend to persevere for both the short and long run. Other industrialized countries are taking similar actions.

—It is essential that producer countries also make an effort to help stabilize the situation. While we understand the reasons why Saudi Arabia has wanted to limit its oil production, we hope that in these critical circumstances, SAG will see its way clear to produce as much oil as possible until the spot market situation is stabilized and the escalation of surcharges is eliminated and to urge other producers with excess capacity to do the same. We all have an interest in an orderly market and must all work together at such a juncture, since the potential for serious harm to the world is great.

—We would be interested in your views of how much additional supply will be necessary to restore order to the market, taking account of the need to rebuild working stocks to normal levels.

3. In discussion you may wish to draw as you see fit on the following elaboration of the current USG assessment of various aspects of this problem.

A. Sharp oil price increases would have a severe impact on the economies of oil importers.

The already slackening rate of economic growth in the US would be further slowed if oil prices increased further. This would exacerbate inflation, which we have been trying to keep in check through strong domestic policies, and increase unemployment. The impact on most other developed countries would be even more severe. These adverse effects would be serious in the short run and would have a cumulative effect, thus raising the possibility of another severe recession. The dangers for the LDC's would be particularly great since they would be affected both by the direct burden of increased oil import bills as well as by inflation and recession in their major trading partners.

—To illustrate, we estimate that the real increase in oil prices thus far this year (including surcharges) over and above the 10 percent price increase announced in December for 1979 as a whole, can be expected by itself to have the following effects this year, even with no further price increase:

Increase inflation by about 0.3 to 0.5 percent in the US and raise national inflation rates in OECD countries by up to 0.9 percent.

Reduce real economic growth by about 0.3 to 0.5 percent in the US and the growth rates of individual OECD countries by up to 0.7 percent.

Increase the number of unemployed in the United States by about 100,000 persons by end 1979 and over 200,000 by 1980.

Increase unemployment and consequently political instability in several industrial and developing countries.

These figures are necessarily estimates, but they show that the shock administered to the world economy is already substantial, that it will be larger next year and that cumulative losses to the world economy from any further large price increases would be severe.

B. Spot market situation and its impact on prices.

—In the short term much of the pressure from oil market imbalances is felt on the spot market. Spot market is a small residual market that is not representative of appropriate or market clearing prices. It is especially sensitive to short-run disturbances. At the current time it is being driven in part by market pressures (supply) and to a large degree by speculative pressures, whose dynamic we must deal with as soon as possible.

—We fear that some OPEC countries will point to high spot market prices as a rationale for increasing surcharges on term contracts. We are greatly concerned that these surcharges will in turn be built into new base prices, for all of the reasons outlined in (A) above.

—In short, we feel that current market pressures have the potential to push short term oil prices far above reasonable long term levels. We

are concerned that there will be a tendency for oil prices to “overshoot” in the short term, with serious consequences for stability for the world economy.

—Actions must be taken by consuming countries and by concerned producers to bring the spot market under greater control.

C. Supply/demand outlook for remainder of year.

—We see a dual problem confronting consumers and concerned producers for remainder of 1979: controlling spot market as per (B) above, and dealing with the continued shortfall in supply.

—In order to do their share in bridging this gap the industrial countries have committed themselves to restrain their oil import demand by 2 MBD, which according to present indications should be of substantial effect once the measures have their full effect.

—The United States has already taken measures, in consultations with other governments, to reduce demand on the world market, conservatively estimated to be over one million BD below what it would have been by the end of 1979. This result is based on conservation efforts and efforts to bring on new supply, among which are: Conservation: 200,000–250,000 BD switching from oil to natural gas; 100,000 BD from higher capacity use of non-oil fired utilities to replace base-load capacity in oil-fired plants; 200,000 BD from voluntary saving of gasoline (recent data indicate that gasoline consumption is now 400,000 BD lower than in 1978); 200,000 BD from building temperature controls. Supply: 150,000 BD from increased Alaskan production by end of 1979; 20,000–50,000 from Elk Hills; 60,000–80,000 BD from decontrol in 1979.

—However, many demand adjustment measures will not take full effect until the end of the year or beginning of next year. Moreover, even with demand restraint measures in place, the oil situation will be precarious because of (1) political uncertainties in Iran and consequent vulnerability of its oil supply; and (2) uncertainties concerning how some OPEC countries will behave as demand restraint measures come into effect.

—Therefore, we think it would be highly desirable in the immediate future to have an increase in production to (1) prick the bubble on the spot market; and (2) to be available in case production elsewhere declines, for whatever reason.

—SAG cooperation in a joint effort to stabilize and restore order to the world oil market would be extremely helpful at the present time. If SAG could increase production temporarily until conservation and oil import restraint measures of US and other importing countries take full effect, a large and potentially destabilizing loss to world economy could be avoided. US, for its part, will seek to work out procedures to ensure that oil conservation measures of importing countries will be

fully effective. This type of joint effort could pave way for a continuing program to avoid a replay of the 1974–75 world recession while dealing realistically and constructively with the long-term adjustments needed for a satisfactory oil and energy future.²

4. Embassies Kuwait and Abu Dhabi should be prepared to raise oil situation with host governments drawing on above as appropriate, but they should await further instructions pending SAG response to US approach.

5. Other Embassies in OPEC countries should provide views on utility and reaction to possible approach on pricing pending SAG response.

6. For Embassies in Summit countries: Followup to US approach to SAG will be discussed at Summit preparatory meeting scheduled for June 15–16.

Vance

² On June 10, Gerlach met with Yamani, whom he described as “extremely pessimistic” about the energy picture. Yamani said that Kuwait and the UAE were “insisting” that a price of \$20 per barrel be set at the next OPEC meeting, but that Saudi Arabia would “make every effort” to hold the price to \$17 per barrel, with an outside limit of \$17.50. He thought that a decrease in U.S. oil consumption was the “only hope” of avoiding a major worldwide energy crisis, and that only a major reduction in Free World consumption, or a major recession that produced such a result, would allow Saudi Arabia to maintain a ceiling on oil prices, as it did not have the productive capacity to do so. (Telegram 944 from Riyadh, June 11; *ibid.*, D790264–0594) At West’s June 12 meeting with Fahd, the Crown Prince said that he would “do his utmost” to hold the price increase at the next OPEC meeting to a minimum, and that he was “favorably inclined” to consider an increase in production. (Telegram 4466 from Jidda, June 13; *ibid.*, D790267–0057)

216. Information Memorandum From the Assistant Secretary of Energy for International Affairs (Bergold) to Secretary of Energy Schlesinger¹

Washington, June 11, 1979.

SUBJECT

SCC Meeting on Tokyo Summit Energy Proposals

Purpose

To provide the Secretary with information on the status of Tokyo Summit preparations for the SCC meeting on June 12.²

Background

The SCC, possibly chaired by the President, is tentatively scheduled to meet Tuesday afternoon, June 12, to determine the U.S. proposals and positions on energy issues to be discussed at the final pre-Summit consultations to be held in Paris June 15–16.

Since there is general agreement within the U.S. Government, as well as among our Summit partners, on the longer-term energy measures to be agreed in Tokyo, the SCC discussions will be devoted to finalizing U.S. initiatives keyed to moderating the critical short-term oil supply and price pressures on the world market. Because the near term prospects for increased OPEC production remain uncertain, the various short term measures being considered within the USG rely exclusively on demand restraint, specifically oil import limitations, and spot market price control actions. With growing concern over future oil availability and price paths, the success of the Summit is likely to be judged on the public perception of the potential effectiveness of any agreed measures. This requires that we transcend last year's general and mild commitment made in Bonn to reduce dependence on imported oil. The President, moreover, has indicated his willingness to consider tough, new measures designed to achieve a more satisfactory world oil market balance.

In anticipation of the meeting with the President, the NSC staff has prepared the attached background paper (Tab A).³ In addition,

¹ Source: Library of Congress, Manuscript Division, Schlesinger Papers, Box 1, Japan. Secret. Drafted by Treat on June 8. A typed notation at the end of the memorandum reads: "Original given to JRS directly by John Treat," and a handwritten note on the first page reads: "JRS has seen."

² The Presidential Review Committee met on June 12, not the Special Coordination Committee. See Document 218.

³ Dated June 7; attached but not printed.

Treasury (Ed Fried) has redrafted the paper you reviewed at the June 1 SCC meeting (Tab B).⁴

Discussion

Demand Restraint

An effective demand restraint objective will be the centerpiece of any Summit agreement. While the IEA and EC have agreed to reduce demand on the world market by 5 percent, and the IEA has recently extended this commitment to 1980, there is skepticism that these targets are meaningful. Chancellor Schmidt believes that any 1980 Summit target should be measured from an historical rather than, as in the IEA, from a projected base and should be made distinct. Following are the various proposals to meet, strengthen and make the 5 percent target less ambiguous.

—The NSC staff (particularly Henry Owen) prefers extending the 1979 target to 1980 and increasing it from 5 to 7.5 percent. His target would still be measured against pre-crisis demand projections.

—They have also proposed adding a collective oil import goal without specific national targets. This could be expressed by agreeing to hold oil imports in 1980 to a level no higher than a particular base year, such as 1977 or 1979. In volume terms, those levels would amount to 22 MMB/D or 21.5, respectively. (See attached table)⁵

—There is also support in the NSC and Treasury for considering specific national import targets allowing for no growth in 1980 imports over those of 1979.

Recommendation

I believe DOE should propose a commitment to extend and redefine, on a historical basis, the 5 percent demand restraint target to 1980, coupled with a group commitment to hold 1980 oil imports to 1977 levels (22 MMB/D). A strengthening of the target underlines Summit countries determination to restrain oil imports and support public efforts to dramatize the seriousness of the present crisis. It also meets Chancellor Schmidt's concerns for a more specific target and, by using 1977 as a base year, permits each Summit country to marginally increase imports. For the U.S., this increase would be on the order of 300–400 MB/D.⁶

⁴ Not attached; it may be the paper attached to Document 213.

⁵ Attached but not printed.

⁶ Schlesinger wrote in the margin next to this paragraph: "not to exceed '77."

Triggering the IEA general allocation mechanism

Treasury, State and the NSC express considerable sympathy for formally or informally triggering the IEA general sharing mechanism to allocate oil, as a supplement to demand restraint measures. DOE has resisted triggering the allocation system although we could agree to a closer IEA monitoring of current company allocation practices if necessary to achieve support for stronger demand restraint efforts.⁷

Efforts to restrain spot market prices

In response to your recent conversation with French Energy Minister Giraud, we are studying the feasibility of instituting practices to curb spot market prices; the French are sending a member of Giraud's staff to Washington to present their proposal on Tuesday, June 12. Implementation of any mutually agreed price related practices under this option are currently constrained by German opposition. Schmidt has hinted, however, that he would not stand alone in opposition to a summit consensus on this issue.

Longer-term measures

The following agreed longer term measures for Summit action require approval by the SCC:

—*Coal*—a commitment to increase use and production of coal and create an International Coal Advisory Board;

—*Nuclear Power*—a reaffirmation of the need for nuclear power coupled with increased national and international efforts in the field of nuclear safety;

—*Energy Technology*—a commitment to establish an International Energy Technology Group composed of experts able to assemble consortia to finance large scale projects involving new energy technologies; and

—*LDC Energy Assistance*—an agreement to increase efforts to assist LDCs identify and develop conventional and renewable energy sources in conjunction with the World Bank.

Harry E. Bergold, Jr.⁸

⁷ Schlesinger underlined the phrase "IEA monitoring of current company allocation practices" and made a checkmark in the margin.

⁸ Printed from a copy with this typed signature.

217. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter¹

Washington, June 12, 1979.

SUBJECT

Presidential Emissary on Energy

At the meeting on energy and the summit you might consider the possibility of a special emissary, to galvanize the consciousness of the consumer nations and perhaps also to encourage a new dialogue between the consumers and the producers.

There are two basic alternatives: one would be an emissary who would essentially try to generate a united front among the principal consumers, including some of the developing countries (e.g., India). Good candidates for such an emissary would include the Vice President, or George Ball, or Paul Austin,² and Mike Blumenthal.

An alternative approach would involve more of an effort to generate a new consumers/producers dialogue (on the model of the CIEC—Conference on International Economic Cooperation—run out of Paris). The best candidate for an emissary along these lines would be David Rockefeller, who would have the ear of both the consumers and the producers. If security issues were to be related, particularly in the dialogue with the producers, I could be an alternative to Rockefeller, but that would be distinctly a second choice.

Depending on the sense of urgency felt by the participants at the meeting, such an emissary could go either prior to the forthcoming OPEC meeting (scheduled to open on June 26) or after the Tokyo Summit.

I recommend you consider this idea in the context of this afternoon's discussion.

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil, 3–6/79. Confidential.

² J. Paul Austin, Chairman of the Board of the Coca Cola Company.

218. Summary of Conclusions of Presidential Review Committee Meeting¹

Washington, June 12, 1979, 4–5:30 p.m.

SUBJECT

Energy Policy at the Economic Summit

PARTICIPANTS

The President

The Vice President

State

Richard Cooper, Undersecretary

Julius Katz, Assistant Secretary

Treasury

Anthony Solomon, Undersecretary

Edward Fried, U.S. Executive Director, IBRD

Defense

Harold Brown, Secretary

Charles Duncan, Deputy Secretary

Energy

James Schlesinger, Secretary

John Treat, Advisor

White House

Zbigniew Brzezinski

Henry Owen

OMB

James McIntyre, Director

Eliot Cutler, Associate Director

DPS

Stuart Eizenstat

Kitty Schirmer

CEA

Charles Schultze, Chairman

George Eads, Member

NSC

Rutherford Poats

Summary of Conclusions

The President reviewed with the listed advisers five issues regarding energy policy at the Economic Summit:

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 32, Rutherford Poats File, Summit: Tokyo. Confidential. The meeting was held in the Cabinet Room of the White House.

1. *Oil Import Restraint in 1979.* The President decided that we will seek agreement among the Summit nations to translate the present IEA/EEC commitment (for a reduction of oil imports equal to 5% of projected 1979 consumption) into a more understandable and credible set of individual country ceilings, to accelerate achievement of these reductions by lagging countries, and to jointly monitor performance.

2. *Oil Import Restraint in 1980.* The United States will seek a Summit commitment to an undefined “deeper” cut of oil imports in 1980, as compared with a rising demand curve, deferring until later expert discussion agreement on the actual import ceilings. The discussion dealt with a range of import reductions up to 500,000 b/d below the otherwise likely US import level.

3. *International Allocation.* We will advocate moving now into an informal system of international oil allocation, short of formally triggering the IEA/EEC system, so as to prevent competitive scrambles for scarce supplies and assure equitable treatment of all countries; we also will propose communiqué language indicating readiness to consider undefined other measures if the informal mechanism is inadequate.

4. *Spot Oil Markets.* As a supplement to the fundamental actions above, we will give limited support to the French proposal for action to stabilize the spot markets,² agreeing now only to take action within each nation’s law and policy to discourage our companies from engaging in transactions on the spot markets at extraordinarily high or speculative prices; meanwhile, the legal counsel will be asked to advise the President on whether US law permits him to impose restrictions on imports of oil or refined products priced above certain levels.

5. *Strategic Oil Reserve Procurement.* We will propose concerted action to refrain from purchases for national oil reserves when this would put undue pressure on oil prices.

² Jean-Pierre Capron of the French Ministry of Industry outlined the proposal in meetings with Department of State officials June 14–15. France recommended that the Rotterdam spot market be reorganized by: “(a) limiting the number of traders/brokers through official licensing system which would be implemented by individual countries (notably Netherlands); (b) requiring traders to publish official quotations, limiting these quotations to actual transactions; (c) creating a supervisory board under EC aegis with extensive powers of investigation, and with regulatory powers to be established over time. The system would be designed to discourage ‘daisy chains’ which artificially drive up published Rotterdam prices, create transparency, and provide a vehicle for regulating the market.” (Telegram 154557 to Paris, June 15; National Archives, RG 59, Central Foreign Policy Files, D790271–0695)

219. Telegram From the Department of State to the Embassies in the United Kingdom and France¹

Washington, June 15, 1979, 0202Z.

153526. London for Calingaert, also for USOECD. Subject: IEA Informal Meeting on Actions To Reduce Pressures on World Oil Prices. Ref: Paris 18632.²

1. Following gives analysis and U.S. position for your use in Saturday informal meeting of IEA in Paris. Sections are arranged in same sequence as "Options" in reftel, with brief summary of each followed by U.S. position.

2. Demand restraint: summary of IEA proposal. The IEA paper calls for accelerating the group 5 percent demand restraint effort, and for considering the possibility of going to 7 percent. It points to the need to be able to respond within 4–6 weeks in the event of some further cutback in oil availability. It points out that reliance on price to restrain demand (German style) is not sufficient. The paper also points out the very serious product imbalances (e.g., plenty of resid but not enough distillate).

3. U.S. position. We support the idea of accelerating the 5 percent demand restraint as much as possible and have already made major progress toward achieving our target. We would be interested in more information on progress on demand restraint by other countries (U.S. has already forwarded its updated demand restraint questionnaire to IEA Secretariat). We favor the idea of extending 5 percent demand restraint into 1980. At this point we consider it premature to go to a 7 percent level, but deepening the cut should be given further consideration. We see the same product imbalance problem, and would be interested in suggestions on how to rectify it.

4. Spot market monitoring: summary of proposal. The EEC has already begun a voluntary program to collect weekly and monthly information on transaction prices and volumes from spot operators. The IEA paper presents as one option a mandatory reporting system for all persons trading oil into, out of, and between IEA countries. The IEA pa-

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790269–1104. Confidential; Immediate. Drafted by Bullen, cleared by Katz and Schotta and in DOE/IA and EUR/RPE, and approved by Rosen. Repeated Immediate to Copenhagen, Ottawa, Bonn, Rome, Tokyo, The Hague, and Brussels.

² Telegram 18632 from Paris, June 11, transmitted the text of an IEA paper entitled "Options for Action To Reduce Pressures on World Oil Prices." According to the Embassy, Lantzke explained that it represented documentation for informal discussion by a restricted group that he hoped to convene in Paris on June 16, just prior to the EC Energy Ministers meeting on June 18. (Ibid., D790265–0094)

per also discusses a “code of conduct” for buyers and sellers, but gives only cursory indication of the content of such a code and no indication of how it could be enforced. But the IEA paper cautions that setting up a reporting system and code of conduct would be difficult and take a long time. It notes that reporting system might run into legal problems in some countries.

5. U.S. position. U.S. supports the idea of studying the spot market, and in that sense monitoring it. DOE/ERA already requires information from companies on spot purchases of crude landed in the United States. We have taken a position in favor of the proposed IEA study of the spot market, and are sympathetic to the EEC’s studying it. However, we are not presently in favor of moving beyond an information-gathering exercise to some more active type of monitoring. We join the IEA Secretariat in being skeptical that an IEA-wide data-gathering system of sufficient timeliness and reliability could be instituted fast enough and could keep pace with the market for the present crisis. We share the IEA Secretariat’s skepticism that a code of conduct would be really meaningful, though we would be willing to discuss the idea further. The United States believes that careful attention should be paid to possible anti-competitive effects of any measures taken to monitor the spot market, particularly the potential for disclosure of proprietary information that would affect competition adversely.

6. Relax anti-trust: summary of IEA paper. The paper examines the proposition that anti-trust restrictions should be relaxed to permit cooperation among the oil companies, but expresses doubt that the intended cooperation could be designed and set up fast enough. However, the paper does not say what company cooperative measures are envisaged, and simply assumes such measures would be desirable.

7. U.S. position. We do not at this point see any justification for a further relaxation of anti-trust requirements beyond what is already permitted as needed for implementation of the IEA agreement. As a basis for further consideration of such an idea, we would need to see a fully developed discussion of what cooperative measures would be envisaged, what benefits they would provide to the consuming world, and what the risks would be.

8. Activate the IEA and EEC allocation systems: summary. The paper discusses the benefits and risks of international allocation. It poses the basic question of whether the governments and their publics are politically ready to carry out international allocation with enough dedication to make it work in the shortfall. An unsuccessful effort to allocate internationally would discredit the system and the IEA. But the paper suggests that, if properly presented, allocation could be made acceptable to consumers, and producer countries could be persuaded that allocation was a reasonable move to manage the situation and not a con-

frontational step. The paper stresses the need for domestic allocation if international allocation is triggered, and points out that the IEA allocation system has no price control mechanism.

9. U.S. position. We believe the emergency sharing system should not be triggered at this time. We appear to be confronted with a shortfall of limited depth and uncertain duration. There is, however, the possibility of further supply disruptions, or market anticipation of further disruptions, which could aggravate significantly the current imbalance. For the time being, we favor a close monitoring by the IEA of supply distribution, an accelerated implementation of agreed measures to restrain demand on the world market, and a consideration of possible measures to reinforce the demand restraint effort. Active consideration should be given to allocation or other steps if these measures in time prove insufficient.

10. International price controls: summary. The IEA paper shoots down the idea of international price controls as unworkable, at least without international oil allocation. It points out that to work, an international price control would also have to be supplemented by agreement on appropriate intra-IEA transfer prices, and domestic price control systems within all participating countries; and these domestic price control systems would have to be harmonized. The IEA Secretariat paper says that agreement on an import price level, transfer price, and harmonized national price control systems would pose insurmountable technical and political problems. It also points out the danger that an IEA ceiling price would risk becoming an OPEC price floor.

11. U.S. position. We concur in all the arguments against international price control advanced by the IEA paper. Price controls would be treating the symptoms, not the disease, and would in any case be extremely difficult to manage. We do better to strike at the underlying problem of supply/demand imbalance through demand restraint and other measures. In addition, a price control system would tend to drive oil supplies away from the IEA group.

Christopher

220. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, June 22, 1979, 2236Z.

161420. Subject: Presidential Letters on Oil Prices.²

1. Embassies are requested to deliver letters from President Carter to head of government at earliest opportunity. Embassies Jidda and Jakarta only may either deliver letter or make the points orally at their discretion. Signed copies of letters will not repeat not be sent. Text follows:

2. First paragraph: Please note variations in opening paragraph.

A. For Caracas only: Vice President Mondale has told me of his excellent meetings with you and your associates in Caracas in March. I understand that action is now moving forward on a number of topics that you discussed, and I look forward to working with you in the months ahead.

(New paragraph)

In the spirit of close and continuing cooperation between our two countries, I thought that you might find it helpful before the June 26 OPEC meeting³ to have some indication of the measures that I believe

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790325–0282. Confidential; Niact; Immediate. Drafted by Thomas A. Forbord (E), cleared by Owen and in S, and approved by Cooper. Sent to Kuwait, Jidda, Jakarta, Lagos, Doha, Caracas, Quito, Tokyo, and Abu Dhabi.

² In his June 20 memorandum requesting that the President approve the letters, Vance wrote: "While we should not expect too much as the result of such messages, we concur in these assessments—as do the Treasury and Energy Departments—and think they would be worthwhile." (Ibid.)

³ The meeting was held in Geneva June 26–28. The communiqué issued at the end of the Ministerial conference announced that OPEC would increase the market price of crude oil to \$18 per barrel. The move would allow member countries to add to the prices of their crude a "maximum market premium" of \$2 per barrel "over and above their normal differential, if and when such a market premium was necessitated by market conditions." The maximum price that member countries could charge was not supposed to exceed \$23.50 per barrel, "whether on account of quality and location advantage or market premia." Finally, OPEC members agreed to take steps to limit transactions in the spot market and expressed concern about the "movement of the U.S. dollar vis-à-vis the international major currencies with a view to eroding the real price of oil." (Telegram 10885 from Geneva, June 28; *ibid.*) The communiqué was published in *The New York Times*, June 29, 1979, p. D4. On June 30, West commented on the results of the conference: "Although the exact outline of the new pricing structure is still hazy, it is clear that the Saudis are convinced that they have done all they can on behalf of the United States and the West in terms of oil pricing. In adopting a two-tier pricing system with Saudi marker crude selling at \$18 as opposed to a nominal marker price of \$20 for the rest of OPEC, the Saudis reversed an earlier oft-revealed [*repeated?*] decision never to return to a 1977-type two-tiered pricing system. At least for the immediate future, the Saudis perceive that they have sacrificed OPEC unity and their own immediate financial gain in favor of the needs and desires of the United States." (Telegram 4848 from Jidda, June 30; National Archives, RG 59, Central Foreign Policy Files, D740296–0966)

the leaders of the seven main industrial countries will agree on at the Tokyo Summit meetings next week.

B. For Jidda and Quito only: In the spirit of close cooperation and friendship that has characterized relations between our countries, I thought that you might find it helpful before the June 26 OPEC meeting to have some indication of the measures that I believe the leaders of the seven main industrial countries will agree on at the Tokyo Summit meetings next week.

C. For Lagos, Doha, Kuwait, Abu Dhabi, and Jakarta: I thought that you might find it helpful before the June 26 OPEC meeting to have some indication of the measures that I believe the leaders of the seven main industrial countries will agree on at the Tokyo Summit meetings next week.

3. Following six paragraphs for all repeat all letters:

A. First, we will commit ourselves to a series of long-term steps to increase the supply of energy from alternative sources. The United States is already taking a number of wide-ranging actions toward this goal. Through such measures I am convinced that the economies of the industrial countries can and will adjust to a situation in which oil is becoming an increasingly scarce resource.

B. But these measures will take time to produce results. No economy can adjust successfully to very sharp and sudden increases in the price of such an important commodity as oil. The consequence of such increases is to promote not adjustment but unemployment and inflation. This would mean a worldwide recession, a speedup of inflation, and a significant reduction in the value of financial assets. No country would be immune to these developments' effects.

C. The effects would be particularly devastating for developing countries that depend upon petroleum imports. Many of these countries already face large external deficits and have borrowed heavily from abroad to pay for past petroleum price increases. Not only would these countries need to borrow more to finance any increases in petroleum prices, but they would pay higher prices for other imports, both because of the resulting increase in inflation elsewhere and because of reduced demand for their exports in recession-plagued economies of their trading partners.

D. I believe, therefore, that governments of the Summit countries meeting in Tokyo will also undertake a second series of measures, designed to ease the current imbalance between world oil demand and supply and to help create greater stability in the world oil market. These steps should include measures to reduce consumption and imports, and to establish a means of continuously monitoring performances in achieving specific import targets.

E. Through these and other measures more specifically addressed to the problem, we will seek to diminish substantially the role of the spot market—and thus bring more order into the world's oil pricing and marketing system. We recognize that although the spot market is only marginally important in quantitative terms, it has considerable psychological effect on the price climate.

F. These short-term measures will only be effective, however, if they are matched by efforts of producer countries to stabilize prices and increase production during this transitional period. The Tokyo Summit's actions will be an effective response to urgings by oil exporting countries to reduce reliance on oil. We hope that they will thus help to make possible a constructive partnership between oil exporting and importing countries to strengthen the world economy.

4. For Jakarta only (closing paragraph): We share your desire for a highly successful meeting of the ASEAN Foreign Ministers, which Secretary Vance looks forward to attending, in Bali July 2–3.

5. For all posts (complimentary closing): Sincerely, Jimmy Carter.

6. Posts may supplement presentation of letter with talking points from State 147000⁴ as they deem appropriate.

7. Report reaction to SecState with caption: Please pass Presidential aircraft for Under Secretary Cooper, and to Tokyo with caption: Please pass Under Secretary Cooper.

Vance

⁴ Document 215.

221. Minutes of the Tokyo Economic Summit Meeting¹

Tokyo, June 28–29, 1979.

PARTICIPANTS

Canada

Joe Clark, P.C., M.P., Prime Minister
 Flora MacDonald, P.C., M.P., Secretary of State for External Affairs
 John Crosbie, P.C., M.P., Minister of Finance

France

Valéry Giscard d'Estaing, President
 Jean Francois-Poncet, Minister of Foreign Affairs
 Rene Monory, Minister of Economy
 Andre Giraud, Minister of Industry

Germany

Helmut Schmidt, Federal Chancellor
 Hans-Dietrich Genscher, Vice Chancellor and Federal Minister for Foreign Affairs
 Hans Matthoefer, Minister of Finance
 Dr. Otto Graf Lambsdorff, Federal Minister of Economics

Italy

Giulio Andreotti, President of the Council of Ministers
 Arnaldo Forlani, Minister of Foreign Affairs
 Filippo M. Pandolifi, Minister of the Treasury

Japan

Masayoshi Ohira, Prime Minister
 Sunao Sonoda, Minister for Foreign Affairs
 Ippei Kaneko, Minister of Finance
 Masumi Esaki, Minister of International Trade and Industry

United Kingdom

Margaret Thatcher, M.P., Prime Minister
 Lord Carrington, Secretary of State for Foreign and Commonwealth Affairs
 Sir Geoffrey Howe, M.P., Chancellor of the Exchequer

United States

Jimmy Carter, President
 Cyrus Vance, Secretary of State
 W. Michael Blumenthal, Secretary of the Treasury
 James R. Schlesinger, Secretary of Energy

Commission of the European Community

Roy Jenkins

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 31, Rutherford Poats File, Summit: Tokyo, 6/28–30/79. Secret; Nodis. Drafted by Hormats who signed at the end of the list of participants. The full text of the minutes and other documentation on the Summit is scheduled for publication in *Foreign Relations, 1977–1980*, volume III, Foreign Economic Policy. President Carter's personal account of the Summit is in *White House Diary*, pp. 335–337.

Tokyo Summit

First Session

Ohira: Now that the press has left let's get to business. I extend greetings to all of you. I know many of you have come from afar. I am happy to welcome the new members of our group—Mrs. Thatcher and Prime Minister Clark. I am also a new member, and I hope I am welcome too.

Here in Japan we are in the process of conserving energy; we often open our shirt necks because of the heat. In this room, we may permit ourselves to take our jackets off and work in shirt sleeves, with your concurrence.

As Chancellor Schmidt said in the Bonn Summit,² we are members of a mountain climbing party; we were just getting out of difficult economic troughs. But just as we were getting to the peaks, we encountered difficulties—a landslide in the form of the oil crisis. The circumstances today are reminiscent of Rambouillet,³ or in fact more serious than at Rambouillet. But I believe we are wiser today, because we have gained wisdom from past experience. We should be fully utilizing it, and must cooperate, to get out of our predicament.

We face an immediate problem. We need to take fundamental long-range policy decisions, and we need to carry them out.

[Omitted here is discussion unrelated to energy.]

[Ohira:] As to the Agenda, I would ask that each head of state or government make five minutes of comments to form the guidelines for the Summit discussion. Then we would take up the specific Agenda. Subjects will be macroeconomic issues, energy, LDCs, trade, monetary issues, and finally the Communiqué. While we are talking, the personal representatives may be expected to start work on energy. Who would like to lead off?

Carter: The eyes of the world are on this Summit for a number of major reasons—the first and most important being energy. On this subject I hope that we can be bold, substantive, specific and hopefully united when we come to the final Communiqué. I prefer that we indicate targets based on specific figures. We should commit ourselves to meet these targets on a short-range basis and commit to attempt to reach long-term targets, even though there may be somewhat more uncertainty. In addition, we have to address the spot market, measures to limit stocking of oil in times of tight supply, and cooperation in a multi-lateral approach to new sources of coal, shale, tar sands, synthetics and

² See Document 157.

³ See Document 88.

solar. We should pledge to meet our goals and to be sure that we do so cooperatively and collectively. We should have the maximum consultation and dialogue with OPEC. This has been lacking so far and has caused grievous consequences. We should pledge to keep our oil imports down and follow with strict conservation of total oil consumption and increased efforts to come up with alternate supplies of energy.

[Omitted here is discussion unrelated to energy.]

Andreotti: This meeting should be mainly on energy. It should provide an external image which conveys the political character of the meeting. It should clarify what happened in Bonn and what was decided there. It should note the difficulties arising from events since Bonn. It should play a guiding role in shaping future events, bearing in mind certain differences among our countries. For instance, on energy, Canada is self sufficient, and Italy and Japan are in very large debtor positions. It should stress the interdependence among the problems of all countries. Our position vis-à-vis OPEC will be all the stronger if we take into account our requirements as well as those of the LDCs, which will be most harmed by OPEC prices if they are constantly raised.

On alternate energy sources, and nuclear energy, we are all faced by serious psychological problems exploited by those who oppose it. If we put in the Communiqué something on nuclear energy that is positive it will help our individual national programs. Perhaps from Japan can come words to inspire us on the peaceful use of nuclear energy.

Ohira: Regarding the point on peaceful nuclear energy, I feel that the most reliable, realistic alternative to oil is nuclear energy. We have adopted a course leading to more nuclear energy, and we expect the most of nuclear energy as an oil alternative. With the U.S., Canada and France we have developed and are moving forward on technical cooperation arrangements. Safety is of cardinal importance. We should be thorough in insuring safety. We should especially emphasize the positive need to go ahead with peaceful nuclear energy. Our efforts are behind schedule. We have much catching-up to do on the peaceful pursuit of nuclear energy. On nuclear energy, I hope for the further understanding and support of the other countries here.

Giscard: The Summit is an Economic Summit. Countries are invited here because of the role they play in solving the economic problems of the globe. In the past the press has speculated on the utility of these sorts of meetings and it has become somewhat critical. The Bonn Summit was useful and the follow-up to Bonn was positive. I am sure it is the hope of all that the Tokyo Summit will also be useful.

The main economic problem is the energy problem: oil supplies, and the securing of these supplies in the short, medium and long term. We must show that we have proposals on these time scales. Europe has prepared for the Tokyo Summit in the European Community. We have

taken decisions and published a text.⁴ But our Declaration only makes sense if it goes hand in hand with decisions of our major partners. We hope these decisions will emerge in Tokyo. Our meeting will only be successful if we agree on quantified, specific targets to reduce imports immediately and lastingly. If not this will be a disappointing meeting.

Also we must address prices on the spot market. Our experts should draw up recommendations and we should take concrete actions on the basis of these recommendations.

Regarding alternate sources, the main ones are nuclear energy and coal. Other alternatives are not yet available. On coal and nuclear energy, we should express a determination to speed up production. We are all clearly concerned about safety, but this should not be an *a priori* condition to further new energy development, because if it is it will delay energy development.

We should be factual and credible in our statements on LDCs. Energy has hit hard the non-oil LDCs. This is not our responsibility and was not caused by us. The cost to our economies of the oil problem means it is more difficult for us to give more aid. We should have no fine statements but simply say we are prepared to do what is in our power to do, but that we cannot compensate for the effects of steep prices.

[Omitted here is discussion unrelated to energy.]

[Schmidt:] On energy, we should identify how much we have done following up Bonn and determine whether we can do more. I don't like understandings that are not fulfilled, so we should avoid these here. I favor, as Valery and Jimmy said, necessary decisions to be taken in the energy field. I hope they will be taken. The FRG will be as cooperative as we can. We should not take decisions which only pretend to be decisions. We should not have gimmicks which are dismantled by public opinion or by OPEC. The OPEC meeting adjourned to see if we are seriously going to do something, or just engage in rhetoric. Also, they find it difficult to agree among themselves. There are OPEC governments who want to be moderate, who understand the impact of oil prices on the world and see them doing more harm to the LDCs than

⁴ The energy portion of the published conclusions of the European Council, which met in Strasbourg June 21–22, was transmitted in telegram 143 from Strasbourg, June 22. (National Archives, RG 59, Central Foreign Policy Files, D790282–0928) The Embassy in Brussels commented: "The European Council in Strasbourg outlined a broad Community approach to current energy crisis but fell short of adopting French proposal for price control in the spot market and annual country-by-country oil import reduction targets. Belgium and Italy tended, in general terms, to support the French line in the Council, while the FRG and the UK, generally supported by the Netherlands and Denmark, were largely successful in watering down the French proposals." (Telegram 11381 from Brussels, June 22; *ibid.*, D790283–0014)

to us. They see that they have the possibility of destroying the international division of labor, monetary markets and so on. But it is not only selfishness that leads some OPEC countries to ask for higher oil prices. There is reason to believe that only a great rise in oil prices will enforce conservation and alternative production.

All of us want to reduce demand for imported oil. All of us want to do so by conservation of energy and by substituting for oil in specific ways—different ways being open to different countries. The FRG has reduced oil imports consistently since 1973. We have let the price mechanism work, and have no subsidies on petroleum or distillates. From 1973–1978, we have less energy demand as a percentage of economic growth than in 1973 or before. In 1979, we will import only a little more than in 1973 or in 1972. There have been major pressures to reduce oil imports over the last five years. There has been a mixture of letting the price mechanism work, and incentives to conserve, such as using government money for conservation. We have also subsidized the use of coal. Our coal is 700–800 feet deep. It takes eight to ten years to build a new pit and start production. The subsidy for one ton of coal is double the pay to a mine worker to mine it. But this leads to a reduction in imports of oil. We have reduced oil use in the generation of electricity. Only 9 percent of our electricity is generated by oil.

The situation of our countries differs. Some of us by artificial means have kept domestic prices of oil and distillate lower than they might be. Some are fighting environmentalists who are fighting the use of coal. Some are fighting the environmentalists who object to pipelines and new refineries, including crackers. The FRG is fighting the environmentalists on coal and the expansion of nuclear plants. We should tell our personal representatives to provide a paper which includes all those devices needed for overcoming opposition and a thoughtful, clear message on the enlargement of nuclear production. It would also be helpful to have something on coal. This would help Jimmy Carter as well as us in the FRG. It would help to include in the communiqué language needed at home to deal with the opposition to the substitutes for oil and with the environmentalists.

I agree with Valéry Giscard that it is important to show to the suppliers in OPEC that we are taking this matter seriously and have a sincere approach to reducing oil demand. Then, when OPEC meets, we can build on this impression and strengthen the hands of the moderates. We should not leave the OPEC moderates out in the cold. We will have credibility only if we have medium range and long-term policies. For the rest of the century oil prices will have to go up because oil reserves are gradually being used up. Also, there can be political events like Iran, and these can increasingly lead to crunches. Coal and nuclear energy must be expanded. Also, we should use shale, tar sands and

North Sea oil. Lots of money will be needed for pure and applied research for renewable energy, which should come on stream by the middle 90's and by the end of the century enable us to use solar, geothermal and nuclear energy more.

I foresee a situation in the next century when we may not wish to use hydrocarbons any more. I can envisage that in one or two decades scientists will say we are heating up the outer atmosphere of the globe, when it will not be tolerable for nations to do this—when there will be too much heat and too little water, as in the Sahel. There may be a time when we have enough bio-mass, coal and petroleum but will be told that we should not use it. We should back up our studies by looking ahead one or two decades into the next century.

If we cannot avoid egotistic national policies, there could be a monetary crisis, high unemployment, and starvation and hunger in the LDCs.

With respect to short term energy goals and measures, I dislike what we were given in the draft communiqué—with the energy section blank. We should stress that our aides should give us a draft communiqué especially on energy, and especially on targets which we can measure in terms of time, goals, periods of reference and how to group nations, individually or together. Our aides should list the different attitudes and attempt to get agreement in these fields. These should not be issues of national or individual prestige. Obviously, we will have to express the interests of our countries and should not hide the interests behind verbal compromise. National interests are often hidden by economic or academic reasoning.

Thatcher: It is impossible to discuss economic prospects without discussing energy prospects. We are one-half of the way through 1979, but the prospects for the world economy deteriorate month to month. We started the year with less exaggerated payments imbalances, and the prospect of currency stability. The oil situation seemed to be under control. Now the difference is oil, and this has also affected inflation. This sharp oil price increase has happened for the second time within a decade. It is a long and short term problem. All our ideas of growth must be revised. We cannot grow as much in the future as we had hoped. Also, the situation is worse for the LDCs—high prices, slow exports and we are less able to help them because of oil. This also means more instability.

The fact of our meeting means we can get guidelines and leadership to surmount difficulties. We must face these matters realistically, making clear what can and cannot be done. If we only have a communiqué with pious platitudes, the world will see that we have failed. We need positive declarations in the energy area in three spheres. We must deal with the immediate situation, but also come up with solutions

which continue year after year, not just talk about long term. Nuclear power takes a long time to develop. We will not have power from the sun or tides before the end of the century.

On energy, we must let the price mechanism work in full. But we should not rely on this totally. We should also have tax incentives for insulation and for shifting to other sources. The UK gets 70 percent of its electricity from coal production and 15 percent from oil. We need more nuclear and must convince countries that nuclear is safe.

On inflation, we have had a reduction since 1974, but we will have more if we should accelerate inflation as a result of oil price increases. We should fight inflation or we will have increased unemployment. We should also not accelerate the impact of oil price increases with inflationary policies. The oil price increase means loss of incomes for the moment. We can't get around this in the short term. On growth, we should not be too pessimistic. We need increased efficiency in industry, the consumer sector and agriculture. We should see the need for adjustment and respond to change. The UK has not always responded adequately to change but unless we do we can't get growth.

If we are to achieve a balance of supply and demand in oil we must make OPEC understand that oil price increases jeopardize the Western world. We should look to increased nuclear production for the future. We produce oil but have the same interest in saving energy as others because we depend on the world economy. We should be realistic and not cloak measures in soft phrases. This would give the world greater confidence than by hiding what we mean.

Jenkins: We had a successful conclusion of the MTN in April and now we need full implementation.⁵ Our concerted growth strategy was fulfilled, and as a result there has been more rapid growth in countries other than the U.S. On the monetary side, the stabilization measures of the United States on November 1 and the EMS have been helpful.⁶

The least progress has been on North/South relations, but in the EC we have renewed the Lome Agreement with 57 LDCs⁷ (Schmidt: 1/2 of all LDCs).

But all this has been overshadowed by what has happened in energy. Energy should be the Summit theme. In the short term, immediate prospects will be damaged by developments over the past six months in the oil field. It will increase inflation, which is already going up in our countries. The balance of payments costs will be \$20 billion

⁵ The Tokyo Round of GATT negotiations ended in September.

⁶ On November 1, Carter and Blumenthal announced measures to strengthen the dollar. The European Monetary System aimed to maintain stable exchange rates within the EC.

⁷ See footnote 8, Document 88.

per year in the OECD as a whole, and it will lead to a cut in our growth prospects. One question is how far we add to these unpleasant but survivable problems. The oil market will balance itself over a period. But if we do not have effective restraints and substitutes, this will be an expensive way of doing it.

The long-term trends in oil prices are going up, and we can't avoid oil price increases. But we should address the speed with which oil price increases take place. If they take place suddenly there will be a rapid transfer of resources away from us without an increase in demand by OPEC. Although we save energy through a high level of recession, the Schultze paper⁸ indicates that the cost of saving a barrel of oil through recession is \$300 per barrel. The danger is that the market will stabilize only at very high prices, and there may in fact be an apparent glut on the oil market as a result. We need to change our lifestyles and produce alternative supplies. Effective voluntary restraints are an investment in our prosperity.

Clark: It is important that the understandings we reach be serious. They will help only if we are clear on the impact of our commitments to individual countries. We should set goals that can be achieved. If not, there will be skepticism about the process.

We must also be cognizant about the impact on international and domestic opinion. We should try to insure that our people will support us on unpopular policies by indicating the importance of such policies to our futures. We need to change attitudes toward conservation. We are a high energy using country. We need to look at the alternatives very carefully. For instance, acidic rain results from the burning of coal. A number of alternatives have environmental consequences.

The Summit should take account of different circumstances in our countries. We anticipate a shortfall in domestic production of crude and conventional sources of energy because of our declining well production over the next five years. But we will have significant production of non-traditional fuels after 1985. Also, there are major regional differences in Canada. There is wealth where there is energy but there is less wealth in energy importing areas. This limits the use of price in influencing demand. Our priority national goal in energy is self-sufficiency by 1990 through substituting for oil, natural gas and other sources. This effort can be helped by the Tokyo Summit communiqué.

Ohira: We coped with the oil situation last year, but we were naive on the Middle East. On long-term energy development, our emphasis

⁸ Not found.

was inadequate. We should be firm in coping with OPEC price increases and should seriously pursue long-term research in energy.

The impact of energy on our economic structure should be pointed out. But the big question is have we achieved results. Since the first oil price increase we have diminished the impact on payments imbalances and cooled off inflation, but unemployment and inflation are still with us. In improving productivity, we must make a major effort at positive adjustment—structural adjustment.

With respect to Japan we are undertaking fundamental changes in our lifestyle. Our trends are toward qualitative improvements with affluence. Since I took office I have tried to produce qualitative improvements in daily life bringing the country to the city and the benefits of the city to the country. I am also interested in discussing the circumstances of city life. We must take a look at our lifestyles in responding to the energy problem. We must also pay attention to relations with the developing countries and look at the global community.

[This section of the discussion concluded at 11:10, and a coffee break took place. The discussion resumed at 11:35.]⁹

[Omitted here is discussion unrelated to energy.]

[Giscard:] Our economic growth rate is not tied to rates of oil consumption. There was a fixed relationship between growth and oil consumption. We have broken that tie. We now attain growth with alternate energy sources. We must invest in alternate energy resources. This will help on growth as well.

Andreotti: We need positive results from the Summit. Last year we succeeded in part. Countries with greater economic possibilities increased their growth rates and this helped other countries to grow. Italy will maintain its undertaking of 4% growth.

Today the oil problem and fear of inflation may lead to slower rates of growth in some countries. As a result we could find countries with high rates of unemployment in difficult positions. It is important to fight inflation but we should lay down a coordinated policy, as noted by Giscard. We should not have a deflationary policy, but a coordinated system directed to the struggle against unemployment, and this should be set out with more emphasis in the Communiqué. If we do not it will have political repercussions on public opinion in different countries. We should not extinguish the hopes of the Bonn Summit.

Jenkins: The oil price increase had two countervailing effects. It increased the cost/pull impact on inflation, and it led to a decline in demand. These are difficult to reconcile. We need to come up with a balance between the two to avoid both inflationary and deflationary

⁹ Brackets in the original.

effects. We might for instance consider separate price indices, with one in which the effect of energy price increases are not included. We could isolate energy costs in dealing with wage indexation in certain countries.

Carter: As a result of Bonn I directed oil price decontrol. It started on the first of June. Domestic oil prices as a result have been increased more rapidly than in other countries because of the price increase in our oil, and OPEC increases. I agree that statistics would look better if we took Roy Jenkins' idea, but our people won't permit our trying to prevent energy costs from being incorporated in wage demands. We have focussed on energy with some degree of success. We have made much progress in 2½ years. Before 1973 for every 1% increase in GNP we had a 1.05 increase in energy use. Since 1973 that figure has been .37%. We have had a less than 50% increase in oil use as compared to GNP.

We also need to get at the roots of inflation. We have deregulated the airline industry and we are moving on transportation. We have modified our tax structure to encourage new investment and improve depreciation allowances. I am concerned about productivity improvement. More effort here is needed.

As a result of the MTN we reduced protection at home and have encouraged increased R&D in the government and have called for private industry to do the same.

Close cooperation among us is important. The issue is how to deal with energy. Premature media exposure of our views might reduce our flexibility and our ability to accommodate one another at this Summit. I still think we should emphasize specificity even if it means that each country spells out specifically what it can do and we are all locked into the same formula.

U.S. oil production is declining. Our oil wells are old and we have to use a great deal of tertiary recovery. Over the last 15 years we have had a 6% annual reduction in domestic oil production.

In our Communiqué we should be specific and substantive, because the world is looking to us to do something specific on energy. There is no substitute for this. I look forward to getting drafts from our personal representatives. I'll go the second mile to accommodate my needs to yours. I must go home with the proof that others are sacrificing in order to get the American people to do the same. We should not have recriminations about performance based on lack of information on the circumstances in each country. It is easier politically to deal with energy if a country is almost entirely a consumer. It is more difficult if the country is sharply divided among producer and consumer regions. I was struck here by Joe Clark's point. Canada, like the US, is not a homogeneous region. Some regions depend on imports and others on exports. We should understand the circumstances of one an-

other. This meeting will be an abject failure if we do not accommodate present divergencies of views about energy.

Ohira: Two or three countries alone can't do the job. We expect the United States to curb inflation, but inflation is serious in other countries as well. Therefore we must minimize inflation in all of our countries. All of us need a maximum effort to curb inflation. In FY'78 Japan's domestic demand will grow at 8.5%. Our current account surplus will be \$12 to \$14 billion, although since March we have had a current account deficit. In the last three months we have had a \$700 million deficit. Therefore in terms of GNP growth we could not reach the Bonn target although our growth served the purpose of the Bonn target.

The second oil crisis is tragic. In April and May we have had a 20% increase in the wholesale price index in annual terms. Clearly inflation is an important agenda item. It is important to remedy the supply side. Each should take major steps. We are now out of the period of post-war technology and we are at the end of a certain pool of technological resources. We need more R&D and greater technical efforts.

Ohira: Our session is about over. Each country can now brief the press as it sees fit.

Schmidt: Why don't we do as we did last time and let you brief the press, Mr. Prime Minister.

First session ended 12:40 pm.

Second Session

[Omitted here is discussion unrelated to energy.]

Ohira: Let us now turn to energy.

Schmidt: Let us now try to settle the energy issues now under dispute.

Thatcher: I have questions on paragraph 6.6 on the International Coal Advisory Board.¹⁰

Giscard: We are prepared to substitute a French text for 6.2.

Ohira: We will take up the German text as the basis for proceeding.

Carter: Have the special representatives already begun working on a draft? Was the U.S. draft also being used?

Ohira: I have received from our personal representatives a request. They want us to discuss the Communiqué language on import restraints. I believe that Option 1 contains a paragraph which we should consider at this point.

Giscard: To clarify the matter, in a few moments we will have a draft on 6.2 of the German text on limiting oil imports. I asked our people to prepare that after lunch. We will receive it in a few minutes.

¹⁰ The participants are continuing their discussion of the communiqué language.

Ohira: What I want to say is that our personal representatives are now starting to draft 6.2 in the German draft. They want to know whether we support Options 1 or 2. They would like to make a draft after hearing our guidance.

Clark: I understand from President Giscard that his delegation is drafting language to take the place of Options 1 and 2. We will have this soon. I would like to wait for the draft rather than modify these options.

Ohira: I now understand. Let's wait for the French proposal.

Carter: Valery. Is there a specific reason for choosing 1978 as a base as opposed to 1979? If we could all choose 1979, or I could agree to 1977, we would remove confusion and distrust between the two groups.

Giscard: We can agree that in the text we can have just 1979.

Carter: If we could use 1979 it would eliminate confusion.

Ohira: 1979 is alright.

Clark: I have no difficulty with 1979.

Andreotti: I would like to wait until we get the French text.

Clark: I would like our personal representatives to consider options to add explanations on specific figures. We, for instance, have a short-fall in production and I would like it to be in the Communiqué.

Ohira: The Option most suitable to me is Option 1. We should give these to the personal representatives and ask them to report to us later.

Carter: The French draft is satisfactory to the U.S. I would like to fill in our figures which we accept as a goal for 1985. We can say less than the 1977 figure. Each can have footnotes as requested. The text is satisfactory.

Ohira: On the spot market issue, we should give this to our personal representatives to discuss. The representatives should review the Japanese text and all three texts.

Jenkins: We need to modify the texts somewhat. The Summit countries will specify how each country's contribution can be met. But we need to discuss this with our other Community countries. This should be edited by the personal representatives.

Schmidt: I am not sure whether we are proceeding correctly. I take it you are not intending to instruct our personal representatives to prepare a paper on this issue based on the two alternatives. I don't think there is any sense in letting the personal representatives work with no instructions. One block has been filled in by the American President.

Carter: I will give you a figure less than 1977.

Schmidt: The personal representatives will be left in the dark. There is no use to shift the paper to the personal representatives. The whole second paragraph needs general footnotes if we are to urge other

countries to set single objectives for themselves. We proceed on the basis that such goals will be effective and that we will take efforts to reach these figures. But we must take into account different patterns of supply. Just setting a figure is ridiculous and will not impress economists or politicians.

There was the question of the dates. Jimmy Carter prefers 1979 but will also accept 1977. 1979 is a dangerous basis to start from because we will not have an actual figure for 1979, although we might have a projected figure for 1979. We have to use a complete year such as 1978, 1977 or 1973. I prefer 1973 because that is the year I started to conserve.

Of course, I know Jimmy can't do that, nor can Canada. I ask what is the purpose of putting us into a strait-jacket? We can't refer to a period not yet complete. We could refer to a period of the past but not a period not complete. I could accept 1979 or 1978 but what figure would you put for 1979?

Carter: I understand that in 1979 your imports will not exceed 1978. For 1977 U.S. imports were 8.6 million b/d. For 1979 they will be 8.5 million b/d. Both are a good basis and are okay with me. For the EC it was agreed to use 1978. Can we change the basis so that we have a common basis? If so we can accept 1977 or 1979. We could accept 1978 for the EC as a compromise.

Jenkins: We can accept 1978. It would be difficult to accept 1977.

Giscard: We could take 1978 for the EC with the U.S. having another reference year if 1978 is not representative.

Carter: Can Japan and Canada accept 1977?

Ohira: 1977 is desirable but we will settle for 1978.

Thatcher: Let's look at the draft presented in Option 1. It was difficult for us to get a similar base year. It is better to get Option 1 than to reiterate the results of Canada, Japan and the U.S. We should ask our personal representatives to consider Option 1 and to give us square brackets tomorrow. But I am not sure that would help anyone. I am worried about what we say to the press.

Clark: 1977 or 1978 are acceptable to Canada. It would be helpful if we opt for one base year. The personal representatives could ask other EC countries what they think. We could press for one base year that is the same in all cases.

Thatcher: Some personal representatives do not know which draft they are supposed to be working on. One half are working on one draft and one half are working on another. We should send back more energy drafts to the personal representatives and ask them to look at Options 1 and 2. I think Option 1 should be chosen. We should probably discuss the French proposal rather than discuss Option 1. I am inter-

ested in the French draft. All these issues should be subject to discussion.

Ohira: On the spot market we should send the German proposal to the personal representatives meeting.

Thatcher: We have had some consultations with the Americans on where we stand. Let me see if I can make it clear. There is a Japanese draft which has everything but energy. There is a German draft for details with the energy issue. And there is a French draft which deals with the oil import part of the energy issue.

Carter: You have that right, I think.

Thatcher: I am still concerned about what we say to the press. We need agreement about what to say. Should we say the discussion on energy continued and nothing else? Also the Prime Minister of Japan can speak on refugees.

Giscard: It would be useful if the energy ministers could give some indication to the personal representatives as to what we discussed here. The ministers and our notetakers can pass on the essentials of what we said to our personal representatives.

Thatcher: Will we get a clear text tomorrow?

Ohira: On the oil import question we will give you a text on Option 1 but we will ask our personal representatives to boil it down. They will also consider the German proposal on the spot market. They will report to us tomorrow morning.

I apologize for the inadvertencies. We will ask our personal representatives to work. Our notetakers will work with them. I hope our Ministers can also help. I know they will all do good work.

At 7:30 there is a banquet in the Imperial Palace. We will meet tomorrow at 9:30 am.

Third Session—9:50 a.m.

Ohira: You all have the communiqué language in front of you. There have been some fluid developments in the area of petroleum at the last minute as a result of the OPEC decisions.¹¹ We need to address the communiqué now to give our officials guidance. I would ask our notetakers to meet with their colleagues immediately after the session to bring the communiqué into line with our discussions here. The key issue is the level of import restraint on page 2.

Carter: The level of import restraint is crucial. We saw that OPEC dealt us a blow yesterday. We need a strategy which involves a commitment on oil market restraints. We are prepared to accept such re-

¹¹ See footnote 3, Document 220.

straints. I strongly request others to do so for 1979 and 1980. I would hope that the EC countries would accept specific national targets. And we should have goals for 1985, Mrs. Thatcher agreed yesterday. I hope we can carry these out without hesitancy. We should not have figures that apply to groups but to individual countries. We are prepared to commit ourselves in 1985 to the goal of 8.5 million barrels of oil per day. This is our 1977 level, and what we are committed to do in 1979.

Clark: I understand from our officials that we are being given a re-draft of the first full section on page 2—a UK draft.

Lambsdorff: We can go along with the need for strong wording. But imports are only one-half of the problem. Consumption is another major part of the problem. We can accept the amendment to page 2, taking into account the position of other EC countries. [The amendment reads: "France, Germany, Italy, and the UK have agreed to recommend to their Community partners that each member country's contribution towards these annual levels will be specified."] ¹²

Jenkins: I can confirm what Lambsdorff said. The new language is acceptable to the EC as a whole.

Clark: Does the word "member" refer only to Summit members?

Jenkins: No, all EC members.

Giscard: I can accept modification of the text at the top of page 2. On the bottom, can we get figures on alternatives. I would suggest, "The seven express their will to adopt as a maximum goal for oil imports in 1985 the 1978 figure for France, the FRG, Italy and the UK, and the average 1977–78–79 figure for the U.S., Japan and Canada. The 1985 goals will be seen as references to monitor the development of alternative sources of energy."

Carter: I prefer the year 1977. I would also say "... as references to monitor conservation and the development of alternative sources of energy."

Lambsdorff: Would you like to include 1977 for the U.S., Japan, Canada and the EC as well?

Clark: The French proposal causes us difficulties. We will have a production slump. Import levels will be higher in 1985 than for the 1977–78–79 period. Thus, we cannot accept the statement as phrased by the President of France.

Ohira: Circumstances for Japan make it difficult to accept this suggestion. We are making conservation efforts. But for us to specify targets for consumption would involve difficulties for Japan. In calcu-

¹² Brackets in the original.

lating growth, we cannot estimate year to year, and cannot estimate 1985.

Lambsdorff: We have now jumped from the top to the bottom of page 2. We need the language in brackets out.

Clark: We can accept 1979–80 figures. We should remove the brackets. We are prepared to commit to targets for 1985 at levels below projected increases. But Alberta supplies have declined. Our reliance on world markets will increase because of declining domestic supplies. We will reduce significantly the rate of import increase needed to make up the shortfall. We can reduce to one percent on the average our annual growth of oil consumption. We can reduce oil imports by 50 thousand barrels per day from projected levels. We could put this on the bottom of the first paragraph on page 2. It would read "Canada, whose oil production will be declining, will reduce imports by 50 thousand barrels by 1985 below what they would have been."

Lambsdorff: Will Japan accept a statement like those accepted by the U.S. and Canada?

Ohira: Japan can accept the bracketed language with respect to number 2. [Canada, Japan and the U.S. will each achieve adjusted import levels to which they are pledged in the IEA for 1979, will maintain their imports in 1980 at a level not higher than those in 1979 levels, and will be monitoring this.]¹³ On point 3, Canada and the US can put in a figure for 1985, but for Japan it is impossible to give a figure.

Schmidt: I have not responded to your remarks. We should say we welcome the inclusion of the words which President Carter mentioned: "1985 goals will seek to refer to conservation and the development of new technologies."

Carter: I am reluctant to make matters more complicated. But the establishment of a tangible 1985 goal is the most important part of the communiqué. It is done with the important understanding that goals will be reassessed on a periodic basis. If the goals are too stringent they can be modified without embarrassment. If all nations set goals and Japan is the only nation not willing to establish specific goals that would be a serious matter to explain. I urge Japan to draft specific targets which you believe you can meet, with the understanding that these can be reassessed and modified on the basis of experience.

Giscard: I noted that Jimmy Carter's amendment was accepted by all. We can accept the figures suggested by the EC. We also have the figure of 8.5 by the US and Canada will give a figure. If these countries can put in figures, people will expect figures for Japan. It is difficult to accept that Japan cannot set a ceiling for oil imports. We do have a provi-

¹³ Brackets in the original.

sion for adjustment. It is better for Japan to give a figure which could be adjusted on an annual basis.

Clark: The figure for Canada will be 600 thousand barrels per day for the period of 1985. On Japan's problem, when we look at the language it strikes us that in English there is a significant difference in implication between target and goal. We can accept the word "goal," which should allow Japan a greater sense of latitude. There is further latitude in the year by year basis of examining the target.

Jenkins: Is the Canadian figure 600 thousand barrels per day?

Clark: Yes.

Ohira: On targets for import reduction for 1985 Japan is isolated. I apologize for the situation. We are discussing the matter in haste. I suggest we discuss paragraph 3. Japan will finish its study on this position.

Lambsdorff: Are we accepting the French proposal to have a last sentence which reads "a high level group of seven within the OECD will monitor the results achieved" and "the 1985 goal will serve as a reference to monitor commitment to development of new sources of energy."?

Clark: If there is flexibility on the base, the French draft is acceptable to us. We can accept OECD monitoring.

Carter: The U.S. accepts a goal for the 1985 import level not to exceed levels of either 1977 or the adjusted target for 1979, i.e., 8.5 million barrels per day. I assume we also accept monitoring of both energy conservation and the development of alternative energy sources.

Giscard: We are now engaging in a technical discussion of the draft. We are all agreed in principle. At this point, we should refer the draft to the economic ministers. They will put in a U.S. figure and look at the Japanese figure. If we do not do this we are wasting time.

Schmidt: On alternative sources, which ones are we talking about and which organizations? Three countries here have oil, shale and tar sands. How long will it take to develop them or to get supplies or the help of coal?

Carter: This commitment could be monitored by the OECD or the EC.

Schmidt: I cannot place my country under a non-sovereign body.

Carter: The EC agreed to let the Community monitor its target. We should try to strengthen the monitoring effort. We can give the duties to the IEA or someone else. Otherwise we will have no way of monitoring what we are doing.

Schmidt: I have no difficulty in submitting figures to an international organization. But the French proposal says "monitor."

Giscard: Perhaps we can say "review."

Carter: There are lots of congratulations of the EC in this communiqué. Can't we limit EC congratulations to one and we will also agree not to be congratulated.

Thatcher: The communiqué should refer to product and not crude. The transparency of the European Community goes to the product, not the crude. They are two different markets.

Jenkins: That is right.

Thatcher: I doubt we can make the crude market transparent. I also would change the paragraph which says "we will require that at the time of unloading crude cargoes documents be presented indicating the purchase price as certified by the producer country." We cannot require.

Jenkins: I appreciate your desire that there not be too much congratulations for the EC. If we take out the EC proposal the paragraph hangs in the air. Perhaps we can say we note the actions of the EC.

Giscard: It is important that all seven accept the EC program and then we can delete EC. Let's say, "We agree to take steps to bring into the open the working of oil markets by setting up a register of international oil transactions."

Clark: I have not seen the details of the EC proposal. The communiqué language is preferable. It refers to a section of the scheme in place.

Ohira: About the brackets, "We will require that at the time of unloading crude cargoes documents be presented indicating the purchase price as certified by the producer country."

Carter: No objection, I can accept the brackets.

Thatcher: The word "require" means new legislation and enormous bureaucracy.

Giscard: We should say we will consider a device such as this.

Thatcher: We can accept "we are considering the feasibility of requiring."

Lambsdorff: I accept Mrs. Thatcher's suggestion.

Andreotti: When we accepted this sort of language in the EC, we stressed the wish to control the oil market. If we do not make commitments here, we are taking a step back from the EC. Countries could get information on this from their customs authorities. If we only have a commitment to examine, the oil companies will be left with power.

Clark: I share the reluctance to come to a conclusion at this table. We should say we are considering the feasibility of requiring that.

Thatcher: I agree. Let's find the facts first. I can't agree here to introduce legislation.

Jenkins: We are not taking a step back from what was decided. This only emerged last night.

Thatcher: I accept the Clark modification.

Giscard: I find myself closer to Andreotti. There are documents with the origin and the purchase price of the cargo. Oil is not sailing around the world anonymously. The market should not be cloaked in secrecy. We should seek to instruct our ministers to set this system up.

Thatcher: We need to study this first. We cannot require, we can have a feasibility study but we cannot require.

Giscard: OK. I accept.

Andreotti: If we say we study the feasibility it seems to me this is a statement with no guts. We should have studied it earlier instead of saying "consider the feasibility of requiring . . ."

Lambsdorff: I can accept the Canadian language as modified.

Ohira: Then there is agreement on the proposal "we will consider the feasibility of requiring . . .". In the next set of brackets we have "We will likewise seek to achieve better information on the profit situation of oil companies and on the use of the funds available to these companies."

Lambsdorff: I would like to remove the brackets.

Ohira: If there are no objections, the sentence stays in and the brackets are removed.

Carter: I cannot accept the first sentence of the language on page 3, "We will seek to eliminate actions that might put upward pressure on oil prices . . ." Some of our laws provide subsidies.

Lambsdorff: We want to resist what happened in the past and prevent new action. We are under pressure to take new actions and want some strength to resist those pressures.

Schlesinger: We have by recent actions reduced the subsidy on crude oil while increasing the subsidy on distillate.¹⁴ We will minimize the impact of our subsidy on world oil prices.

Schmidt: I understand U.S. laws. That is not the issue. It is domestic. My government is under pressure from our own party to introduce new heating oil subsidies. We see this as counterproductive. We hope for additional leverage to tell Parliament that new subsidies are not on just now. We need additional language against subsidies.

Carter: We can say we will avoid new subsidies. This is to deal with the Congress.

Schmidt: I understand the problem. We have a Parliament too.

¹⁴ See footnote 2, Document 214.

Giscard: I support the Carter text.

Lambsdorff: On the nuclear issue I would like to include the second and fourth sentences: "Without the development of nuclear energy in the coming decades, economic growth will be hard to achieve." And "This must be done under conditions guaranteeing our peoples safety."

Giscard: I agree with the Germans.

Schmidt: Then the text will read "We need . . .", "Without development of nuclear energy . . .", "This must be done . . ."

Carter: We can accept this except that I would prefer the language, "Expansion of nuclear generating capacity" rather than "the development of nuclear capacity."

Thatcher: There seems to be a lot of new institutions in this Communiqué. What is this Coal Board? These seem to be quangos—quasi autonomous non-government organizations. It is an American expression I think. This Coal Board is a quango. I am against it.

Schmidt: What is behind this?

Schlesinger: This sentence expresses support for the International Coal Advisory Board which is presently in train in the IEA to expand the use of coal. It is already in the IEA.

Thatcher: I might accept it, but that doesn't mean I support it.

Clark: I have no strong views. I share Mrs. Thatcher's desire to avoid a proliferation of international agencies. I would be happy to eliminate it.

Carter: Okay to delete it.

Clark: On paragraph 3, coal "exports" are only one-half of the problem. There must be a pledge not to interrupt coal trade under long-term contracts. On the issue of a national emergency, why don't we say countries "pledge not to interrupt coal 'trade' under long-term contracts unless required to do so by reason of overriding national interests."

Lambsdorff: Australia and New Zealand need the words "national emergency" for constitutional reasons. Besides, "national interest" could be economic, and be less than a national emergency.

Clark: I can accept national emergency but would like to have the word "trade".

Carter: That's okay with me. There are two things the Summit ought to achieve. Greater specificity regarding reductions of imports and promotion of the development of new energy sources. On page 5 we should be as strong as possible on these commitments. I favor the bracketed language on new energy technologies which says "We will insure that these resources are made available."

Schmidt: I would like to second President Carter's proposal and remove the brackets.

Giscard: I can accept the text and Jimmy Carter's addition.

Carter: We want to use the bracketed language "appropriate international organizations" to include the IEA.

Giscard: Why do we have to say this? It might refer to anything. I do not just want to link this to other organizations. Besides the IEA is within the OECD.

Carter: The IETG could also consult with the World Bank on loans for instance.

Giscard: We should indicate what framework we are thinking of. I am thinking in terms of the OECD.

Clark: Is this not just a review and a reporting function? It will not imply a commitment of action as to what will follow.

Thatcher: That is also my understanding—only a report.

Carter: Why don't we say OECD, IEA and other appropriate organizations?

Giscard: That is okay. In the OPEC Communiqué there is an unflattering reference to dialogue with other countries.¹⁵ In view of this we should delete "We hope these countries will participate in a continuous exchange of views on energy matters as well as other matters . . ." which implies that we are seeking a dialogue with OPEC. We can just keep the last sentence which reads "We remain ready to examine with oil exporting countries . . ."

Andreotti: President Giscard has the correct approach but we should add something on LDCs.

Schmidt: This requires a political discussion. OPEC's second paragraph has some abusive language as regards relations between industrial and developing countries. It accuses us of failure to live up to our responsibilities to the Third World. The developing countries are aware that OPEC's price actions are harmful to their development. Let me give you some figures: Brazil before 1973 used 10% of its total export earnings to pay for oil imports. Now it uses 40% of its export earnings.

¹⁵ The OPEC communiqué reads in part: "[The conference] took note of proposals for a dialogue between OPEC and industrialized countries. Some of these proposals, however, seem to suggest that a meaningful dialogue can be carried out only on energy matters in isolation of other global, economical and structural problems." The communiqué continued that the conference wanted to "restate its categorical rejection" of any dialogue that did not address "problems of development, the acquisition of advanced technology, the financial and monetary reforms, world trade and raw materials, along with the various aspects of the energy problem."

In 1973 Turkey used 30% of its export earnings to pay for oil. Today it uses 100%. Many other countries like India face the same problem. Even if we could double our aid we could not offset this. We cannot keep silent any longer. As a matter of grand strategy we cannot keep our mouths shut and be quiet about this. We should not keep silent.

Giscard: This is a political question. We should let the Foreign Ministers look at the text. This should be revised. We can't have cooperation after OPEC has turned us down in such clear terms. We should also re-draft the North/South section in light of OPEC's price changes and other appropriate paragraphs.

Carter: I agree that we need to respond to the international abuse of the LDCs and ourselves by the OPEC price increase. There has been a 60% increase since December. This could go up 40–50% more by the end of the year. They have been encouraged by the timidity coming from us and others by our lack of response in the past. The trouble in the past was that it was difficult for single nations to speak out against OPEC. If one does it alone it could be subject to blackmail by OPEC, for example threats of withdrawal of funds. This is a propitious time to instruct our Foreign Ministers to work on our position on the matter. We won't have another chance. We will be vulnerable if we act unilaterally. We should let the Foreign Ministers draft the strongest possible statement on OPEC. It is time to draw the line.

Schmidt: We should indicate that we are aware of different attitudes in different OPEC countries.

Carter: Good.

Giscard: In the Foreign Ministers' text we should reflect our awareness of the concern by certain countries for international economic stability. All will understand what that means.

Clark: In the environment paragraph on page 4 we should add sulphur oxide.

Giscard: We should ask our Energy Ministers to look at the oil imports for 1985. Our Ministers for Foreign Affairs should clear up other aspects of the text indicating concern for our economies and LDCs.

Lambsdorff: A Japanese number is a pre-condition.

Giscard: If there is no number, let's leave a blank line which can be filled in as soon as Japan gives its 1985 target.

Schmidt: I have some second thoughts on the spot market section. We should indicate that we urge not only oil companies but also oil exporting countries to moderate spot market transactions.

Ohira: I agree with Chancellor Schmidt. We agree to add oil exporting countries.

[The Third Session concluded at 12:05 pm. Energy Ministers, personal representatives and notetakers adjourned to prepare the last draft of the Communiqué section on energy.]¹⁶

Fourth Session

Began at 2:50 p.m.

Ohira: Our experts have been working on the energy section and it should arrive here any moment. In the meantime, let me read the section on OPEC: "We deplore the decisions taken by the recent OPEC Conference. We recognize that relative moderation was displayed by certain of the participants. But the rise in oil prices nevertheless agreed are bound to have very serious economic and social consequences. They mean more unemployment, more balance of payments difficulties and will endanger stability in developed and developing countries of the world alike."

Carter: I would like to strengthen by adding a word. "Unwarranted" in front of "rises". Also, why not add the phrase "worldwide inflation and less growth."

Lambsdorff: I accept this.

Ohira: Then we have agreed to President Carter's suggestion.

Giscard: I would suggest deleting the word "nevertheless" before the last sentence and simply say "we will remain ready . . ."

Andreotti: I would suggest that we say what the aim of our commitment at Bonn was, in the macro-economic section.

Lambsdorff: That was already mentioned earlier.

Clark: In the sentence on administrative action, I can live with the word "minimize".

Lambsdorff: Why don't we say "we will seek to minimize and finally eliminate administrative actions that might put upward pressure on oil prices that result from domestic under-pricing of oil and to avoid new subsidies which would have the same effect."

Ohira: Finally, we need to address the level of Japan's import targets for 1985. Here's what we can say. "Japan adopts as a 1985 target a level not to exceed the range between 6.3 and 6.9 million barrels a day. Japan will review this target periodically and make it more precise in light of current developments and growth projections and do their utmost to reduce oil imports through conservation, rationalization of use and intensive development of alternative energy sources."

Carter: That is a good figure. I congratulate you on making this decision in the proper spirit of this Summit conference.

¹⁶ Brackets in the original.

Giscard: It is important that Japan has been able to produce this figure. It is a good commitment to the success of this meeting. Your proposal can be accepted by France, but I would like you to say that Japan will direct its efforts to the bottom end of the range through the development of alternative energy resources.

Schmidt: I join Jimmy and Valery in expressing gratitude for your decision.

Andreotti: The agreement by Italy to the energy section was in the context of the overall EC number. I would like a line to be put in which says that the Community countries are taking their commitment "in the overall context of the EC" or "within a framework of the overall goals of the EC."

Jenkins: I can understand the intention of the Italian Prime Minister and Italy's point of view. We could not have a position which prejudices the interests of the other five countries.

Carter: I do not understand the point Roy Jenkins was making.

Jenkins: I was saying that we could deal with this issue at the Dublin meeting.¹⁷

Andreotti: That is not satisfactory.

Giscard: We can put in a French, U.K., FRG but not an Italian figure. If Andreotti does not want to be tied down here he can take Italy out and put Italy into the EC as a whole.

Thatcher: Why don't we say that "France, Germany, Italy and the U.K. will make their contribution within the overall EC agreement to keep the 1985 figures no higher than the 1978 figures."

Carter: That is moving away from specificity. It goes against all we have been doing here.

Thatcher: I am following up Andreotti's point. The paragraph on France, Germany, Italy and the U.K. is not agreed by Andreotti. The EC Agreement is a total agreement.

Giscard: There is only one country that has not made a commitment. We have an American, a Canadian and a Japanese commitment. Now we are backpedaling. We are weakening the text. The fact that we say we will not import more in 1985 does not mean that within the EC we are going to arrive at 1978 ceilings. We are saying France, Germany and Italy will not go beyond 1978 levels. The only problem is Italy. Germany and UK and France will accept 1978 ceilings; Italy will probably go beyond it. That is Italy's problem. France, Germany and the UK can agree not to go beyond the 1978 figure. We can say that France, Germany the U.K. and the EC will not go beyond the 1978 figures. Then we

¹⁷ The EC was scheduled to convene in Dublin in November.

will not count Italy. This will enable us to negotiate within the EC's ceiling levels. We will say we are entering into a commitment not to ask for more than the 1978 figure. We can delete Italy and replace it by the EC as a whole.

Carter: That is acceptable to us.

Andreotti: In terms of classification we are thus neither fish nor fowl. Since we are in the same condition as Japan on oil we should be entitled to the same increase as Japan. The same conditions should lead to equality of commitment.

Giscard: We can't decide for our partners. We can't give one partner a favored position. We can't say when we share within the 1978 figure Italy will be in a preferred position. We can't decide what Italy will be. The only way we can do this is to eliminate reference to Italy and refer to the EC commitment among nine major countries. We can't decide on one without the other. Let's not single out Italy and put it in the EC ceiling.

Andreotti: I am not asking for privilege. You can't ask us to commit to accept the 1978 ceiling today without discussing the matter within the EC. Either we accept Mrs. Thatcher's proposal, or we say in a footnote that our commitment will be made in the EC.

Jenkins: In the view of what was said by Mrs. Thatcher we can say that France, Germany, Italy and the UK will make their contribution within the overall EC contribution to keep 1985 imports within the 1978 level. Germany, France and the UK will be able to state that they will be able to keep their imports below the figures of 1978.

Carter: I accept President Giscard's formulation.

Andreotti: We could have a note which would state that as far as Italy is concerned that the commitment as to the 1978 reference is accepted within the overall context of the EC.

Carter: I agree with that. The question of the next meeting needs to be addressed. When and where?

Andreotti: I would like to invite all of you to Venice in June of 1980.

Schmidt: I agree to Andreotti's invitation which I am told will be on the Isle of San Giorgio. It is desirable that we should get together once a year to examine the economic situation of the world. If we are not intimately in touch on economic questions we might fall into the pits of egotistical economic policy. The danger is great. These kinds of meetings are healthy. I want to also thank our Japanese hosts for their kind hospitality.

Giscard: I want to thank Japan for its commitment to reduce imports of oil. I also accept Prime Minister Andreotti's invitation, although I think that the next meeting should be for one week if it is on San Giorgio.

After an exchange of pleasantries, and thanks to Prime Minister Ohira, the meeting concluded.¹⁸

¹⁸ Regarding energy, the final declaration issued at the end of the Summit specified individual country goals for ceilings on oil imports in 1985 (the U.S. goal was 8.5 million barrels per day); pledged to increase the use of coal as much as possible and expand alternative sources of energy, including nuclear energy; and deplored the recent OPEC decision to raise oil prices. For the full text, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, pp. 1197–1201.

**222. Memorandum From the Executive Secretary of the
Department of State (Tarnoff) to the President's Assistant for
National Security Affairs (Brzezinski)¹**

Washington, June 29, 1979.

SUBJECT

North American Energy Community

This responds to your request of May 11 that we examine the concept of a "North American Energy Community" as suggested by several members of the Congress.²

Summary

The proposals currently under consideration by the Congress for some form of North American energy cooperation range from information exchanges to "cooperative planning" and "energy security guarantees." We do not believe these approaches add to current arrangements. The United States already has in place bilateral mechanisms for extensive cooperation with Canada on virtually every energy issue in which there is significant mutual interest and is beginning to elaborate similar mechanisms for cooperation with Mexico. Adding a trilateral dimension would probably not increase the technical value of the cooperation. Energy security guarantees to the U.S., i.e., price and/or

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 49, Mexico, 5–6/79. Confidential.

² In his May 11 memorandum to Vance, Brzezinski asked that the Department of State prepare the study in consultation with the Department of Energy and that it "examine long-term energy supply and pricing agreements and include a recommendation on whether or not an initiative in this area by the U.S. Government would be desirable." (*Ibid.*, Staff Material, International Economics File, Box 1, Subject File, Mexico, 5–12/79)

supply commitments, would be political anathema to both Canada and Mexico. It is doubtful they would be given any consideration at all without an offer from the U.S. of powerful incentives in the form of an above market price for energy purchases or other important economic concessions. We think the U.S. should continue efforts to improve bilateral energy cooperation with both neighbors.

North American Energy Community Proposals

There are several bills, including S. Con. Res. 27, S.J. Res. 58, and H. Con. Res. 124, currently under consideration by the Congress proposing some form of multilateral North American energy cooperation. Most of them focus on technical cooperation and information exchanges although some advocate "cooperative planning and mutual energy security guarantees." These latter two concepts are loosely defined but seem to contemplate supply and price commitments to the U.S. by Canada and/or Mexico and some form of multilateral decision-making on the development of energy resources.

Information Exchanges and Technical Cooperation

Many of these proposals do not take account of the extensive bilateral energy consultation and coordination already underway. Energy cooperation with Canada is a long standing and highly developed process. It includes both government-to-government arrangements and extensive private sector activities in the development, production and trade of energy. Cooperation with Mexico is less well developed but it was given high priority by the two Presidents at their meeting this year and is being pursued actively by the responsible agencies. Taken together, we think these arrangements meet the information exchange and cooperation objectives of the various Congressional proposals.

Canada—

President Carter and former Prime Minister Trudeau recently agreed to establish a consultative mechanism on energy to discuss the range of our bilateral energy relationship. This group will meet regularly to review progress in key energy areas and will act as a useful management mechanism to encourage continued mutually beneficial energy cooperation. Although this cooperation takes place at the initiative and under the sponsorship of commercial entities acting in their own interests, the two governments are actively involved in facilitating and guiding such activities.

Energy trade has been and will be an important element in our relationship with Canada. Canada is currently in the process of phasing down exports of crude oil shipments to the U.S. but we import almost 3.0 billion cubic feet of Canadian natural gas per day or about 4.5 percent of domestic consumption. Also, there are now pending before

Canada's National Energy Board applications for natural gas exports which could eventually add another billion cubic feet per day. Further, we have an extensive electricity exchange with Canada, with the U.S. being a net importer of some 17.5 million megawatt hours per year.

Our most important bilateral energy project with the Canadians is construction of the Alaska Highway Gas Pipeline by private interests. We are engaged in frequent discussions with Canadian authorities on all aspects of the pipeline's construction, regulation and operation.

We have also undertaken, in conjunction with the Department of the Interior, preliminary discussions with the Canadian Government regarding routes for a crude oil pipeline to supply the northern tier and inland states. We anticipate continued close cooperation with the Canadian Government as the evaluation of route proposals results in a recommendation to the President later this year.

We are involved in extensive information exchanges and technical cooperation with Canada through the International Energy Agency, of which we are both members. A still greater exchange of information and technical cooperation takes place between Canadian and American business entities involved in the energy field. Indeed, with the possible exception of the automobile industry, energy may be the most highly integrated sector in our two economies.

Mexico—

Although our energy relations with Mexico are less extensive than those with Canada, they are growing rapidly, and cooperative mechanisms for discussion and problem management are being developed. During the visit of President Carter to Mexico in February³ several initiatives were taken. The United States/Mexico Consultative Mechanism has been restructured and broadened, and a new Energy Working Group, co-chaired on the U.S. side by the Departments of State and Energy, is coordinating energy cooperation and problem management with Mexico. This Working Group will report to the newly established sub-cabinet Advisory Group to the Consultative Mechanism, which will review its progress.

Discussions concerning possible natural gas purchases are continuing, and a joint study of electricity exchanges has begun. Both governments have reviewed a number of bilateral energy-related science and technology proposals, including solar research, geothermal cooperation and enhanced oil recovery techniques. We fully expect that these initial cooperative activities with Mexico will prove mutually beneficial. We should strive to broaden such activities as our energy relationship matures.

³ See Document 190.

Energy Trilateralism—

Canada and Mexico have distinctly different interests in cooperation with the United States because of the difference in their respective levels of technical and economic development, natural resource bases, climates and overall economic and political policies. Adding a trilateral dimension to these consultations, even if it were acceptable to the Mexicans and Canadians, could probably mean increased complexity without offsetting benefits.

Energy Security Commitments

It is in the areas of price and/or supply commitments and the joint development of potential energy supplies in Canada and Mexico that many Americans, including certain members of Congress, see the greatest possible U.S. benefit from “North American energy cooperation.” But it is precisely in these areas that sensitivities in Canada and Mexico are most pronounced. It is possible that those sensitivities could be overcome, but we believe the political and economic price that would be required would be more than the U.S. would be willing to pay.

Mexico—

Mexico’s potential interest in long term price and supply commitments to the United States is called into question by two factors. First is Mexico’s longstanding and extremely strongly held policy of resisting any foreign influence over its energy development decisions. This position dates back at least to 1938 when foreign (principally U.S.) oil holdings were expropriated, an event which is commemorated by a national holiday. Mexico’s current efforts to reduce its dependence on the U.S. as the principal market for its petroleum exports from 80% to 60% notwithstanding, normal commercial considerations tend to direct Mexican crude to the U.S. Their decision to sell natural gas to the U.S. also required high level political review because it involved increased economic ties to the U.S. in the energy sector.

The second factor which could limit the prospects for a Mexican energy supply commitment to the U.S. is the policy that hydrocarbon exports will be based solely on Mexico’s need for foreign exchange to implement its development objectives. This policy, if sustained, would preclude any energy development decisions motivated by satisfaction of U.S. demand. However, the internal political pressures to expand development plans and hence foreign exchange requirements may prove irresistible to the Mexicans and necessitate a substantially higher level of petroleum exports than is currently envisaged.

These current energy policies may also be subject to modification by the initiatives on the rationalization of world energy economics which Lopez Portillo is currently contemplating, but probably only in a

global context. Domestic Mexican sensitivities and suspicions on this issue are too great for Lopez Portillo to be able to consider such a move if the U.S. would be the sole consumer beneficiary.

Canada—

Similarly, in Canada, which is a significant net importer of oil, the policy objective, embodied in legislation, is to attain self-sufficiency and export energy only to the extent it is surplus to Canadian needs. Canada's energy export policy includes tying prices to world levels. In 1974 the Government imposed an officially determined export price, which is now linked to world oil prices, on the commercial contracts governing gas trade with the U.S. A variable tax on oil exports is used to keep the cost of Canadian oil to U.S. buyers in line with world prices. While in general Canada is wary of too close an economic involvement with the United States, there have from time to time been proposals from Canadians for greater economic integration with the United States in particular sectors; energy resources, however, have always been specifically excluded.

U.S. Interest—

The U.S. could potentially benefit from long term energy supply cooperation with Canada and Mexico of the type we believe is contemplated by the Congressional proposals. However, we believe that prevailing attitudes and political conditions in both countries are such that a trilateral arrangement acceptable to the U.S. could not be made at this time.

By far the greatest part of the cost of a bilateral energy security arrangement would be the quid pro quo the U.S. would have to pay to Canada and Mexico for supply access. As mentioned above, domestic political opposition to any such agreement would be substantial in both countries and would remain substantial regardless of how much we were willing to pay. Under these circumstances it is virtually certain that the U.S. would have to agree to some significant compensation in addition to the market value of the energy, such as a price premium, preferential trade arrangements or other economic or political payments.

Further, it may not be in the U.S. interest to discuss supply arrangements with Mexico and Canada on a trilateral basis. To some extent, particularly with respect to natural gas, these two countries have been competitors as sources of energy supply to the U.S. and we would like to maintain that situation. Trilateral discussions might well facilitate development of a concerted stance by Mexico and Canada which could weaken the U.S. bargaining position on some issues.

Finally, any long term supply/price arrangements which suggested that the U.S. was seeking a bilateral solution to a substantial portion of its energy needs would be in violation of at least the spirit of our

commitments in the IEA, especially if such arrangements involved above market prices. They could weaken that organization and encourage a return to the counter-productive scramble for energy supplies which followed the 1973–74 embargo. We recognize that some of the other IEA countries have sought long term supply agreements but we believe there would be a quantum difference if the U.S., the founder of the IEA, tried to lock up North American supplies as a private preserve. A modest arrangement which merely recognized the mutual interests of three neighboring states and the natural transportation economies inherent in their geographic proximity to each other would not necessarily have a severe effect on cooperation in the IEA.

Recommendation

We do not believe that proposing a North American Energy Community as contemplated in congressional proposals would make a constructive contribution to the solution of our energy problems. Its objectives, to the extent they are politically feasible, are already being discussed in existing consultative mechanisms, where the overriding purpose is to explore areas of mutual interest and further those interests within the context of respect for national sensitivities and political differences. The energy security commitments which might offer some benefits to the U.S. run contrary to the basic energy policies of Canada and Mexico and might well end up costing more than they were worth, even if they were possible.

Peter Tarnoff

223. Telegram From the Department of State to the Consulate General in Alexandria, Egypt¹

Washington, July 6, 1979, 1737Z.

174919. Alexandria pass USMEDel Strauss for Amb. Strauss SNT9.
Subject: Presidential Message on Saudi Production Increase.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790307–0300. Confidential; Niact; Immediate; Exdis. Drafted by Twinam; cleared in NEA, EB, S/S, and by Gary Sick of the NSC Staff; and approved by Cooper. Repeated Immediate to Riyadh, Amman, and Jidda.

1. President has asked that Ambassador Strauss, during his visit to Saudi Arabia, convey following personal message to Crown Prince Fahd, and to King Khalid should he meet with him:

—I am deeply appreciative of the indication that the Government of Saudi Arabia has decided to increase oil production temporarily to help relieve the serious strains in the international oil market.²

—This is a statesmanlike decision which reflects Saudi Arabia's notable sense of responsibility toward the welfare of the international economy.

—As you know, we in the US are in the process of taking some difficult steps in the US which will serve the same purpose by reducing US demand for imported oil.

—I have asked Ambassador Strauss to convey my appreciation for Saudi Arabia's action and my conviction that this represents in striking manner how our two governments can work toward the common goal of promoting an orderly world economy.

2. If Ambassador West has not yet relayed to Crown Prince Fahd the oral message from the President on Saudi moderating role in OPEC decision,³ those points might also be delivered by Strauss along with this message.

Christopher

² *The New York Times* reported that on July 3 the Saudi Government announced on radio in Riyadh that oil production would increase. (*The New York Times*, July 4, 1979, p. D1) The White House issued a statement on July 9 indicating that the President had received a "personal commitment" from Crown Prince Fahd on the increase in Saudi oil production. The statement expressed the President's appreciation for the decision. For text of the statement, see *Public Papers of the Presidents of the United States: Jimmy Carter*, 1979, p. 1226.

³ Not further identified.

224. Memorandum From Henry Owen of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, July 6, 1979.

SUBJECT

Coping with OPEC

You asked for an annotated inventory of carrots and sticks for coping with OPEC or some of its members.² In responding I will indicate briefly the possible utility of a measure or countermeasure in serving either our price or supply security objectives, but closer examination based on actual circumstances would be essential. I will deal only with economic measures, leaving to others such considerations as US policy on the West Bank or Jerusalem, security assistance or military intervention.

I. Carrots

A. *Indexed bonds* could be offered by the USG or by all the industrial nations to oil exporting countries to protect their financial proceeds against inflation. In the US, at least, such bonds also would have to be offered to the US public as well, raising enormous fiscal and structural problems. Treasury is, understandably, adamantly opposed.

B. *Immunity to US seizure* of assets could be proffered by treaty with a major oil supplier such as Saudi Arabia in exchange for increased production. Such a treaty might waive a potential US claim for inadequate compensation of ARAMCO owners or guarantee Saudi Arabia against US reprisals for other acts, such as price increases. A big enough supply increase could warrant such a deal. The problem of precedents would be limited because other OPEC countries could not offer a comparable quid pro quo. Its appeal to the Saudis would be limited in comparison with their presumed political price for a major increase in oil capacity and output. A war exception also would reduce its value to the Saudis.

C. *Indexed oil price increases* linked to agreed broader price levels and monetary values could be offered by the US or a group of indus-

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil, 7/79. Confidential. Sent for information.

² Owen had sent Brzezinski a shorter memorandum on July 5 entitled "Coping With OPEC: What Else Can We Do?" It begins: "You asked for a quick review of possible means of improving our leverage on OPEC or some of its members in trying to persuade them to moderate price increases and increase production. I deal only with economic actions to this end. I don't consider such issues as the West Bank or military and other forms of security support." (Ibid.)

trial countries in the form of a “commodity agreement”. In today’s tight oil market and the prospective seller’s oil market of the future, it is unlikely that we could negotiate with OPEC an oil price index acceptable to the US public, and we could not be sure it would survive a sharp change in the oil supply-demand balance. Discrimination in favor of the oil cartel relative to all other suppliers of commodities would be highly contentious.

II. Sticks

A. We could impose a requirement that all suppliers must *pay for the right to sell oil to the US*. The Energy Department would sell “entitlements” at auction to suppliers of foreign oil. In a soft market, this would give us a discount equal to the amount of the payments for entitlements, or access tickets. This is Prof. Adelman’s³ concept. It does not seem promising in the present and prospective tight market. If nobody offered to pay for the tickets, we would quickly have to issue free entitlements, with red faces.

B. We could nationalize the business of importing oil, *confronting foreign government sellers with a government buyer*. If the US oil monopoly (read President) had the will to hold out for a break in the cartel’s price by the hungriest OPEC countries, we might temporarily reverse the upward price spiral. OPEC’s action might be further restriction of production, so as to destroy our bargaining power.

C. We could reverse traditional US Justice Department positions and *support the IAM anti-trust suit against OPEC members*.⁴ In order to assure that a court judgment imposing penalties on OPEC countries could be enforced, we would need to move promptly to get a court order *freezing OPEC country assets* in the US. This series of actions would evoke OPEC counter-measures, including withdrawal of assets from foreign branches and affiliates of US banks, suspension of the flow of new assets to the US, and possibly an embargo. The IEA emergency sharing system might unravel in the face of such a provoked embargo unless the initial US action were cleared in advance with our IEA partners. The impact on the US balance of payments and the dollar would be very adverse.

D. We might set up an *OECD counter-cartel* and fix discriminatory prices on our major exports to the OPEC countries or to any country imposing unacceptable prices on oil. (The variant of a lone US stand of

³ Morris A. Adelman, professor of economics at the Massachusetts Institute of Technology.

⁴ The International Association of Machinists and Aerospace Workers sued OPEC and its member nations in December 1978, alleging that their price-setting activities violated U.S. anti-trust laws.

this sort clearly would not work.) Our participation probably would require some form of export tariff, which raises constitutional questions. None of our discussions with other OECD countries encourages expectation that they would go along. Even if wide participation were achieved, leakage through intermediary countries and competition by advanced developing and communist countries would reduce the counter-cartel's effectiveness.

E. *Unilateral economic warfare* measures could be adopted in reprisal against confiscatory OPEC price increases, severe withholding of vital oil supplies, or acts we judge to be violations of international law. The President has broad discretion under the Emergency Economic Powers Act of 1977 to declare a national emergency and impose a selective export embargo or selectively seize foreign assets. Like a counter-cartel, this extreme measure would need to be orchestrated with similar action by other countries to have much chance of achieving the desired change in policies by oil producers. It would carry the same extreme risks as the chain of events flowing from anti-trust prosecution.

None of these carrots and sticks is promising in today's circumstances. The cure would be worse than the disease. Some of the positive measures and counter-measures would be worth closer consideration, however, in the event acts of economic warfare, including an embargo, were threatened or imposed by some OPEC countries. In the meantime, I believe we are on the right course with the Tokyo Summit policies to reduce demand and increase supply. The recent Saudi production decision⁵ probably reflects, in part, a favorable reaction to these policies. The practical outcome should be a cushion against oil shortages and some relative softening of prices.

⁵ See Document 223.

225. Memorandum From Henry Owen of the National Security Council Staff to President Carter¹

Washington, July 9, 1979.

SUBJECT

Saudi Arabian Decision

The Saudi decision to increase production could, if maintained, go far to right the present imbalance between supply and demand. That decision owes something to the letter that you sent the Saudi government before Tokyo saying what you hoped to accomplish at the Summit,² to the OPEC excesses at Geneva,³ and to what Dick Cooper (who visited there after Tokyo) says was the Saudis' pleasure at what the Summit actually achieved. Bob Strauss also had a feeling that Tokyo was a factor in the Saudi decision. This leads me to the following suggestions:

1. We should claim some credit in the US for this decision, indicating that it is partly a result of your success at Tokyo in activating energy conservation and production as the Saudis have long urged. The Saudi decision would not have been made if Tokyo had failed.

2. We should underline to our own people the lesson: Efforts by the industrial countries to reduce oil demand can pay off; further efforts are needed if the temporary Saudi decision is to be extended.

3. We should make clear to the Saudis that we understand the message they have sent us. The best way to do this is to press ahead with effective Tokyo follow-up—not just in the US but in cooperation with the other main industrial countries, and make sure that this is known to the Saudis and other OPEC countries. And we should continue, in our public statements, to single out moderate OPEC countries for praise, as you did at Tokyo, and avoid indiscriminate attacks on all Arab or oil-exporting countries.

In these different ways, we can build on the Saudi decision to create a healthy awareness in both the US and Saudi Arabia that sensible energy policies by both sides can be mutually reinforcing. This awareness will make each side more likely to do the right thing—and should earn the Administration some credit at home for having followed sensible policies at Tokyo to this end.

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 67, Saudi Arabia, 4–7/79. Confidential. Sent for information. Brzezinski wrote "Agree," and initialed at the top of the page.

² See Document 220.

³ See footnote 3, Document 220.

226. Memorandum From Henry Owen of the National Security Council Staff to President Carter¹

Washington, July 12, 1979.

SUBJECT

1979 and 1980 Import Ceilings

I strongly support the recommendations that you announce a lower US import level for 1979 and 1980 than we pledged at Tokyo.

The question I get from newspapermen, businessmen, and others to whom I report about the Summit is why we chose an 8.5 million import target for 1979 and 1980, since it is more than we are likely to import in either year. (I do not get this question about an 8.5 million goal for 1985.)

Your speech's impact in this country and abroad would be enhanced by announcing a lower ceiling.² The dollar would be strengthened. It would be one of the few parts of the speech that has not been foreshadowed in the press.

This action would be consistent with your phone statement to Giscard yesterday³ that you will announce more stringent import measures than you agreed at Tokyo.

This action would also give us a basis for urging other countries to exceed their Tokyo pledges. This effect would be the more welcome since CIA estimates that the total of the Summit imports pledged at To-

¹ Source: Carter Library, Staff Office Files, Domestic Policy Staff, Box 324, Eizenstat, World Crude Oil Market. No classification marking. Sent for information. Attached to the memorandum is a July 12 note from Owen to Eizenstat that reads: "Curt Hessler tells me you're considering this. If you recommend it to the President, I'd be grateful if you'd let him know I strongly agree with you—either by sending him the attached or by incorporating my views in your memo."

² Carter delivered his speech on "Energy and National Goals" to the nation on July 15, and the next day spoke in Kansas City, Missouri, to discuss the "energy problem" and his program to deal with it. For the text of both addresses, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, pp. 1235–1247. On July 16, the Department of State sent a telegram to all diplomatic posts with guidance to use in orally conveying the "most salient points" of the speech, which was well received internationally, and the energy announcements of the following day. The telegram reads in part: "The major theme is that the U.S. requires an unparalleled peacetime investment of money, natural resources, and application of technology to achieve two goals: first, never again to import more oil than it did in 1977. We will keep imports at or below these levels through conservation and use of domestic energy resources. Second, by 1990, the United States must cut the amount of oil it now imports in half." (Telegram 183760 to all diplomatic posts, July 16; National Archives, RG 59, Central Foreign Policy Files, D790321–0125)

³ Not found. Carter talked to Giscard on the telephone from 5:17 to 5:28 p.m. (Carter Library, Staff Office Files, President's Daily Diary)

kyo for 1982 and later years could easily exceed oil imports available to the Summit countries in those years.

This move would also be pleasing to the Saudis. It would show that we are willing to go that extra mile in response to their recent production decision.⁴ The chances of their extending that decision beyond the initial six months would thus be increased.

⁴ See Document 223. In an August 1 letter to Carter, King Khalid wrote that Carter's "historic program for solving the energy problem" set an example to be followed by the rest of the world regarding the policy of energy production and consumption. He added: "My government has exerted its utmost efforts to lessen the effects of the crisis and to reduce its undesirable results, and it has achieved a far-reaching success in that direction." (Telegram 5676 from Jidda, August 2; National Archives, RG 59, Central Foreign Policy Files, P850027–2424)

227. Telegram From the Mission to the Organization for Economic Cooperation and Development to the Department of State¹

Paris, July 27, 1979, 2234Z.

24069. For Under Secretary Cooper, Assistant Secretary Katz, DAS Calingaert and EUR/RPE for Beaudry. Dept. also pass White House for Ambassador Henry Owen. Dept. also pass DOE/IA for Assistant Sec. Bergold. Subject: France and the IEA. Ref: (A) Paris 23158; (B) Paris 22903; (C) Brussels 12762.²

1. (C—entire text).

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790346–0118. Confidential; Noform; Exdis. Repeated to Brussels for USEC and Ambassador Hinton.

² In telegram 23158 from Paris, July 19, the Embassy reported: "French Elysée official told Dutch official this week we will see IEA 'crumbling away' and a group formed at Ministerial and official levels to cooperate on energy." (Ibid., D790329–0637) Telegram 22903 from Paris, July 18, detailed a meeting between the Embassy's Economic Minister and the French Foreign Ministry's Economic Director, at which the two discussed France's views on IEA membership and its suggestion for a meeting of Energy Ministers from the countries that had attended the Tokyo Economic Summit. (Ibid., D790324–0709) In telegram 12762 from Brussels, July 15, the Embassy informed the Department that, in a private conversation with a *New York Times* reporter, French Foreign Minister Jean François-Poncet remarked that France wanted to have a closer relationship with the IEA. He also said that "while France could not join, it might be possible to reconstitute organization to permit French participation." (Ibid., D790324–0135)

2. Summary: The established IEA/French interactions through the Community are now being tested anew by the sequence of events following the Iran revolution. Specifically, the need to coordinate Tokyo Summit decisions of the Seven with those of other OECD member countries raises new institutional questions and may require some changes in existing OECD procedures for energy policy cooperation. This message explores alternative options available to us under the assumption that the U.S. objective is that of achieving the most effective coordination possible of OECD member country energy policies and actions, including those of the French, without derogating from the central role of the IEA. In evaluating these options in terms of the objective, we looked for minimum modifications in current operations which would both be effective in carrying out Summit directives and keep open the option of an eventual French participation in the IEA or its equivalent. We conclude that (A) the existing indirect French relationship with the IEA works satisfactorily in most activities, particularly oil-sharing; (B) meetings outside the IEA context related to Tokyo Summit directives would not be damaging to IEA's central role provided they are ad hoc, draw on IEA Secretariat assistance, stick closely to the monitoring role and do not become institutionalized through repeated meetings; (C) providing statutory restraints can be resolved, a successor organization to IEA is feasible, and (D) we should await a clear expression of French interest in joining an IEA successor and then proceed only with the understanding that the new organization would retain all of the basic IEA organizational attributes, particularly its rules on procedure and voting. We believe it important that we avoid placing ourselves in a bad negotiating position by prematurely offering proposals to the French before they expose their basic position. End summary.

I. Background and Present Situation

3. The International Energy Agency (IEA) has, since its founding in late 1974, carried out our basic objectives in a satisfactory manner and has served as an effective coordinating mechanism of participating country policies in the current crisis. French non-membership has created no major operational problems. French energy policies have been closely coordinated with the IEA through the Community and, to a lesser extent, through the OECD Committee on Energy Policy (CEP). (A recent example of the effectiveness of such coordination is the prompt French adherence, through the EC, to the IEA Governing Board March decision to cut back imports 5 percent this year.)³ The French provide IEA statistics through regular OECD channels, although with lags on some data.

³ See footnote 6, Document 192.

4. Even on emergency sharing, French participation in the EC sharing system provides an informational and operational link which places them effectively within the IEA system, though again with some lags. They would participate immediately in allocations should an EC country trigger the sharing mechanism. Selective triggering by a non-EC participating country would also involve France, although secondarily, as supplies are reduced among the other eight EC countries. A general emergency would affect France in the same way, except more quickly. In either case, the delay would be relatively brief since it is unlikely that the EC partners would permit France to continue for long to import oil at normal levels while they are on reduced allocations.

5. The French could help IEA operations more than at present if they allowed their oil companies to become members of the Industry Advisory Board, assist statistical compilation, and ease coordination between the EC and IEA oil sharing systems. They could also bring French coal companies more fully into operational activities by permitting French executives to join the Coal Industry Advisory Board and to participate in R&D and conservation activities. These could all be done on a pragmatic basis without prejudice to France's position toward the IEA.

6. Even though the indirect French/IEA interrelationship works operationally, the organizational untidiness may have some negative political and psychological effects. The most important of these may be the impression that OECD countries lack unity on energy issues. On the other hand, the French have contended that their basic support of the substance of IEA policies, while remaining outside the organization, has softened the IEA/OPEC confrontation.

7. The public image of the IEA within participating countries suffers somewhat from confusion over the French role. EC procedures and Tokyo Summit follow-ons are also complicated by lack of a fully-shared international forum for energy policy coordination.

8. Ideally, an expanded IEA (or its equivalent) including France would be the best instrument for OECD energy coordination in the present situation, but recent signals from the French provide an uncertain if not negative picture (reftels). While the tea leaves may be read differently, our view of their configuration is that: (A) for political and psychological reasons, the French like their position as an inside outsider, where they share in major energy decisions by OECD countries and yet are free to criticize them both at home and abroad; (B) their occasional suggestions that they may be prepared to cooperate more directly with the IEA or join a re-named equivalent may just be feelers to see how far we and other IEA members are prepared to go to meet their yet unspecified desires or, equally likely, could represent uncertainties

or differences of view within the French Government on how best to achieve energy coordination without sacrifice to the basic French position on the IEA, and (C) whatever their ultimate position, they are prepared to continue their indirect relationship with the IEA, while proceeding to look for other means whereby they can more directly influence Western energy policies—e.g., post-Summit Energy Ministers meetings or “steering groups” inside or outside the OECD.

9. In sum, the present situation confronts us with the following problems and uncertainties:

—The IEA, without France, has worked well operationally but leaves an impression of disunity among OECD countries on energy policy and direction.

—Coordinating Tokyo Summit directives is complicated by lack of a central forum to which all Summit participants belong.

—Ideally, an expanded or renamed IEA, including France, would resolve these problems.

—The French have given no consistent signs that they are prepared seriously to consider joining a renamed IEA but have indicated they will continue their indirect participation.

II. Options

10. The following options include only those which would operate mainly within the OECD context and contribute to improved coordination, with greater or lesser derogation of IEA’s present role.

A. The Status Quo

Description:

Retain the IEA as principal coordinator of OECD country energy policies and actions, with French indirect participation through the EC.

Advantages:

- maintains our objectives for IEA
- works operationally
- keeps pressure on French to join IEA eventually.

Disadvantages:

- complicates coordination somewhat
- leaves France free to criticize
- risks placing post-Summit cooperation outside the OECD framework.

B. Status Quo Plus OECD Council Working Groups

Description:

Maintain basic IEA role but, for post-Summit coordination, establish one or more working or “steering” groups responsible to the OECD Council with specific mandates for Summit follow-on—e.g.,

overall coordination, monitoring. Organizationally similar to McPhail group,⁴ with membership open to all OECD countries.

Advantages:

- provides forum for all Summit members to coordinate with non-Summit countries
- if Secretariat support provided by combined energy staff, linkage with IEA is maintained.

Disadvantages:

- derogates from central role of IEA
- adds another layer to coordinating mechanism
- doesn't resolve disunity question because of low visibility.

C. Upgrade the CEP

Description:

Maintain IEA operational functions but make the CEP the locus for major policy discussions, subsequently to be ratified by the IEA Governing Board, including coordination of Summit follow-ons.

Advantages:

- permits France direct participation in policy making
- provides full-membership forum for post-Summit coordination
- gives visibility to OECD unity.

Disadvantages:

- severely damages IEA role and image
- may raise legal questions with respect to the IEA Charter (1974 Agreement on an International Energy Program)
- slows down the decision-making process by application of OECD rules of procedure and consensus as against IEA rules, especially majority voting on all but new commitments
- could require time-consuming duplicate agendas by CEP and IEA Governing Board.

D. Status Quo Plus Ad Hoc Summit Coordinating Groups

Description:

Retain the IEA coordinating role, with French indirect participation through the Community, while coordinating Tokyo Summit directives through a limited number of ad hoc meetings outside a direct OECD framework of Energy Ministers or their delegates from Summit countries, possibly including several smaller OECD countries, plus EC Commission and EC Council Presidency and OECD Secretariat representation (e.g. IEA Executive Director Lantzke in his capacity as Energy Counselor to the OECD Secretary General).

⁴ In 1978, the OECD Council established a Working Party, headed by D.S. McPhail, to assist developing countries with renewable energy sources.

Advantages:

- retains IEA's central role
- establishes a non-institutionalized mechanism for overall Summit coordination with an informal link to IEA
- does not compromise the longer range objective of an IEA equivalent with French membership.

Disadvantages:

- though highly visible (e.g. Ministerial meetings), doesn't fully remove impression of lack of unity
- provides risks of splitting OECD ranks between Summit and non-Summit countries.

E. IEA Successor Organization—Renaming

Description:

We propose two alternatives, though more are possible. The first is simply replacing IEA with a new equivalent. Both alternatives must meet the statutory requirements of present IEA members. The successor organization should also be modeled closely on the 1974 Agreement on an International Energy Program and on OECD Council Directive C(74)203, establishing the IEA and authorizing rules and voting procedures different from those applying to the OECD generally, a vital distinction which has been a key element in IEA's effectiveness. This first alternative of a new IEA equivalent would operate exactly as the IEA does now, only with a new name and with French membership.

Advantages:

- provide a single forum for energy policy coordination
- give a highly visible symbol of OECD unity on energy matters
- get the French to share in the payment of that which they now receive free.

Disadvantages:

- no clear evidence France would join an organization so transparently the same as the one it has resisted for five years
- should France become a member, we have no assurance that it would be any less difficult than when outside the organization—we may simply be transferring contentious debate from the EC to the new organization
- legal issues may require new statutory authorities for member countries.

F. IEA Successor Organization—OECD Energy Council

Description:

Same basic requirements as in Option E. Establish an OECD Energy Council of approximate equivalence to the OECD Council with, however, the same basic structure and procedures as the present IEA. The IEA Governing Board would in effect become the Energy Council.

Advantages:

- provide a single forum for energy policy coordination
- dramatically display the importance given by OECD countries to energy issues
- likely to be more attractive to the French than a re-named IEA
- secures a French financial contribution.

Disadvantages:

- no clear evidence the French would join
- French could be contentious if they did join
- legal issues may require new statutory authorities for member countries
- the OECD Charter may have to be amended
- the OECD Secretary General may resist this apparent infringement on his authority.

III. Conclusions and Recommendations

11. Given (A) present uncertainties about French attitudes toward direct participation in the IEA or a successor organization, (B) the need to preserve the valuable role being played by the IEA, (C) the requirements for closer coordination with the French on Summit follow-ons and energy policies generally, and (D) weighing the pros and cons of the various options cited, Option D is the most realistic course of action as present policy while we examine the feasibility of either Options E, F or some further variation. In this regard, we should be particularly careful to avoid becoming the petitioner vis-à-vis the French by prematurely offering them a proposal before we have a better appraisal of what they really want. This would tactically put us in a disadvantageous negotiating position and, perhaps, force compromises we do not want. In our view, the disadvantages of the present situation are not of sufficient magnitude as to warrant such a risky strategy.

12. Specifically, we believe we should: (A) continue to support the IEA as the central energy policy coordinating institution; (B) encourage the French to maintain and improve their indirect participation in IEA and to stop sniping at it; (C) indicate willingness to discuss with the French any serious proposals they wish to make on joining the IEA or a successor organization, provided that statutory problems are resolvable and the French are prepared to accept a structure approximately equivalent to that of the IEA, and (D) make clear that meetings of Summit country representatives within or outside the OECD framework must not be institutionalized or otherwise derogate from the IEA role. Regarding (D), we feel that, given non-Summit sensitivities and our shared commitment to the IEA, the frequency of such Summit country meetings will be a key aspect: the more frequent these meetings, the greater the impression of institutionalization and the more divisive the effect within the IEA.

13. Ambassador Salzman actively participated in the drafting of this message and approved it prior to his departure on leave.

Ryan

228. Telegram From the Department of State to the Embassy in West Germany¹

Washington, August 7, 1979, 1532Z.

205196. Subject: Energy: Tokyo Summit Discussions. Reftel: (A) Bonn 13525; (B) State 188623.² For Ambassador from Secretary Schlesinger.

1. (Entire text Confidential)

2. Please clarify for Count Lambsdorff the position taken by both the US Government and me in regard to the targets established at the Tokyo Summit. You should make clear that I certainly did not and would not acquiesce, let alone “advocate to the Europeans”, that North Sea oil be treated as a private playpen for the individual members of the European Community. To the contrary, the US Government’s position was steadfastly that national targets had to be adopted which would fairly restrain imports into each industrial nation. With US and possibly Canadian production falling and the Japanese having no production, the main point was that North Sea oil should not create a privileged sanctuary that would permit European consumption to grow as oil consumption elsewhere was constrained.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790358–0253. Confidential; Priority; Exdis. Drafted by D. Hickey (DOE/IA); cleared by Bergold, Schlesinger, Poats, and Rosen and in EUR/CE; and approved by Cooper. Repeated to Brussels for USEEC and to Paris for USOECD.

² Telegram 188623 to Bonn, July 20, informed the Embassy: “We are concerned that the FRG may not take the commitment to oil import targets made at Tokyo with sufficient seriousness. It is the clear understanding of the President and his advisors that it was decided at Tokyo that exports from the UK would be considered as imports for purposes of meeting the national 1985 targets set by the FRG, France, and possibly Italy. Further, the agreement by the four EC Summit countries to recommend to their non-Summit EC partners that each country specify its contribution to annual EC import levels is to reflect the Tokyo results.” (Ibid., D790331–1164) In telegram 13525 from Bonn, August 1, the Embassy reported: “Lambsdorff states that FRG understanding of Tokyo goals is that UK oil to be treated as Community oil, a view which he states was advocated to Europeans at Tokyo by Secretary Schlesinger.” (Ibid., D790348–0440)

3. These points were made in conversations with representatives of the EC (Jenkins and Williams) as well as with representatives of the member governments.

4. I said imports from the North Sea should be counted in individual 1985 oil import targets for the Federal Republic of Germany and other EC member countries who participated in the Summit. Some confusion may have resulted in reconciling individual oil import targets with the overall EC target. Naturally, UK oil production is included in any overall EC target but oil imports from the UK into Germany or France must be included in their import account and therefore counted against their oil import target.

Vance

229. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, August 11, 1979, 1935Z.

209699. Subject: EC–9 Gulf-Arab Dialogue. Ref: Paris 25428; Jidda 5824 and previous.²

1. In discussions with both EC–9 and Gulf governments, addressees should understand that, despite the problems which could flow from proposed dialogue, it is not US policy to oppose it. EC countries have long felt frustration at their perceived inability to maintain effec-

¹ Source: National Archives, RG 59, Central Foreign Policy Files, [no film number]. Confidential; Immediate. Drafted by Twinam; cleared by Hormats, Vest, and Deputy Assistant Secretary of Energy for International Resources Peter Borre; and approved by Cooper. Sent to all the OECD capitals, Kuwait, Jidda, Abu Dhabi, Manama, and Muscat, and repeated to Tokyo and Tehran.

² Telegram 25428 from Paris, August 9, reported: "The EC 9–Gulf oil dialogue is now being handled as a joint Kuwaiti-French proposal. According to a Quai source, the most probable format involves an informal meeting during October in Europe of Energy Ministers from the Nine, including EC Commission, and all Gulf Arab states including Iraq and Oman. The French and Kuwaitis agree the primary focus of the meeting should be how to finance European oil imports." (Ibid., D790361–0661) Telegram 5824 from Jidda, August 9, reported that the foreign press and diplomatic missions in Saudi Arabia had begun to conclude that an effort to form an EC–Arab economic and security relationship was underway. The Embassy concluded, however, that Saudi Arabia's "reliance" on its special relationship with the United States made "any dramatic turn toward Europe" by the former "unlikely." (Ibid., D790360–0930) Belgium, West Germany, France, Italy, Luxembourg, the Netherlands, Denmark, Ireland, and the United Kingdom comprised the EC–9.

tive bilateral dialogue with producer governments on energy issues and we believe it is important that we not appear to be seeking to discourage in any way their present effort toward a collective discussion.

2. What is important is that EC governments remain in close contact with us and that they understand the problems in permitting the agenda for such a dialogue to include political questions related to Middle East peace negotiations. Paris reftel is encouraging in this respect.

3. US posture described above in no way reflects change in our opposition to tied oil agreements between OECD governments and OPEC producers. In this connection it would be useful to understand what French have in mind (Paris reftel) by focus on European oil supply and how to pay for it.³

Cooper

³ On August 28, Cooper met with Yamani and told him that, regarding the "EC-9/Gulf producers exercise," the United States was not opposed to the "development of a constructive dialogue between producers and consumers," but that it was "not in the lead in calling for such discussions." He added that the United States was "satisfied" with its "bilateral dialogue on energy questions with a number of important producers including Saudi Arabia." (Telegram 228972 to all OECD capitals, August 30; *ibid.*, D790397–0952)

230. Memorandum From Secretary of Energy Schlesinger to President Carter¹

Washington, August 23, 1979.

SUBJECT

Protecting Our Vital Interests in the Persian Gulf

In view of my impending departure,² I believe it appropriate to leave with you an expression of my views regarding the military bal-

¹ Source: Carter Library, National Security Affairs, Staff Material, Middle East File, Box 68, Subject Files, Middle East: Security, 7–8/79. Top Secret. Brzezinski forwarded this memorandum to Vance and Brown on September 11 and wrote: "Attached for your information is a memorandum written by Jim Schlesinger just prior to his departure. The President has seen it. This copy is for your personal information and should be very closely held."

² Schlesinger's tenure as Secretary of Energy ended on August 23. Charles Duncan, Jr. succeeded him on August 24.

ance in the region of the Persian Gulf and the military protection needed for Free World oil supplies. You will recall our discussion in January regarding my proposal for a Save-the-Gulf Task Force.³ In subsequent months the PRC has examined various options. Since I shall no longer be a participant in those deliberations, and since my views perhaps reflect a higher sense of urgency (or alarm) than some of my colleagues, I had better present them again to you directly.

Briefly stated, it is necessary to provide adequate military deterrence in the region. That will require a visible and continuing American military presence. If the nations of the region feel a continuing, nearby, and formidable Soviet military presence and the general absence of American military power, it will lead to a steady erosion of our influence with potentially catastrophic results. A stable American military presence should be built up as rapidly as political conditions, and a revived recognition of American will and capacity, permit. This will take time, but the ultimate objective should be clear. Only such a presence has the potential, long term, of dispelling the current mixture of fear and distrust.

Thus, I believe, in providing greater long-term insurance for regional stability and protection of Free World energy supplies, the time is long overdue for a substantial increase of the U.S. military presence in the Middle East. The dangers that warrant such an increase can be briefly stated.

The United States and, more important, the entire Free World have now developed a heavy and alarming dependence on Middle East oil. We can no longer depend on the automatic growth in the supply of Middle East oil as Free World demand grows. Nor can we even count automatically on the continued production and delivery of oil at the existing level of supply.

We face three major dangers. One of them is in the future. The other two are already here.

Until recently, the producing countries were willing to let the oil market and technical considerations bring supply into equilibrium with demand. Increasingly, however, the producing countries are determining the level of supply in response to other considerations: considerations such as fear of excessively rapid rates of growth and social change; the desire to extend the life of their oil reserves; the determination to resolve the Palestinian issue on a basis acceptable to all the Arab states. Previously, there had been an excess in production capacity of about 4 million barrels a day which could be used to respond to normal

³ Not found.

fluctuations in world demand. That margin now has virtually disappeared. Short of a major and prolonged recession, demand is likely to exceed supply in the near future even if there is no interruption in the production and distribution of oil.

Unfortunately, there is an increasing danger that production or distribution will be interrupted. Despite American hopes, the Egyptian-Israeli peace treaty⁴ has not yet brought increased stability to the region. We have already seen the effects of a temporary halt in and then a lower level of production in Iran. That troubled country is likely to undergo still further internal convulsions and another interruption in its production of oil. The danger of conflict between Iran and Iraq has not ceased. Nor has the danger from Iraq, now perhaps the most dynamic state in the region, to the states of the lower Gulf been eliminated.

The leaders of the smaller Gulf states face at least three threats to their regimes: domestic upheavals growing out of socio-religious and, in some cases, economic issues; radical or Palestinian subversion externally supported but using local sympathizers; Soviet-Cuban aggression, either direct through local client states or through Soviet-sponsored insurgencies. Because of its public support for the Middle East peace process, Oman already occupies an exposed position in the Arab world. Attacks on it from South Yemen could be renewed. Quite modest programs of sabotage could knock out vital production and transportation facilities, or seed the Strait of Hormuz with mines and thus disrupt tanker schedules.

Libya may still execute its threat to curtail production of oil for foreign sale. Worst of all, Saudi Arabia could be buffeted with subversion, revolution, and a catastrophic decline in its output. To minimize these risks, and because the Saudis wonder increasingly about capacity or the willingness of the United States to protect its own interests, they may seek to appease the Soviets—through oil or other means—at our expense.

Perhaps none of these dangers to the supply of oil will materialize. But the Middle East remains an unstable region. The probability of a particular disrupting event in the region may be low. The probability of at least one disrupting event in the years ahead is high.

Perhaps the most significant danger comes from the specter of growing Soviet power in and near the Middle East. Soviet activities in the Horn of Africa, Yemen, Syria and Iraq give the impression that the

⁴ Reference is to the Camp David Accords, which were signed in Washington on September 17, 1978.

USSR is moving into positions from which it can strangle the entire region.⁵ Not only could such a stranglehold prove devastating to the West, it would enable the Soviets to exert near irresistible pressure for a sizable share or even control of Middle East oil, as they themselves encounter shortages in the 1980s.

The specter of Soviet power looms so large, in part, because the nations in the region are losing confidence in the willingness and ability of the United States to counterbalance Soviet power in the region. Because of this, along with the dangers of revolution, subversion, and sabotage from the Soviet-supported left, these countries are increasingly willing to make deals with the Soviets. Even Saudi Arabia appears to be losing its immunity to this temptation.

Over the long run, efficiency, conservation, and new sources of energy could reduce the Free World's dependence on Middle East oil. Over the short run, we must try to reduce the chances of disruption or try to minimize its effects. We must also restore the confidence of the region that its future lies with the United States and the Free World rather than the Soviet Union.

An increased U.S. military presence in the Middle East cannot deal with all these dangers. But an increase can strengthen regional stability and help to reverse the growing impression of Soviet omnipotence. What remains at issue is the size and character of the increase. One option is to increase by a few surface combatants our permanent naval presence in the Persian Gulf, to make somewhat more frequent naval deployments to the Indian Ocean, and perhaps to improve our ability to surge forces from the CONUS to the region. A more ambitious course is not only to increase our permanent naval presence and our surge capability—as indicated—but also to maintain, if possible, a continuous deployment of at least one attack carrier battle group and several Marine battalion landing teams accompanied by aircraft in the Indian Ocean. On several grounds, I strongly urge you to adopt this more ambitious objective.

The forces we program for a minor non-nuclear contingency are probably adequate in size and composition for many foreseeable emergencies in the Middle East. However, unless we have significant capabilities in or near the region, I question whether we could respond to a crisis there in a timely fashion. We already have the equivalent of six

⁵ Carter underlined "Syria" and "Iraq" and wrote a question mark in the margin. He also wrote "US/Egypt, US/Israel, US/Saudi Arabia, etc.," apparently indicating disagreement with Schlesinger's assessment.

divisions and supporting aircraft more or less locked into Europe; another two divisions in the Far East and one in Hawaii would be difficult to move elsewhere. In any major emergency, the remaining nine active divisions in the CONUS would be seen as the reserve for Europe and are being, for the most part, trained and equipped for that theater.

That problem aside, the ground forces in the CONUS are sluggish. The Joint Chiefs of Staff estimate that presently it would take 10 to 11 days to move the first brigade of the 82nd Airborne Division to the Persian Gulf even if there were no other demands on our airlift. Moreover, we lack the enroute and overseas base structure and logistics assets to support a major movement of forces from the CONUS to the Persian Gulf. It will take time and resources to repair these weaknesses. Pending action, any quick response to a crisis will require the stationing of significant forces in the theater.

These technical factors are only one consideration. We also have to face the fact that we have drawn heavily (perhaps even overdrawn) on the deterrent account we accumulated during World War II, Korea, and Cuba. It is no longer enough to depend on the awe of American power alone to ensure respect for our interests. We must once again demonstrate the will and capability to protect our interests with military power.

This is particularly the case in the Middle East. For many years a presupposition of American strength—an image of determination as well as capability—pervaded the area. It made unnecessary the visible presence of U.S. power in the Middle East. However, with the overthrow of the Shah and the revolution in Iran, the perception of U.S. will and capability has dimmed; while an important barrier to direct and oblique Soviet penetration of the region is seen to have fallen. If U.S. power remains largely absent from the area, the hovering, nearby presence of Soviet power will continue to change the regional appreciation of the military balance—and not to our advantage. Indeed, the ultimate outcome would almost inevitably be that the region would pass into the Soviet domain of influence or control.

I realize that an increased U.S. presence in or near the Middle East will attract attention and comment in the region. Most such public comment would be adverse, though that should not be taken as representing the underlying desires of those in the region—whose interest in American strength would not out of fear be overtly expressed. Nonetheless, we cannot allow actions to protect the vital interests of the Free World to be decided by transient waves of approval or disapproval emanating from countries in the region. These countries are not up to nor do they want the responsibility for those decisions determining Free

World security. That, in their view, is the responsibility of the United States. In these circumstances, they want unilateral decisions for which they need not bear the onus. We ourselves must decide what constitute the essential additions to our military posture in the region and take the necessary steps unilaterally to put them in place. What the times call for and what we need now is the clear demonstration of U.S. fidelity and resolve.

It makes sense to increase our ability to surge military forces into the Middle East. It would also be desirable to encourage improvements in the indigenous military infrastructure—in local ports and airfields—that we could exploit for military buildup during a crisis. Stockpiles of war reserve material in strategic locations would contribute to the speed and power of our response as well.

But a surge capability is not enough. We must also have a significant military presence in or near the region. And that presence must be considered normal rather than simply a temporary and fluctuating response to a crisis. We already bear all the political onus in having a fleeting or transitory and minor presence. We obtain none of the strategic benefits from having a significant and permanent force in the area.

Surge capabilities by themselves, and responses induced by a crisis, have other drawbacks as well. In a crisis, not only would we have to worry about the availability of those forces and their ability to react rapidly, we would also have to calculate the consequences of sudden and large-scale movements—whether from the CONUS, Europe, or the Far East—in a time of relatively high international tension. Domestic and allied pressures for caution and military restraint would be heavy, and the Soviets would undoubtedly seek to exploit them. We can both deter crises more effectively or handle crises more effectively, with greater freedom of action but with the necessary degree of control, if we have forces already deployed in or near the region and taken for granted.

This is not to recommend that we suddenly and dramatically augment our current Middle East deployments with large additional forces. To plunge into the region all at once would indeed incur large political risks and create major logistical problems. A strategy of sequencing is what we need to follow. But we need to get on with it now.

If we time our buildup carefully, the regional states will become used to it, and their confidence in us will increase. We could, for example, begin the buildup with a continuous or near-continuous deployment of naval air and Marine forces in the Indian Ocean—readily at hand but discreetly over the horizon—staging out of Diego Garcia. Later, as circumstances permit, we would be able to move land-based

fighter-attack units into Oman. From that point only future circumstances can determine further steps.⁶

In sum, we must look to the long-term threat and recognize that the military balance is seen as tilting against us in the region. Key countries in the Middle East have seen us as their protector; that has been the great leverage we have had in the area. Unless we take steps now to redress the balance, the area will slip increasingly into the Soviet orbit. We cannot risk that eventuality.

Our primary objective must be to eliminate the image of weakness and establish the fact of significant U.S. military power in the Middle East—just as we have done in Western Europe and Northeast Asia. To do so may strain our resources, but an increased military presence in the area is essential if we are to repair our image and contribute to the stability of the region. Without such an increase, the military balance will be seen as eroding still further, and the oil reserves of the region will begin to go elsewhere than to the Free World. Without access to Middle East oil the Free World, as we have known it since 1945, will collapse.

⁶ In an undated covering memorandum to the President, Brzezinski wrote: "I share Jim's analysis of the dangers we face in this vitally important region, and I fully concur that we need to begin now to establish a credible U.S. deterrent capability in the region. However, all member of the PRC agree with Jim's evaluation on page six that we cannot suddenly and dramatically augment our Middle East military presence with large additional forces without paying an unacceptable price politically and in terms of other defense requirements." (Carter Library, National Security Affairs, Staff Material, Brzezinski Material, Middle East File, Box 77, Persian Gulf, 9/77–12/79)

231. Memorandum From Henry Owen of the National Security Council Staff to President Carter¹

Washington, August 27, 1979.

SUBJECT

Publication of CIA's World Oil Outlook

Stan Turner has sent to you a copy (Tab A) of the unclassified CIA assessment of the world oil market in 1979–82.² NSC, State and Energy worked with the authors to sanitize and clarify the classified original version for publication.³ We believe publication of this excellent study will help to instill realism in public debate on energy issues.

The introductory summary highlights the conclusions. Pages 2–3 of the main report reveal and explain CIA's tentative preference for the oil industry's estimate of a 1 million barrel per day decline in US oil production between now and 1982, as compared with the Energy Department's belief that domestic production will not fall significantly in this period. Pages 11–12 carry the main policy implications, which are consistent with the positions you took at the Tokyo Economic Summit and in your April and July energy speeches.⁴

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil, 8–12/79. No classification marking. Sent for information.

² Turner sent the study, prepared in the National Foreign Assessment Center, under a covering memorandum to the President on August 22. (Ibid.) A classified draft of it, July 1979, is *ibid.*, 7/79. The unclassified version was published in August 1979.

³ On July 12, Brzezinski sent Turner a memorandum about the study in which he wrote: "With regard to publication of the paper in an unclassified form, I have no doubt it would make a useful contribution to greater public realism about the energy problem, both here and abroad. Nevertheless, I believe the paper should not be published in an unclassified form without major revisions that would affect its tone and attempt to avoid possible interpretations adverse to our short-term national interests." Among the examples he cited were: 1) "The study could be used by OPEC to justify further substantial price increases"; and 2) "Its objective view of production restrictions by OPEC countries and rising prices could be characterized as 'soft on OPEC.'" (Ibid., Agency File, Box 3, Central Intelligence Agency, 5–8/79) Ambassador West, after having seen the study in July, argued against publishing it in an unclassified form. [3 lines not declassified] (Telegram 35915 from Jidda, July 10; *ibid.*, Subject File, Box 48, Oil, 7/79) West delivered the "pertinent parts" of the study to Yamani on August 12, explained to him the "background of the report," and stated that, in his judgment, "the references to Saudi Arabia were favorable and did not make public any classified or proprietary information which had not already been divulged." (Telegram 5910 from Jidda, August 13; National Archives, RG 59, Central Foreign Policy Files, P850036–2651)

⁴ See footnote 2, Document 196, and footnote 2, Document 226.

Attachment⁵**The World Oil Market in the Years Ahead****A Research Paper***Summary and Conclusions*

The gas lines and rapid increases in oil prices during the first half of 1979 are but symptoms of the underlying oil supply problem—that is, we can no longer count on increases in oil production to meet our energy needs. Although the current oil shortages may disappear when economic activity slows, they are likely to recur during the upswing of the next business cycle. Thus, contrary to the view that had become popular during the temporary supposed “oil glut” of 1977–78, the world does not have years in which to make a smooth transition to alternative energy sources. Consumers are already being forced to make adjustments, not only through higher prices and shortages but also through slower economic growth.

In its broadest scope, the world energy problem reflects the limited nature of world oil resources. Although the world is not running out of oil, current consumption is greatly exceeding new discoveries of oil. If this trend continues, as most experts expect it will, output must fall within the decade ahead. Limited oil reserves have already forced a fall in US production and we expect soon will do so in the USSR. Together these two countries account for one-third of world oil production, and the number of discovered reserves in both countries has fallen sharply in recent years.

Some countries with oil reserves that are large relative to production are increasing their production capacity only slowly or not at all. These cautious policies reflect both a strong preference for production profiles that stretch out reserves over longer periods and an aversion to even a small risk of impairing ultimate oil recovery. Among key Persian Gulf countries—Saudi Arabia, Iran, Iraq, Kuwait, and the United Arab Emirates (UAE)—financial, social, and political factors also influence capacity and production decisions. These nations are extremely reluctant, partly because of past experience, to keep a large share of their wealth in the form of financial assets, and they are also worried about the disruptive social effects of an excessive inflow of oil money.

The number of countries that have imposed policy constraints on production has grown markedly over the past several years and now

⁵ No classification marking. A typed note at the top of the title page indicates that this copy of the study was a confidential draft not yet approved for release. Another note identifies the paper as ER 79–10327 of July 1979.

includes countries with roughly 60 percent of total world reserves. Some of these are outside the Organization of Petroleum Exporting Countries (OPEC). Norway, for example, has established rigid policies regarding the rate of reserve development and capacity expansion. The Mexican Government also has conservative views on the kind of reserve-to-production ratios it wishes to maintain in the years ahead.

Many major producers not only are restricting development of new capacity but also are holding production below capacity. Saudi Arabia has had a production ceiling of 8.5 million barrels a day⁶ since 1974. Kuwait's production ceiling of 2.0 million b/d reflects its strong conservationist views. The UAE limits output to 80 percent of capacity for similar reasons. Iran and Iraq are the most recent OPEC countries to formulate production ceilings. For Iraq, the goal seems to be a limit of 2.4 million b/d, and the Iranian Government has talked of a ceiling of 3.5–4.0 million b/d.

These production limits are not rigid; they have been and can be relaxed. During the first three months of 1979, Saudi Arabia and Kuwait boosted output temporarily to help offset some of the shortfall caused by the Iranian disruptions, although Saudi Arabia cut back production to its ceiling of 8.5 million b/d when Iranian output partially recovered. Saudi Arabia again announced its intention to increase temporarily output beyond the ceiling shortly after the June OPEC meeting. The ceilings may also be changed in the future, although revisions are more likely to be downward than upward, in view of the basic motivations behind the oil policies of most of these countries.

Oil production in OPEC countries outside the Persian Gulf is limited by productive capacity, which is unlikely to expand during the next few years. Consequently, if the Gulf countries' production stays at announced ceilings, total output will remain nearly constant. Although OPEC production could rise if ceilings are lifted, it could also fall, either because of a lowering of ceilings or because of disruptions of a political or technical nature.

Outside OPEC, the likely changes in production and capacity will tend to offset each other. In particular, we expect:

- A marked increase in North Sea oil production, to a probable peak in 1982–83.
- A decline in US production.
- An increase in production in less developed countries (LDCs) outside OPEC, especially Mexico and Egypt; most of the increase, however, will be offset by a rise in LDC consumption.
- A decline in the net exports of oil from Communist countries, as Soviet production peaks and begins to drop.

⁶ An unknown hand circled "8.5" and wrote "update" in the margin.

On balance, industrial nations of the West cannot count on any increase in oil supply in the foreseeable future; indeed, it is prudent to plan on some decline in the next few years.

With traditional oil supplies thus restricted, the importance of alternative energy sources—tar sands, shale oil, natural gas, coal, and nuclear energy—will increase. Except for natural gas, the resource base for these energy sources is sufficient to allow a large expansion of output, but there are severe cost and environmental constraints. Moreover, even with the enhanced profitability resulting from higher real oil prices, large-scale development of these resources would take many years. During the next three to four years, even an optimistic projection of production of nonoil energy sources in the member countries of OECD (Organization for Economic Cooperation and Development), which assumes an increase of 2 million b/d oil equivalent in coal supplies and no further delays in the nuclear power programs, would result in only a 1.0- to 1.5-percent annual rate of growth in the total energy supplies of the OECD countries.

The consuming countries will find it very difficult to adjust to such a slow growth of energy supply. Holding energy demand to projected supply levels without lowering economic growth targets of OECD countries below the 3- to 3.5-percent rates generally considered acceptable would require unprecedented rates of conservation. Although government policies can help, most conservation is likely to be imposed by market forces. The interaction between consumer-country policies supporting economic growth and producer-country policies limiting oil production will operate to push up the price of oil. Higher oil prices in turn will slowly stimulate energy production and conservation. During the next few years at least, the higher oil prices will work to cut demand by holding down the economic growth of the OECD countries—to perhaps 2.5 percent annually or less on the average.

Oil price increases are likely to come in spurts, such as that of January–June 1979. The average OPEC price will reach more than \$20 a barrel in July, or some 60 percent above the 1978 level. These higher oil prices will have a depressive impact on economic activity in the next two years, and, in turn, real oil prices could stabilize or even decline slightly. Thus, weak demand may mask the worsening energy situation, as was the case during 1975–78. The problem of public perception is complicated by the fact that very small swings in production and/or consumption can create enough slack in the oil market to create the illusion of ample oil supplies.

The oil market may, of course, be either tightened or eased by the policy reactions of both oil exporters and oil importers to these events. At the same time, other contingencies would almost certainly make

things worse rather than better. For example, a major lesson from the Iranian revolution is that the United States and other major consuming countries are highly vulnerable to unpredictable supply interruptions. The political situation in Iran remains extremely unstable, and exports from that country could fall or even cease. Unexpected supply interruptions could occur elsewhere as well. In a basically tight energy market, even such common events as a harsh winter or a coal strike could create disruptive energy shortages and higher prices. Use of oil as a political weapon by one or more producers, of course, would also cause economic dislocations.

In the longer term, the oil supply problem is likely to get worse later in the 1980s. Although higher prices will stimulate oil exploration and development, enhanced recovery, and production of heavy and shale oil, progress in these areas will take time. The predominant view among geologists is that the chances of discovering enough quickly exploitable oil to offset declines in the known fields are slim. If the Persian Gulf countries and some non-OPEC producers continue to limit production, as we expect, world oil production probably will begin to decline in the mid-1980s. As time goes by, the possibilities for energy conservation and substitution of other energy sources multiply, but in the decade of the 1980s the required adjustment will be extremely difficult.

[Omitted here is the remainder of the paper.]

232. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, August 30, 1979, 0147Z.

228164. Subject: Crude Oil Spot Market Sales.

1. Entire text Confidential.

2. At the Tokyo Summit, participants pledged that they would “urge oil companies and oil-exporting countries to moderate spot market transactions.” That same week, at the June 26 OPEC meeting, OPEC Ministers agreed “that member countries would take steps to limit transactions in the spot market in a collective effort to stop the present price spiral.” Two months later, cargoes of crude oil are being offered and sold in the spot market at prices between \$30 and \$35 per barrel. The Department is concerned at reports that larger volumes of crude oil are now being offered for spot sales, and at the increasing evidence that producer governments themselves are diverting production from contract sales to the spot market.

3. Posts in OPEC capitals should, at their discretion, raise this matter with appropriate host government officials to emphasize importance USG places on dampening spot market activity and urge that they follow through on the OPEC commitment. (Department understands the difficulty in contacting appropriate level officials in Moslem countries during the next week;² thus posts may delay approach until these officials are available.) For Jidda: You should inform SAG that we are making this approach in other OPEC capitals, and that we hope it will complement Saudi efforts to minimize quantities of OPEC crude traded on the spot market.

4. Posts in Summit capitals should inform appropriate officials that USG is making this approach in key OPEC capitals.

5. Posts may draw upon the following points:

—The USG welcomed OPEC’s commitment to limit transactions in the spot market, and the United States together with other major industrial oil consumers pledged at the Tokyo Economic Summit to moderate participation by their oil companies in the spot market.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790396–0559. Confidential. Drafted by Todd; cleared by Katz, Calingaert, Rosen, and Twinam and in DOE/IA, EA/J, EUR/RPE, AF/W, and ARA/AND; and approved by Cooper. Sent to all OECD capitals, USOECD Paris, USEEC Brussels, Jidda, Kuwait, Tripoli, Baghdad, Abu Dhabi, Algiers, Doha, Tehran, Caracas, Lagos, Jakarta, Libreville, Quito, Helsinki, Lisbon, Reykjavik, and Belgrade.

² Muslims observed the holy month of Ramadan in August of that year.

—We are very disturbed that spot sales of crude oil continue to take place in the \$30 to \$35 range, and at reports that growing quantities of crude oil are now being offered for sale on the spot market.

—Instability in the world oil market, as evidenced by abnormally large quantities or abnormally high prices in the spot market, benefits neither oil producers nor consumers in the long run, as shown by the dramatic coincidence of views on this topic in Tokyo and Geneva last June.

—The U.S. Government takes seriously its commitment at the Tokyo Summit to moderate spot market transactions, and is fully prepared to do its share.

6. For posts in other IEA capitals: This message for your info only at this time.

Vance

233. Memorandum From the Director of the Policy Planning Staff (Lake), the Deputy Assistant Secretary of State for Economic and Business Affairs (Hormats), and the Assistant Secretary of State for International Organization Affairs (Maynes) to Secretary of State Vance¹

Washington, September 6, 1979.

Energy Proposals

While we are not ready at this point to recommend specific actions in the energy area, a number of ideas have been considered in the Department. These relate specifically to the problems of a) a producer-consumer arrangement to stabilize world oil prices and supplies, b) financing energy exploration and development in LDCs, and c) improved interagency coordination of US energy activities affecting developing countries.

Price and Supply

One proposal for a producer-consumer arrangement to stabilize prices and supplies is to negotiate a commodity agreement for oil. Such

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P790149–2411. Confidential. Drafted by Lissakers and sent through Cooper. A stamped notation indicates Vance saw it.

an agreement would include a) an agreed formula to maintain or gradually increase the real price of oil, b) a possible premium for incremental production above present levels, c) international oil stock building in periods of slack demand, to be used in the event of an emergency such as the Iranian cut-off, d) fees and/or direct OPEC and industrial country contributions to a fund to finance LDC oil stock building and energy development, e) regular consultation and exchange of information on national oil production and consumption plans. Consumers would agree not to import oil above the agreed price and to embargo oil from producers who disrupt supplies for political reasons.

Such an arrangement could give the oil producers what they at least say they want: inflation-proof income from their oil. Consumers would have some assurance of stable prices and supplies for the duration of the agreement. The LDC's would stand to gain from the financing program and from the real clout which an oil commodity agreement, if it becomes a member, could give to the Common Fund.

The advantage of an international commodity agreement for oil is that it would bring OPEC into an international process for considering price and supply, and thus make the world oil market less subject strictly to the balance of forces between hawks and doves within OPEC, the whims of individual producers, and the day-to-day state of relations between a major consumer such as the U.S. and a key producer like Saudi Arabia.

The question is whether such an agreement would hold sufficient attraction for key OPEC members to overcome their heretofore firm resistance to outside influence on their production and pricing policies. Much more modest efforts to draw OPEC into discussions of supply and demand trends in world energy markets, with no direct reference to price, have been strongly resisted. Moreover, there is a question of whether such an agreement would be meaningful without the addition of spare production capacity by key producers such as Saudi Arabia. An international commodity agreement of the sort postulated would ensure that prices increase during periods of market slackness, but might well be ignored by oil producers when because of deliberate decisions on production or capacity, or unforeseen events such as those occurring in Iran, market conditions are tight. Consuming countries, desperate for scarce oil, would have little leverage, except the weight of the agreement itself, to prevent higher-than-agreed-upon price increases. (Today we do not even have that leverage.) Producers would have to pay the political price of having broken their word and abrogating an international agreement.

And if the agreement were to break down, there would still be considerable pressure on the developed countries to continue to live up to their part of the bargain to finance LDC energy development.

Additional Support for LDC Energy Development

According to INR, Lopez Portillo is going to propose in his UNGA speech, a universal dialogue on energy consumption, production, marketing and transport and relating energy problems to other economic issues.² What form this dialogue should take is not clear. In addition he will call for creation of a special fund to finance development of energy resources, especially in developing countries. The U.S. needs to come up with an appropriate response or a counter proposal before the end of September.

IDCA has proposed the establishment of an international energy bank with annual operating capital of \$2–\$3 billion, to finance energy research, exploration development and training in developing countries. Henry Owen and Dick Cooper feel strongly that even if the proposal has merits per se, proposing it to Congress at this time could jeopardize the President's domestic energy program.

A proposal which has apparently not been given serious consideration by the Administration but is under discussion in the House Ways and Means Committee, is to give preferential tax credit treatment for income from oil exploration and development in non-OPEC developing countries. Through a series of recent rulings, IRS has considerably tightened its definition of creditable foreign income "taxes". At least one major US oil company has protested that these rulings will make oil exploration in many LDC's unattractive, and unprofitable. Giving differentiated tax treatment, i.e., exempting the non-OPEC LDC's from these rulings, would be consistent both with our interest in helping the LDC's with their energy problems and in encouraging the development of potential sources of US oil imports outside OPEC. We know from past history in the Middle East that tax considerations are a critical factor in determining where oil companies invest.

At the same time, it would be confrontational with respect to OPEC as a group and damage relations with countries such as Indonesia, Nigeria and Venezuela. It would not be consistent with our interest in expanding global oil supply, including OPEC supply, in order to moderate pressures on the world price.

The US delegation to UNCSTD was authorized to invite the World Bank as part of its on-going efforts to coordinate energy assistance efforts to developing countries, to review existing research, development and training in national and regional energy facilities in developing countries; identify any gaps that may exist; and recommend possible new approaches and institutional arrangements. This proposal was not

² See footnote 5, Document 236.

formally presented at UNCSTD, and you may want to include it in your UNGA speech.³

In addition, we can give a high priority to energy in the AID and ISTC budgets; continue to support expanded MDB programs in this area as their expertise and ability to manage energy projects grows, and improve the coordination of domestic agency programs that affect LDC energy interests.

Agency Roles in Developing Country Energy Programs

Several USG agencies have policy or program concerns in the LDC energy area. While effective informal coordination has been possible in some instances, considerable friction has developed between DOE and AID over which agency should have primary, or major responsibilities for undertaking programs in the LDCs, with each arguing on the basis of their respective energy and development mandates. This question of agency responsibilities is closely related to other issues:

—Energy programs in non-AID countries: the U.S. should be able to undertake energy programs with developing countries not currently receiving AID assistance (and has to some extent on an ad hoc basis). At issue is what form this assistance should take and where within the USG the capability should be housed.

—Legislative authorities: we need revisions in existing legislation which contains duplicative and overlapping authorities for energy programs with developing countries.

—Coordination: close coordination of activities among agencies is needed so that our overall foreign policy objectives are effectively served. A key question is what type of mechanism would best serve this purpose.

IDCA is perhaps the logical agency to take the lead in establishing a permanent coordinating mechanism and drawing up a set of proposed legislative changes.

³ The UN Conference on Science and Technology for Development met in Vienna August 20–31. See *Yearbook of the United Nations*, 1979, pp. 633–651. President Carter did not address the UN General Assembly, but Secretary Vance, in a speech to the General Assembly on September 24, noted U.S. support for global negotiations aimed at stabilizing the price and supply of oil. For the text of his speech, see Department of State *Bulletin*, November 1979, pp. 1–6.

234. Telegram From the Department of State to All Diplomatic and Consular Posts¹

Washington, September 15, 1979, 1354Z.

243027. Inform Consuls. Subject: Update on Energy Issues.

1. This cable updates where we stand on a number of energy issues:

- The state of the international oil market for the next year;
- The U.S. energy situation;
- Oil import pledges made by the US; and
- The status of U.S. domestic energy initiatives.

2. International Oil Market Situation. Even with a partial restoration of Iranian oil production to an average level of about 3.5 million barrels per day (MBD) and with production running near capacity in most other OPEC countries, the world oil supply continues to be tight but adequate to meet current demand and rebuild depleted stocks. Given probable trends in supply and demand, this delicate balance is likely to continue through the next six to twelve months, barring a large drop in oil demand precipitated by deep recession, or a sharp reduction in supply for political or other reasons.

A. Demand. An average rise of 59 percent in official crude oil prices in 1979, dampening world economic growth, has been an important contributing factor in an anticipated increase of only 0.8 percent in non-Communist world oil demand from 50.4 MBD in 1978 to 50.8 MBD in 1979, according to Department of Energy (DOE) estimates. World oil demand next year will depend on the severity of projected global economic turndown and efficiency of demand restraints. Assuming 2 percent OECD growth, total demand estimates show a 0.8 percent increase, rising to 51.2 MBD in 1980. Most growth in demand will occur in developing countries, especially in OPEC countries, Mexico and more developed LDC's. On the other hand, a world economic downturn in 1980 could result in a drop in world demand to below 50.0 MBD.

B. Supply. The most problematic element in a near term market assessment is production levels of key OPEC countries. Current (third quarter 1979) Free World production (52.3 MBD) is at a level permitting significant stock re-building, principally due to Saudi Arabia's 1 MBD

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790421-1109. Limited Official Use. Drafted by Alan P. Larson (EB/ORF/FSE) and D. Dolan (EB/ORF/FSE); cleared by Katz, Rosen, and Calingaert and in DOE/IA, NEA, ARA, EA, AF/EPS, and EUR/RPE; and approved by Cooper.

temporary increase in crude oil production from 8.5 to 9.5 MBD. The Saudi Government will review this temporary increase later this month.²

If Saudi Arabian production returns to 8.5 MBD, and other OPEC producers produce at more or less current levels, DOE estimates that Free World oil production will be about the same in 1979 and 1980 (about 51.4 MBD). This scenario assumes a slight increase in non-OPEC production and an off-setting decrease in net exports from Communist countries as Soviet production peaks and begins to decline.

3. Oil Demand and Supply Balance. While the market has eased somewhat during third quarter 1979 owing to the Saudi temporary increase and near maximum output levels elsewhere, excess capacity that existed before the Iranian crisis has disappeared and the market remains very vulnerable to supply disruptions. In addition to those of Saudi Arabia and Iran, production levels from Nigeria, Iraq and Kuwait are also subject to political and/or technical uncertainties. While an unusually cold U.S. or European winter would further increase demand, DOE estimates foresee a slightly improved Free World stock situation at year-end 1979 (a rise of about 220 million barrels, or about 5 percent above December 1978 levels).

4. U.S. Energy Situation. DOE data indicate that U.S. oil consumption for the year to date (through August 24) is running at about 18.7 million barrels per day (MBD), down slightly from 18.8 MBD for the comparable period last year. Significantly, consumption of motor gasoline is 7.1 MBD, 3 percent below last year's level.

5. Net U.S. petroleum imports for the year to date are 7.7 MBD, a slight increase over the level of 7.1 MBD for the first eight months of 1978. Both figures exclude imports for the Strategic Petroleum Reserve, which averaged 160,000 B/D in 1978 but which declined sharply this spring after purchases were suspended in response to the tight oil market.

6. Stocks of crude oil and products are still somewhat below the optimal levels, but are being rebuilt in a generally satisfactory manner. There is particular concern that we achieve an adequate level of distillate (i.e., diesel fuel and home heating oil). Distillate stocks now total about 190 million barrels, roughly 50 million barrels short of the administration's goal for this fall. It is expected that continued stockbuilding will result in an adequate level of distillate stocks by the end of October.

² The White House issued a statement on September 26 confirming reports that the Saudi Government would continue production of 9.5 million barrels of oil per day for 3 more months. The statement is printed in *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, p. 1766.

7. U.S. Energy Initiatives. There are a number of U.S. energy initiatives which have been adopted since April:

—The phased decontrol of domestic crude oil prices has begun. The price of newly discovered oil was decontrolled on June 1. Other domestic crude oil prices will be gradually raised and by September 30, 1981, all domestic crude oil prices will be decontrolled.

—Mandatory building temperature standards went into effect in July. It is estimated that they will result in oil import savings of 0.2 MBD.

—In August, the administration decontrolled the price of heavy oil, an almost tar-like substance that must be heated to be produced. The President has also proposed that heavy oil be exempted from the windfall profits tax. It is estimated that with these incentives 0.5 MBD of heavy oil can be produced by 1990.

8. In response to a request by the President, the Federal Energy Regulatory Commission is moving to create a special incentive price for natural gas from tight sands (low permeability gas basins primarily in the Rocky Mountain region).

9. There are several administration proposals currently before the Congress:

—An amended version of the windfall profits tax has passed the House and is now being studied by the Senate Finance Committee;

—The Energy Security Corporation (a catalyst for development of synthetic fuels plants) is the subject of hearings in several House and Senate committees;

—The Energy Mobilization Board (which would establish binding schedules for Federal, State and local decision-making on critical, non-nuclear facilities) is being addressed by committees in both Houses;

—A wide variety of proposals to promote residential conservation have been made both by the administration and by various Congressmen, including mandatory programs under which utilities would conduct “energy audits” for residential customers, make recommendations for energy saving investments, and provide long term financing to their customers for conservation improvements;

—Legislation to require utilities to reduce oil use by 50 percent by 1990 is being prepared but has not yet been sent to the Hill;

—Programs to help low income households pay their fuel bills are being examined;

—Proposals for greater Federal spending on mass transit are being examined;

—House and Senate conferees are attempting to work out differences in bills that would give the President authority to develop a standby gasoline rationing plan;

—Request for Presidential authority to set State-by-State targets for energy conservation is included in the gasoline rationing bill which is in conference (If State conservation plans did not result in achievement of their targets, the Federal government would be permitted to impose a plan for that State.);

—Hearings have been held on a bill to grant authority to establish a solar bank;

—Initial hearings have been held on tax credits for investments in solar energy and biomass technologies, e.g. a permanent exemption of gasohol from the 4 cents per gallon Federal excise tax; and

—A tax credit for producers of natural gas from tight sands has been proposed.

10. Oil Import Commitments. At the Tokyo Summit, the U.S. pledged that U.S. oil imports in 1979, 1980 and 1985 will not exceed 1977 levels, i.e., 8.5 MBD. In July the President announced that an oil import quota would be established, and that 1979 oil imports would be held at or below 8.2 MBD.³ The quota level for 1980 has not yet been set.

11. The administration is reviewing alternative oil import quota mechanisms, e.g. quota-auction or the allocation of import rights based on historical patterns or refinery capacity. A notice on oil quota mechanisms will be published in the *Federal Register* in September and public comments will be solicited. A decision on a quota mechanism might be made within a few months by early 1980. (Implementation should not be required before 1980 since 1979 oil imports are projected to fall short of the 8.2 MBD ceiling without imposition of a quota.)

12. The U.S. will more than meet its IEA goal of reducing demand for oil on world markets to roughly one million barrels per day under what it otherwise would have been. (U.S. oil imports had previously been projected to be as much as 9.5 MBD in 1979. In making comparisons with oil import figures of other countries it is important to note that U.S. import figures include bunkers (about 0.5 MBD), but exclude imports by U.S. territories (about 0.3 MBD)).

13. Tokyo Summit Follow-up. At Tokyo the Summit countries adopted oil import targets and pledged:

—To review programs toward meeting the targets;

—To set up a register of international oil transactions to “bring into the open” the working of oil markets and thereby to moderate the spot market;

—Not to buy oil for government stockpiles when this would place undue pressure on prices and to consult on such decisions;

³ He announced the goal at Kansas City on July 16. See footnote 2, Document 226.

- To increase as much as possible coal use, production and trade;
- To cooperate on assuring safety in the expanded use of nuclear power;

- To establish an International Energy Technology Group (IETG) linked to the OECD, IEA and other international organizations to review the actions being taken or planned domestically by each Summit country to develop new energy technologies and to report on the need and potential for international collaboration including financing; and

- To place special emphasis on helping developing countries exploit their energy potential.

14. There will be a meeting of Summit Energy Ministers (plus representatives from the EC and possibly the OECD/IEA) on Sept 26 in Paris to discuss implementation of Summit decisions.

Vance

235. Memorandum From Secretary of Energy Duncan and Henry Owen of the National Security Council Staff to President Carter¹

Washington, September 27, 1979.

SUBJECT

Trip Report

This memorandum reports on the results of the meeting of Summit Energy Ministers held in Paris on September 26, 1979 at President Giscard's initiative to assure fulfillment of the Tokyo agreements. The U.S. delegation was led by Charles Duncan and included Henry Owen and Dick Cooper.²

At this meeting, the Tokyo Summit agreements and your July energy initiatives provided the basis for making progress toward securing country specific oil import commitments from the EC coun-

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 8, Energy Department, 8–10/79. Confidential.

² Telegram 256287 to Paris, September 29, summarized the Energy Ministers' meeting. (National Archives, RG 59, Central Foreign Policy Files, D790445–0563) Telegram 256740 to Paris, September 29, transmitted memoranda of conversation of bilateral meetings held during the meeting. (Ibid., D790446–0231)

tries, as well as on several other Summit energy measures, and a better understanding by our partners of the importance of your July initiatives.

1. *1985 European National Oil Import Targets.* The European Summit countries carried out their Tokyo commitment to specify 1985 national import targets. The five non-Summit EC countries also fixed their 1985 national targets. The intra-EC negotiation that led to agreement on these nine national targets was only completed halfway through our meeting; we were told that it might not have been completed at all without the pressure created by holding this Ministers' meeting. The European import ceilings are set at or slightly above 1978 import levels, except for Italy (which, you will remember, was granted exceptional treatment at Tokyo) and the Netherlands—both of which secured large increases. The 1985 European total is 472 million tons (approximately 9.5 MMB/D), which was the EC net import total in 1978. Within this total, the UK will move from its current position of being a net importer to becoming a marginal net exporter of 5 million tons (100 MB/D) in 1985. The four European Summit governments each made a political commitment at the Paris meeting to achieve the national ceilings that they specified. Although the targets of Italy and the Netherlands are not sufficiently rigorous, they resulted from complicated intra-EC negotiations; taken as a whole the EC total is acceptable. We have gained considerable ground by the EC's adoption of the national target approach and by the stringency of the French and German targets.

2. *North Sea Oil.* The U.S. indicated, as did the Japanese and Canadians, that North Sea 1985 oil exports over the indicated 5 million tons could not be used to increase individual European country import targets for 1985.³ The UK took the same position and made clear, moreover, that if its 1985 exports went over 5 million tons it could give no assurance that these exports would go to the EC; British Energy Secretary Howell said this not only in the meeting but publicly at the press conference that followed. In private bilateral talks, the French and Germans disputed this US–UK view, saying that North Sea oil should be viewed as community property. The EC representative took the same position until Howell publicly outlined the UK view; after that, he told us the U.S. had won its point. This question will be discussed further when a small internal high-level group of the seven Summit nations and the EC meets early next month. This group will meet periodically thereafter, in accordance with the Tokyo Declaration, to monitor fulfillment of Tokyo import pledges.

³ Regarding this North Sea oil issue, see Document 228.

3. *1980 European National Targets.* We pressed for fulfillment of the Tokyo commitment to develop 1980 European national import ceilings. After some discussion, we were assured that this would be done, probably next month.

4. *Japan.* Energy Minister Esaki repeated to the meeting what he earlier had said in Washington to the Vice President: that Japan was planning to achieve the lower end of the 6.3–6.9 MMBD 1985 range that Japan had accepted at Tokyo. He repeated this statement of intent at the press conference, while protecting himself by pointing out that Japan's formal commitment remained within the 6.3–6.9 range.

5. *U.S. Import Ceilings.* The others seemed impressed by Secretary Duncan's description of measures being taken by the U.S. to restrict imports—particularly the 8.2 MMBD ceiling for 1979 and the fact that import quotas would be used, if necessary, to achieve the 8.5 ceiling for 1980. The Paris press gave front-page treatment to this latter point, stressing Secretary Duncan's statement that these quotas would not require Congressional approval. This may have been an important step in increasing European awareness of U.S. energy policy. In fact, throughout the Ministerial and related bilateral meetings, it was the U.S. which appeared to be on the offensive in terms of meaningful commitments to action, and the Europeans who appeared to be on the defensive. This difference was less than at Tokyo, however, since all were committed to fulfill the Tokyo decisions.

6. *Registration of Crude Oil Transactions.* It was agreed, in accordance with the Tokyo Declaration, to activate immediately a system for monthly registration and publication of crude oil import transactions. Through this reporting of prices and terms on a cargo basis, we will increase market transparency, and thus inhibit the kind of speculative purchases that destabilized the market last spring. The International Energy Agency and the EC will study extending this system to all products and making it a fortnightly, instead of monthly, system.

7. *Spot Market.* The French made further proposals for surveillance of the spot market,⁴ including a Tokyo–Brussels–Washington hotline to discuss actual or impending violations of the Tokyo commitment to moderate use of the spot market. These proposals were referred to the IEA and EC for urgent study. The hotline idea may be useful.

8. *Alternative Energy Sources.* It was decided to activate the International Energy Technology Group agreed on in Tokyo, on the basis of a U.S. paper outlining the Group's charter. The Group will assess what each country is doing to develop alternative energy sources, and will

⁴ French officials initially discussed their spot market proposals in Washington June 14–15. See footnote 2, Document 218.

explore possibilities for international collaboration, including financing. Its first meeting will be in late October or early November, and it will present its report to the Venice Summit.

9. *Distillate Entitlement.* In accordance with your decision, Secretary Duncan indicated that there would be no further extension of the \$5 distillate entitlement beyond October 31.⁵ This brought a very favorable reaction at the meeting and in the French press.

10. *Conclusion.* The French press treated the meeting as a large success in translating the Tokyo decisions into concrete actions earlier and more effectively than had been anticipated. Our view is more tempered. We made progress on specific European national import ceilings and other decisions to fulfill Tokyo commitments. But some of these targets (Italy's in particular) are too high. How rigorously the other European import targets bite will depend on whether the UK maintains its projected lower level of exports (designed to extend the life of its oil reserves), and whether the UK continues to insist (along with the U.S., Canada, and Japan) that any increase in exports over this level will not alter existing national European import ceilings. We will discuss how best to nail down this latter point and related matters with UK Secretary Howell when he visits Washington next week.

All in all, the Paris meeting was a promising start toward fulfilling the Tokyo energy commitments; we made all of the progress that could reasonably be expected; other participating governments were pleased. But a good deal of hard work still remains if effective implementation of the Tokyo decisions is to be assured.

⁵ Regarding the Carter administration's original decision on middle distillates and the European reaction, see footnote 2, Document 214.

236. Memorandum of Conversation¹

Washington, September 28, 1979, 11:20 a.m.–12:30 p.m.

SUBJECT

Bilateral Issues and President Lopez Portillo's Energy Proposals

PARTICIPANTS

U.S.

The President
 The Vice President
 Secretary Vance
 Secretary Duncan
 Dr. Brzezinski
 Assistant Secretary Jules Katz
 Assistant Secretary Viron Vaky
 Robert Krueger, Amb. at
 Large-Des.
 Ambassador Patrick Lucey
 Ambassador Henry Owen
 Jerry Schechter, NSC Staff
 Guy F. Erb, NSC Staff
 Everett Briggs, State

Mexico

President Lopez Portillo
 Jorge Castaneda, Secretary of
 Foreign Relations
 Jorge de la Vega Dominguez,
 Secretary of Commerce
 Jose Andres Oteyza, Secretary of
 Patrimony and Industrial
 Development
 Alfonso de Rosenzweig Diaz,
 Under Secretary for Foreign
 Relations
 Jorge Diaz Serrano, Director of
 PEMEX
 General Miguel A. Godinez
 Bravo, Chief of Staff, Pres.
 Gen. Staff
 Rafael Izquierdo, Advisor to the
 President
 Jose Antonio Ugarte, Advisor to
 the President
 Dr. Robert Casillas Hernandez,
 Private Secretary to the
 President
 Rosa Luz Alegria, Under
 Secretary for National
 Planning and Budget
 Andres Rozental Gutman,
 Director General of North
 American Affairs, Secretariat
 of Foreign Relations
 Hugo Margain, Mexican Amba-
 sador to the United States
 Jose Ramon Lopez Portillo, Direc-
 tor of Analysis, Secretariat
 of Programming and Budget
 Abel Garrido, Director of Bilateral
 Trade Relations, Ministry of
 Commerce

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 37, Memoranda of Conversation: President, 7/79–9/79. Confidential. Drafted by Erb on October 3. The meeting was held in the Cabinet Room of the White House. The full text of this memorandum of conversation is scheduled for publication in *Foreign Relations, 1977–1980*, volume XXIII, Mexico, Cuba, and the Caribbean. President López Portillo was in Washington for an official visit September 28–29.

President Carter opened the meeting by saying he was delighted, pleased, and honored to meet again with President Lopez Portillo in the White House.² Lopez Portillo thanked him. President Carter suggested that they take up bilateral issues at this meeting and international issues on the next day. Lopez Portillo agreed.

[Omitted here is discussion unrelated to energy.]

Lopez Portillo said the two countries had made substantial progress with regard to gas. There had been some misunderstandings. What was important to him was the principle on which our dealings would be based. We now had a permanent basis and it was worth the long discussion.³ Now we had established a principle and had a pattern to follow in our negotiations. He was happy with the outcome. It gave us a structure that can be taken to any other field.⁴

[Omitted here is discussion unrelated to energy.]

On energy, Castaneda said that there had been an agreement on gas. It was well received and he was well satisfied. Mexico sold 500,000 b/d of crude petroleum to the United States, 80% of their crude oil exports. Sales of electric energy were promising across the California and Texas borders, particularly in the San Diego area. There was a possi-

² López Portillo was last in Washington in February 1977.

³ The first of six rounds of U.S.-Mexican natural gas negotiations, which mainly involved discussions over the price that the United States would pay for Mexican gas, took place in Mexico City April 3–4. (Carter Library, National Security Affairs, Staff Material, International Economics File, Box 1, Subject File, Mexico: Gas Negotiations, 3–4/79) The second was held in Washington May 3–4 (*ibid.*, Country File, Box 49, Mexico, 5–6/79); the third in Mexico City July 11–13 (*ibid.*, 7/79); the fourth in Washington on July 27 (*ibid.*, 8–9/79); the fifth in Mexico City on August 10 (telegram 13518 from Mexico City, August 10; National Archives, RG 59, Central Foreign Policy Files, P840175–2453); and the sixth in Mexico City August 29–30 (telegram 14866 from Mexico City, August 31; *ibid.*, P840175–2441). At the last meeting, Mexican Foreign Minister Castañeda proposed that the United States pay \$3.625 per million cubic feet for Mexican natural gas, while Christopher countered that “the initial price be set at \$3.50, to be escalated at three-month intervals from time gas starts flowing, but that price would be at least \$3.625 on April 1, 1980.” Castañeda wanted the guaranteed floor price of \$3.625 to start on January 1, 1980, and said that “both price and date had acquired ‘political importance.’” (*Ibid.*)

⁴ According to a September 12 memorandum from Erb to Brzezinski, “a consensus emerged” that day in favor of accepting “the last Mexican offer on gas prices, subject to negotiation by the U.S. private companies of satisfactory clauses on the escalation of gas prices and the termination of the contract.” (Carter Library, National Security Affairs, Staff Material, International Economics File, Box 3, Subject File, Mexico: Gas Negotiations, 9–10/79) According to the text of the ad referendum agreement that the Ambassador reached with Castañeda, the Governments of Mexico and the United States had reached an understanding on a framework for the sale of 300 million cubic feet per day of natural gas by Petróleos Mexicanos (PEMEX) to U.S. purchasers, with an initial price of \$3.625 per million BTU as of January 1, 1980. (Telegram 16281 from Mexico City, September 20; National Archives, RG 59, Central Foreign Policy Files, P840175–2419) On September 21, the U.S. and Mexican Governments issued a joint announcement on the agreement. For text of the announcement, see *Public Papers of the Presidents of the United States: Jimmy Carter*, 1979, pp. 1703–1704.

bility of selling electrical energy generated through geothermal facilities. This could take place by 1983.

President Carter said this was all very encouraging. There was no need, he said, to repeat our frequent statements that how Mexico develops and sells its energy was your decision. We wanted to be reliable customers and good trade partners, that was our goal. Mutual analysis of energy programs had good prospects. He and his government had expressed their willingness to explore new ways to sell energy across the border.

[Omitted here is discussion unrelated to energy.]

President Carter said that he was very interested in Lopez Portillo's energy plan and he suggested that he discuss it.⁵

President Lopez Portillo said he would like to underline two things. The problem was that we were in transition between two eras. If this were so we must face other problems. Give or take a decade, in forty years, he said, petroleum would no longer be the principal energy source for the human race. Humanity was moving at an accelerated pace. The stone age had lasted thousands of years, the iron age much less, the petroleum age might last no more than 100 years. We were living at the end of an era. His first appeal was that we understand this situation. Our generation would witness the end of the petroleum era. The objectives of our energy plans should be clear: to prepare the transition from one era to another and to introduce the use of other resources. In this transition we must explore, conserve, produce and rationalize use of petroleum. We must use it in a more satisfactory manner. By doing this we would be able to make the change to the next era.

A universal body should prepare the substance of the solution of the energy issue. This in itself required a strategy. That was the thrust of his proposal to the United Nations General Assembly: to plan the transition between two eras, to lay out a program, to establish a

⁵ On September 27, Brzezinski sent a copy of López Portillo's speech, delivered that day to the UN General Assembly, to the President with a covering memorandum highlighting the central recommendations of López Portillo's "World Energy Plan." Brzezinski wrote that it would: "guarantee full and permanent sovereignty over national resources; rationalize exploration, production, distribution, consumption, and conservation of energy sources; increase the exploitation of energy resources; facilitate national energy plans that would be consistent with a world energy policy; promote auxiliary energy industries in developing countries; address the short term problems of oil importing developing countries; set up financing and development funds based on contributions from industrialized and oil exporting countries to meet the needs of oil importing developing countries; improve technology transfers in the field of energy; create an international energy institute, as proposed by U.N. Secretary General Waldheim." (Carter Library, National Security Affairs, Staff Material, International Economics File, Box 3, Subject File, Mexico: Gas Negotiations, 9–10/79)

Working Group which would encompass the industrialized countries of both East and West, oil exporters, and the oil consuming developing countries. Mexico had consulted with all these groups and was ready, in general, to sit around the table and discuss this. If we were to establish this group we could take up both broad and narrow issues. The Working Group could make proposals that could be studied and considered by others.

The energy problem affected the entire world. Lopez Portillo was especially concerned with the situation of developing countries. Rich countries could find substitutes for petroleum. They had the ways and means to do so. Developing countries had no such possibilities. He always gave two specific examples that moved him, he said: Costa Rica and Jamaica. Both had democratic governments, very respectable democratic governments. Their problem was that more and more of their GNPs was devoted to the purchase of oil. He had met President Carrazo of Costa Rica before the oil price rise. At that time 27% of Costa Rica's GNP was used to buy oil. Perhaps it was 30% now. This caused him great anxiety. Costa Rican democracy was running a great risk because of this problem. A similar reflection, not so dramatic perhaps, was made by Manley at the Non-Aligned Movement meeting in Cuba. That was why, while proposing long term measures of transition, he also sought immediate solutions. Developing countries said that they were not interested in the long term. What were we going to do in the short term?

One of his great concerns, he said, and Mexico was a potential oil producer, was to look for ways out for these countries, not for tomorrow but for today. And this must include supply, prices and conditions of purchase, avoidance of speculation, and a mechanism to transfer real resources to the developing countries. That was why he had proposed a fund, or several funds, which would finance the long-term and the anxiety-creating problems of developing countries that import oil. The oil exporters should recognize that we had a special commitment to them.

This had been set out in general terms. He would give an example of what he meant by rationalization of the management of oil while we enjoyed that product. Between Mexico and Guatemala flowed the Usamacinta River. It was the largest river in Central America and could generate a great deal of electric power. To do this we needed funding, equipment and a political agreement because the lands threatened by the dam would be Guatemalan. We had not yet reached an agreement with Guatemala that would provide power to all Central America. Under his proposal the global community would make it necessary to come to an agreement, said Lopez Portillo. It was not right not to use potentially available electricity. It was a case of what he meant by ra-

tionalization, that is, the use of a parallel source of energy. This project could solve the energy problems of Mexico and Central America and would make it possible to save oil.

Lopez Portillo said that if we explored in each country in the world, we would discover sources that had not been tapped because of a lack of funds, technology, or equipment. It should be possible to organize mankind in such a way that energy was wisely used. The only substitute today for oil is the oil we discover tomorrow. It was our responsibility to discuss this problem.

The developed countries only wanted to discuss the price of oil in their conversations with oil exporters, as if this were the only issue between them, said Lopez Portillo. The exporters would not discuss this point in isolation from others. They wanted to discuss the entire economic order. That was where things stood. In the meantime other things were happening. If we reflect on this impasse, it was not a matter of principle but of methodology. We should agree on methods. President Carter nodded his agreement. President Lopez Portillo said that he believed that his method was appropriate. We had determined that energy, not only oil but alternative sources, was the principal problem of mankind. We should determine long-term and short-term solutions. He believed that with political will we would be able to make the best use of the world's last oil opportunity.

Disorder could not continue, said Lopez Portillo. Either we put order into the situation or else it would be imposed on us by the party that won the struggle, which itself would consume energy. Order would come in one way or another. He believed that the rational way was best.

President Carter said that Secretary Duncan, the State Department, and the National Security Council Staff were studying the proposal and its bilateral and multilateral aspects. He asked Secretary Duncan and Henry Owen to report to him tomorrow. He said he had thought it would be useful to hear the remarks of President Lopez Portillo so that we could prepare our response overnight.

President Carter said that he looked forward to seeing President Lopez Portillo that evening. Tomorrow they could discuss international issues and meet alone as well. President Carter said that the American people had been excited about the visit and were hopeful of beneficial results. He knew he shared a desire not to disappoint them.

Lopez Portillo thanked him and said he looked forward to the meeting tomorrow with great pleasure.

237. Memorandum of Conversation¹

Washington, September 29, 1979, 10:15–11:30 a.m.

SUBJECT

International Issues and Energy

PARTICIPANTS*U.S.*

The President
The Vice President
Secretary Vance
Secretary Duncan
Dr. Brzezinski
Mr. Eizenstat
Assistant Secretary Jules Katz
Assistant Secretary Viron Vaky
Robert Krueger, Amb at
Large-Des.
Ambassador Patrick Lucey
Ambassador Henry Owen
Jerry Schecter, NSC Staff
Guy F. Erb, NSC Staff
Bob Pastor, NSC Staff
Everett Briggs, State

Mexico

President Lopez Portillo
Jorge Castaneda, Secretary of
Foreign Relations
Jorge de la Vega Dominguez,
Secretary of Commerce
Jose Andres Oteyza, Secretary of
Patrimony and Industrial
Development
Alfonso de Rosenzweig Diaz,
Under Secretary for
Foreign Relations
Jorge Diaz Serrano, Director of
PEMEX
General Miguel A. Godinez
Bravo, Chief of Staff,
Pres. Gen. Staff
Rafael Izquierdo, Advisor to the
President
Jose Antonio Ugarte, Advisor to
the President
Dr. Robert Casillas Hernandez,
Private Secretary to the
President
Rosa Luz Alegria, Under Secre-
tary for National Planning
and Budget
Andres Rozenenthal Gutman, Direc-
tor General of North
American Affairs, Secretariat
of Foreign Relations
Hugo Margain, Mexican Amba-
sador to the United States
Jose Ramon Lopez Portillo, Direc-
tor of Analysis, Secretariat
of Programming and Budget
Abel Garrido, Director of Bilateral
Trade Relations, Ministry of
Commerce

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 37, Memoranda of Conversation: President, 7/79–9/79. Confidential. Drafted by Erb on October 3. The meeting was held in the Cabinet Room of the White House. The full text of this memorandum of conversation is scheduled for publication in *Foreign Relations, 1977–1980*, volume XXIII, Mexico, Cuba, and the Caribbean.

Saturday morning

President Carter said he had enjoyed the dinner and that the toasts and comments showed our publics that we are working well together.²

President Lopez Portillo agreed. He lamented the impression that had been given of the last meeting.³ The spirit had always been as it was today. He was very glad of that.

President Carter said he had looked into Lopez Portillo's U.N. speech and his proposal for a UN Working Group,⁴ which he found to be promising. It would be advisable if the two Secretaries of State quietly kept each other informed on this matter. We would confine our public remarks to the joint positions that they reach.

President Carter said that the United States would continue to support energy development in developing countries through the World Bank and bilateral programs. At the Tokyo Summit, we and others had resolved to limit to the maximum degree possible the future imports of oil. Actions which he had taken alone and with the Congress would reduce our otherwise likely imports by four million barrels a day by 1985. Additional measures now awaiting Congressional approval would reduce our demand for oil imports by another 4 million barrels a day by 1990. With your permission, Secretary Duncan would describe briefly the presentation that he made in Paris.

Secretary Duncan described the Paris meeting of the seven Energy Ministers of the Summit countries.⁵ The meeting had opened with a determination that world oil supply and demand were in a fragile balance, but for several reasons there existed a possibility of supply interruptions. The situation seemed to be set for 1980, but that could be affected by economic changes or by political events or disruptions. In the medium and long term the fact that the system would continue to be fragile drove the need for conservation measures and constraints on imports.

Duncan then discussed the measures that had been taken since the Summit to reduce reliance on oil imports. The main questions had been what the members of the European Community would agree to as their individual targets for 1979 and 1985. They had agreed to 472 million tons, approximately 9.5 million b/d, as the ceiling for EC members in 1980. The figure of 472 million tons compared favorably to EC imports in 1979, which were projected at 515 million tons. All nine EC countries

² For text of the toasts at the dinner on the evening of September 28, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, pp. 1781–1784.

³ Reference is to their February 15 meeting in Mexico City; see Document 190.

⁴ See footnote 5, Document 236.

⁵ See Document 235.

had accepted the necessity of adopting national targets and the four Summit countries in the EC had already made national commitments. Japan had accepted a range but the Japanese Energy Minister had said at the meeting and at a press conference that he would try to achieve the lower end of the range, that is 6.3 million barrels per day. Secretary Duncan also mentioned the 1980 U.S. import commitment of 8.5 million b/d and the 1979 target of 8.2 million b/d a day.

In Paris, Duncan said, they had also discussed a crude oil transaction register. It would record transactions in the crude oil market and make them public on a monthly basis. There was also a discussion of energy technology and how to communicate that technology. Improvements would be sought in the exploitation of coal, nuclear power, with an emphasis on safety, and alternative sources of fuel. Conservation was also emphasized. There had been considerable interest in the President's energy program. With the President's approval Secretary Duncan gave a fact sheet to Secretary Castaneda.

President Carter thanked Secretary Duncan. To summarize, the President said, all of us realized that we had been using, wasting, and importing too much oil. All agreed that despite economic growth, imports would not increase through 1985 and then would be reduced through the use of alternate sources of energy. To help maintain stable supply and stable prices we were eager to share our technology with developing countries and provide or help provide finance for exploration. He understood that these goals were compatible with Lopez Portillo's.

President Lopez Portillo said yes, he was not saying anything new, only that there would be serious and grave consequences if there were no action. He believed that, put together, the Tokyo Summit ideas and President Carter's energy programs were close to his U.N. proposals. But there were certain considerations that he would like to raise. The Tokyo Summit countries were trying to reduce their dependence by controlling demand. There were two problems with that approach.

If bloc policies were followed, said Lopez Portillo, then the producers would cartelize supply; they would look for balance in the market and for an advantageous situation in the world economy. Therefore, reliance on blocs was ill advised. Bloc bargaining added great danger. During the period in which we try to control demand we ran the risk of a recession because a cut in demand would reduce economic growth. A reduction in demand would cause OPEC to reduce supply and upward pressure on prices thus would continue. The position of developing-country oil importers would become even more serious. They would be cut by a scissors: the price of petroleum would rise while a recession affected their exports. This would be very unfavorable for the developing countries.

That is why President Carter's energy program for the U.S. was interesting. What you had proposed for the United States was close to what should be approved by the entire world. We could not act on isolated parts of the whole problem. For this reason we supported your plan. President Lopez Portillo had reservations about the Tokyo results and but he hoped that reason would prevail and that energy would be taken up in a global forum.

Lopez Portillo said that there were dangers of misunderstanding. An OPEC country had already said that Mexico's proposal had been thought up as a means of dividing OPEC. He had foreseen that this would happen and for that reason had said that the United Nations is the place in which to raise the problem. Mexico's position was separate from the producer and consumer positions. He believed, however, that it was the correct view. He viewed the Tokyo Declaration with sympathy, but it had the dangers to which he had referred. However, the Tokyo meeting indicated that there was a trend toward order which gave him hope that it would be possible to negotiate.

President Carter said he recognized the concerns of Lopez Portillo. We were making every effort to avoid creating a recession. Our principal emphasis was on conservation and elimination of waste. Our second effort was to produce oil and gas more efficiently from existing fields and with advanced techniques for recovery. We wished to use other forms of energy which were plentiful; that is shale, coal and solar energy, as well as increase the ability of developing countries to find energy resources. We were eager to share our superior technology with all other nations and were making some progress.

[Omitted here is discussion unrelated to energy.]

238. Letter From President Carter to Crown Prince Fahd of Saudi Arabia¹

Washington, October 3, 1979.

Your Royal Highness:

I am very pleased with your announced decision to continue petroleum production at third-quarter levels.² As I said publicly, your action is a constructive complement to the efforts of oil-importing nations to curb consumption and switch to other fuels. It will greatly assist the world in meeting important energy needs and helping to stabilize prices.

The courage and responsibility which your government has consistently demonstrated in developing its policies is a source of strength and stability in international affairs. I take deep personal satisfaction in the close and friendly relationship existing between our two nations, and I will continue to seek ways to deepen and broaden our areas of cooperation and mutual understanding.

Sincerely,

Jimmy Carter

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 16, Saudi Arabia: Crown Prince and First Deputy Prime Minister Fahd ibn Abd Al-Aziz Al Saud, 2/77–5/80. No classification marking. An undated covering memorandum from Brzezinski to the President recommended that he send the letter to Fahd.

² See footnote 2, Document 234. On September 19, Brzezinski sent Vance a memorandum informing him that Yamani had told the Danish press that there was a 50–50 chance that OPEC would again raise prices at the December Ministerial meeting. According to Brzezinski, Carter's response was, "Let's move to prevent this." Brzezinski advised Vance that the Department of State "should implement the President's instruction." (Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 67, Saudi Arabia, 8–11/79)

239. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to Director of Central Intelligence Turner

Washington, October 17, 1979.

[Source: Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 3, Central Intelligence Agency, 9–12/79. Secret; Sensitive. 1 page not declassified.]

240. Memorandum From Director of Central Intelligence Turner to the President's Assistant for National Security Affairs (Brzezinski)

Washington, October 30, 1979.

[Source: National Security Council, INT/Subject Files, F–R/I026, OPEC. Secret; Sensitive. 2 pages not declassified.]

241. Memorandum From the Executive Secretary of the Department of State (Tarnoff) to the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, November 2, 1979.

SUBJECT

OPEC Price Increases

In response to the President's directive that we mount a campaign against the OPEC price increases,² the Department is preparing instruc-

¹ Source: Carter Library, National Security Affairs, Staff Material, Special Projects File, Box 13, Henry Owen, Chron, 11/1–5/79. Secret; Sensitive.

² The President's instruction was circulated in an October 17 memorandum from Brzezinski. (Ibid., Brzezinski Material, Agency File, Box 3, Central Intelligence Agency: 9–12/79)

tions for our Embassies. These instructions will be differentiated between two groups of consuming countries—LDC's and the industrialized countries.

The message to the non-oil producing LDC's, our major target group, will be a follow-up to our earlier message on the same subject (State telegram 151031 of June 12),³ and will seek to convince these countries that it is in their interest to engage in private and, particularly, public criticism of the price policies of the producing countries. This effort, however, will have to be handled with care. We would not want it to appear that other countries were acting on behalf of the United States, because that impression would sharply diminish the impact of their pleas. It is also important, particularly in terms of continued Saudi cooperation, that any campaign differentiate between OPEC "price hawks" and nations which have been helpful on price and production decisions. Such a campaign must also take into consideration the world wide support we wish to evoke for some action on Mexican President Lopez Portillo's energy proposal,⁴ which is encountering considerable opposition among the Group of 77.

Our efforts among the industrialized countries will, of course, be more direct and result in bringing about a more forthright public position on the price increases.

These instructions will be coordinated with the deliberations in course within the SCC on developing a comprehensive policy to meet the energy crisis.

We understand that ICA is responding directly on the aspects of the campaign within its purview.

Peter Tarnoff

³ In telegram 151031 to all diplomatic and consular posts, the Department noted: "OPEC countries are coming under increasing pressure from oil importing LDCs to moderate price increases or to assist their development efforts in other ways. We wish to increase public awareness of the economic costs to developing countries of rapidly rising oil prices. Attached talking points may be helpful in underscoring these problems." (National Archives, RG 59, Central Foreign Policy Files, D790266–0803)

⁴ See footnote 5, Document 236.

242. Paper Prepared in the Department of State¹

Washington, undated.

Iranian Oil Contingencies

Iranian oil production in recent months has averaged about 3.7 million barrels per day, with late October production up to 4.1 million b/d. Exports have been about 3.1 million b/d, of which about 700,000 b/d comes to the U.S. This constitutes about 8 percent of U.S. oil imports and about 3.7 percent of total U.S. oil availability.

If Iran decides to embargo oil shipments to the U.S., a basic question is whether Iran also decides to reduce its total exports. We believe this would be the case. As the 1973–74 experience showed, it is very difficult to target an embargo on a single country, and greater impact is achieved if production is cut at the same time. The Iranian regime is presently earning foreign exchange at about twice the rate of its foreign exchange expenditures. Even before the occupation of the American Embassy, the Iranian National Oil Company told us that they would cut back oil production by 300,000 b/d in 1980.

Triggering the IEA Sharing System

Even if no other market adjustments were made to compensate, an Iranian embargo of the U.S. would not trigger the IEA sharing system because the size of the cutback to the U.S. would be below the trigger level. To activate the system, the IEA group or any member country must sustain a cut in available oil to a level at least 7% below base period consumption (roughly the previous year). U.S. oil imports from Iran are only about 3.7% of total oil available to the U.S.; in view of the recent increase in our total oil availability, a complete and uncompensated stoppage of Iranian exports to the U.S. would leave us with expected oil availability about 2.2% below base period.

¹ Source: National Archives, RG 59, Executive Secretariat Files: Lot 82D85, Box 1, Iran Update, November 1979. Secret. Drafted by Bullen and Dolan and cleared by Rosen, Calingaert, in NEA/IRN and NEA/ARP, and by Poats. The paper is attached to a November 6 memorandum from Katz and Goldman to Vance and Duncan that explained that the paper had been prepared for a November 7 SCC meeting on Iranian oil. The meeting's Summary of Conclusions indicated that officials at the Departments of Energy and Treasury would meet with oil company executives on November 8 and "raise with them the question of reallocation of supplies" in anticipation of a significant Iranian reduction. (Carter Library, National Security Council, Institutional Files, Box 105, SCC 196: Iran, 11/07/79) On November 4, a group of university students had seized the U.S. Embassy in Tehran and taken most of its staff hostage. Documentation on the Iranian hostage crisis is scheduled for publication in *Foreign Relations, 1977–1980*, volume XI, Iran: Hostage Crisis, November 1979–January 1981.

A larger Iranian cutback (e.g. one million b/d) would have its impact on the consuming world as a whole. Even if it all fell on IEA countries, it would be far below the 2.6 million b/d trigger level for the IEA as a group.

It is possible to activate the IEA sharing system at less than a 7% shortfall by unanimous agreement, but it is doubtful that unanimity would be achieved. Many IEA countries, and the Secretariat, believe that triggering the allocation system—which would inevitably entail domestic allocation—is much less desirable for a shortage below 7% than more informal coordination of policies. However, if something approaching a total shutdown of Iranian production ensues, we would not exclude IEA sharing as a tool for joint action.

Possible Replacement Oil

Major producing countries with spare crude capacity are shown in the attached table.² A number of them increased production when Iran shut down early this year, and some might do so again. On the other hand, a number are expected to reduce production in early 1980.

Saudi Arabia is now producing 9.5 million b/d from Aramco fields, one million b/d over its ceiling. It may have capacity to produce some additional oil, but analysts doubt whether a substantial increase can be sustained for long.

Kuwait is now producing at about 2.3 million b/d, slightly below capacity; this is scheduled to drop to 2.2 million b/d, and the Kuwaitis are reportedly considering an even steeper cut of up to 500,000 b/d. The Kuwaitis do not need the income and view oil in the ground as potentially more valuable than additional financial investments.

Abu Dhabi has about 500,000 b/d unused capacity due to production ceilings imposed by the Algerian-managed national oil company for “technical reasons”. The technical justification for these limits is questioned by Western oilmen, but their imposition clearly reflects a broadly accepted local desire to maximize long-term field output.

Nigeria raised its output in early 1979 to about 2.4 million b/d in response to the Iranian crisis, but production has since been reduced to about 2.2 million b/d because of technical reasons (falling pressure in small fields) and conservationist sentiment.

Algeria and *Libya* have 200,000 and 100,000 b/d of spare capacity which they might bring back on the market if they desired the additional income. *Iraq* also has perhaps 300,000 b/d of spare capacity.

² Attached but not printed.

The *United Kingdom* recently cut output by 85,000 b/d because of the reintroduction of restrictions on flaring gas from the Brent field. The U.K. may be amenable to another relaxation of flaring rules. While *Venezuela* has announced it would cut production by 150,000 b/d for conservation reasons in 1980, they might be persuaded to maintain production at 2.35 million b/d.

A major argument in urging additional production would be the risk of harm to the world economy from a renewed shortfall. This might well persuade the Saudis to keep their production up to 9.5 million b/d, although whether they would be willing to go beyond that is questionable. Kuwait and Abu Dhabi, however, might be very reluctant to raise their oil production at this point if that were confrontational with Iran, since they have a strong interest in not antagonizing their larger neighbor. We could not expect our argumentation to have any impact on Algeria or Libya. Strong urgings from the world community might well cause Nigeria and Venezuela to resume higher production on a temporary basis. Iraq could conceivably increase production principally for commercial reasons, either secretly or in some way as to be portrayed as benefitting countries other than the U.S.

Informal Efforts with U.S. Companies

If Iran were to embargo the U.S. but maintain its overall production level, we would expect oil companies to readjust supplies among themselves so as to send Iranian oil to non-U.S. destinations, and non-Iranian oil to the U.S. Market changes in the past year (tight market, increased oil sales moving through producer government companies, reduced amounts of oil available to the majors for third-party sales) have made this more difficult but not impossible. However, the average price paid for such oil imports to the U.S. would be higher, since much of the replacement oil would be at spot prices.

While we believe this would happen naturally, it might be accelerated and coordinated through USG persuasion. This would have particular impact on companies active in the U.S., who would see behind it the potential for regulatory action. It would be essential, in pursuing such efforts with the companies, to consult our IEA partners to reassure them that the U.S. was not seeking to overcompensate for a shortfall at their expense.

The more serious problem is that Iran would be likely to reduce total output in conjunction with any embargo on exports to the U.S. We would still expect through normal market action and persuasion to be able to mitigate to some extent the impact on the U.S., but the consequences for price in the U.S. and eventually worldwide would be more severe.

A list of the companies currently importing oil from Iran is attached.³ The top two companies—Amerada Hess and Ashland—are very heavily dependent on Iranian oil. Unless oil were rapidly made available to them from elsewhere, they would very quickly be on the spot market, and would likely feel compelled to pay exceptionally high prices.

While DOE buy/sell orders (which mandate oil transfers to crude-short companies) are normally restricted to small refineries, which generally do not directly import foreign crude, it might be appropriate for DOE to review the possibility of regulatory changes which would permit orders requiring other US companies to make oil available to firms cut off under such circumstances. Alternatively, full domestic crude oil allocation might be considered.⁴

³ Attached but not printed.

⁴ On November 12, Carter issued Proclamation 4702 ordering the cessation of oil imports from Iran into the United States. In remarks that day, Carter emphasized: "It is necessary to eliminate any suggestion that economic pressures can weaken our stand on basic issues of principle. Our position must be clear." For text of his remarks and the Presidential Proclamation, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, pp. 2109–2112.

243. Memorandum From the Director of the International Communication Agency (Reinhardt) to the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, November 8, 1979.

SUBJECT

Response to Presidential Directive on OPEC Oil Price Increase

In response to your memorandum of October 17, 1979,² you should know that the International Communication Agency is giving increased attention to the potentially disruptive effects of sharp oil price increases on the world economy and, more particularly, on the Less Developed Countries. Energy supplies and energy costs are a continuing high priority of USICA media. An analysis of the major issues for over-

¹ Source: Carter Library, National Security Affairs, Staff Material, Special Projects File, Box 13, Henry Owen, Chron: 11/1–5/79. Secret; Sensitive.

² See footnote 2, Document 241.

seas posts is being prepared, and it will stress the points in your memorandum.

Two notable examples of our media coverage to date were:

—VOA took advantage of the anniversary of the 1929 crash to compare, in a news analysis, industrial workers harshly affected by the '29 crash with the worst potential victims of the present energy-dominated economic cycle—the developing countries.

—On October 27th, Under Secretary of the Treasury Anthony M. Solomon spoke at the Friedrich Ebert Foundation Seminar on U.S.-European "Perspectives for the 1980s." Our wire service focused on the energy aspects of the Under Secretary's remarks and his statement that the U.S. has been alone in encouraging OPEC to exercise price moderation and maintain or expand oil production levels.

In the coming days and weeks, USICA media will stress the following themes regarding oil price increases:

—The recent round of price hikes, in addition to having a destabilizing effect on the still-shaky international economy, is having an especially debilitating effect on the developing world. These countries are dependent on growth to underwrite their national commitments to development and to keep their debt-laden financial structures from collapsing.

—The U.S., a major consumer of energy, has made significant cuts in its consumption as it pledged at the 1979 Tokyo Summit. These efforts show that the U.S. is acting responsibly and has the right to expect that other international players exercise as much responsibility and restraint.

—The world community finds itself in its present predicament, not because of the actions of one single group, but because of a number of interrelated and rarely complementary actions or events. The more important factors affecting the situation are well-known but worth repeating: an increasing demand for petroleum products throughout the world in the face of decreasing known reserves; nationalism, the "me-first" attitude; irrationalism, as evidenced by recent events in Iran; and waste. This all graphically leads to the conclusion that any solution of the problem will require the cooperation of all countries—developing and developed, planned and free-market economies.

These themes will be stressed in media programming and other activities which will include:

—The international visitor program will arrange, where possible, meetings between foreign visitors who are involved in energy-related matters and appropriate officials in the White House, the State Department, the Department of Energy, the Department of Treasury and other concerned U.S. government agencies to discuss U.S. energy policy and

concerns. Our media services will interview these visitors as appropriate.

—Our media services will also interview Agency-sponsored American speakers who have lectured abroad on energy-related subjects. Specific emphasis would be put on foreign audiences' energy concerns and reactions.

—Other U.S. Government agencies will be asked to give us the information to demonstrate how these price increases are affecting the world economy and particularly the developing world. It will be this attributable information—briefings, testimony and backgrounders—which will make our case credible and keep the issue active.

244. Telegram From the Mission to the Organization for Economic Cooperation and Development to the Department of State¹

Paris, November 16, 1979, 1813Z.

36138. Dept pass also DOE and NSC. Subject: Proposal Tabled at IEA Governing Board Meeting, November 16.

1. (C)—Entire text.

2. Following is the text of a proposal for concerted action in response to worsening oil market situation prepared by U.S. delegation and circulated by Secretariat at International Energy Agency Governing Board meeting on November 16. Posts may draw on this text in energy policy discussions with host governments.

3. *Begin text*

Recent developments in oil exporting countries, including growing uncertainty over production prospects in Iran, have dramatized the urgent need for additional action by consuming countries to further limit oil import demand. Additional production cutbacks by Iran or other producers for political, technical, and economic reasons are a very real possibility. The 1980 oil import targets proposed by the IEA Secretariat, taken collectively, are higher than the prospective supplies, particularly from OPEC. There is therefore an obvious need to set more stringent 1980 oil import targets for the IEA countries. In addi-

¹Source: National Archives, RG 59, Central Foreign Policy Files, D790528–0085. Confidential; Immediate. Repeated Immediate to all IEA capitals.

tion, given oil market uncertainties, any system of targets must be capable of revision in light of future market developments.

Given the urgency of this situation, the IEA should convene a Ministerial meeting in early December, to be held before the OPEC meeting in Caracas.

The IEA Ministers should establish 1980 oil import targets for all member countries. The targets must be stringent, clearly stated on a national basis, and adjusted to expected supply availability. A working group should be established immediately to assess 1980 supply availability as a basis for establishing targets at the Ministerial.

The 1980 targets of Summit countries and similar targets for other countries should be used as a starting point. They should be adjusted by the Ministers to meet the projected available supply. The targets should specify oil import levels, but an evaluation of national efforts, consumption and inventory changes should also be taken into account. The targets should be strict; they should meet the low range of estimated supply. They should also be adjustable on a quarterly basis to meet changing market conditions.

Since these targets must be credible if they are to have any effect on the oil market and on other nations, particularly members of OPEC, it should be a major part of this program that each country should devise and present the specific national policies to implement its target.

Ultimately, the credibility of our actions will rest on our performance, not on pledges or policies. The IEA should therefore regularly monitor the progress of each country in meeting its targets. Every quarter, a formal review should take place. These should be thorough, frank, and confrontation should not be avoided. Private and public pressure should be applied to nations which do not meet their targets, and they should be even more closely monitored in the next quarter. Triggering the emergency sharing system would be the last resort to ensure compliance if political persuasion fails. This represents a substantial strengthening of the more informal, less stringent review process which occurred after the IEA initiative of March, 1979.² However, the seriousness of the current and prospective oil market situation and the need for strong internationally credible action to meet it, fully warrants this new approach.

Medium Term Measures. Looking beyond 1980 the IEA should give added impetus to the SLT to develop targets for 1981–85, taking into account the results of the ongoing SLT review process. The SLT should be instructed to prepare a recommendation for Governing

² See footnote 6, Document 192.

Board action to deal with the supply outlook, which may deteriorate through 1985.

Spot Market. The IEA should also intensify efforts to analyze the changing structure of the world oil market, with particular emphasis on the role of spot markets. Rapid implementation of the oil registry system, including the quick reporting procedures and extension to product sales should be given the highest priority. We need to persuade exporting and importing nations, traders, and companies to abstain as much as possible from spot market transactions. The success of our efforts to improve the demand/supply balance will strengthen our activities in this regard. At the same time, the extent to which IEA nations are perceived to be concerned about spot market trends and to be taking actions to moderate them, will be critical to the success of our larger efforts to instill greater stability in the oil market. *End text.*³

Ryan

³ According to telegram 300912 to all OECD capitals, November 20, the Governing Board “reached provisional agreement to advance the date of its next Ministerial meeting to the week of December 10” and “made further progress toward the adoption of individual country 1985 oil import targets and a reduction of the current IEA group 1985 import goal of 26 MMB/D.” (National Archives, RG 59, Central Foreign Policy Files, D790533–0827)

245. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, November 19, 1979, 2256Z.

300653. Subject: Suspension of Oil Imports From Iran.²

1. Several posts have raised questions or reported host government officials’ queries as to how the suspension of U.S. oil imports from Iran will be implemented and what effects we anticipate this may

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790533–0760. Confidential; Immediate. Drafted by Todd; cleared by Poats and in DOE/IA, EUR/RPE, and NEA/ECON; and approved by Rosen. Sent Immediate to Brussels and Madrid and to Ankara, Athens, Bern, Bonn, Canberra, Copenhagen, Dublin, London, Luxembourg, Oslo, Ottawa, Paris, Rome Stockholm, The Hague, Tokyo, Vienna, and Wellington. Repeated to Jidda, Kuwait, Tripoli, Baghdad, Abu Dhabi, Algiers, Doha, Caracas, Lagos, Jakarta, Libreville, and Quito.

² See footnote 4, Document 242.

have upon the world oil market. Our assessment of this latter point is necessarily tentative and preliminary, but posts may draw as appropriate from this cable with those caveats in discussions with host governments. You should also draw upon statements carried in the USICA Wireless File, and cabled excerpts from the Department's daily press briefing.

2. Implementation: The suspension was implemented by a November 12 Presidential Proclamation, which prohibits the entry into the customs territory of the United States of crude oil produced in Iran (except crude oil loaded aboard maritime vessels prior to November 13, 1979) or unfinished oil or finished products refined in possessions or free trade zones of the United States from such crude oil. The Proclamation is based upon the President's authority under 232 (B) of the Trade Expansion act of 1962, as amended. The suspension does not prevent U.S. companies from trading in Iranian oil or shipping it to other destinations, nor does it affect imports of refined products produced from Iranian crude in foreign refineries, in the Caribbean or elsewhere. It is intended to prohibit imports into the U.S. of products refined from Iranian crude in the Virgin Islands.

3. Effects on the world oil market: As noted in the President's announcement, we hope to reduce oil consumption in the United States enough to offset a significant portion of the 700,000 barrels per day of oil we had been importing from Iran. A number of domestic measures are under intensive consideration to achieve this reduction. Iran has thus far given no indication that it plans to reduce oil production, and other oil producers continue to supply normal amounts to the world oil market. Continued adequate supply levels, together with the anticipated reduction in U.S. demand, should ensure that additional upward price pressures are kept to a minimum.

4. There will be a number of readjustments in the world oil market, especially since Iran has suspended deliveries of any oil to U.S. firms.³ Countries which formerly received Iranian oil through U.S. firms will probably seek to obtain continued supplies directly, and may even increase their purchases somewhat. Some of the Iranian oil formerly sold under contract to U.S. companies will doubtless be offered on the spot market. We doubt that most oil consumers would exchange existing long-term supply arrangements for insecure and uncertain arrangements to purchase Iranian oil.

5. The extent to which U.S. refiners will seek to replace Iranian crude supplies with oil from other sources and on the spot market will

³ On November 13, the day after Carter's announcement, Abolhassan Bani-Sadr announced in Tehran that the Iranian Revolutionary Council had decided to stop all oil exports to the United States.

depend upon the success of U.S. effort to reduce oil demand and the type of allocation arrangements made to ensure supply availability for crude-short refiners.

6. In sum, though there will be some readjustments and dislocations in the world oil market, the presence of adequate supplies and efforts to reduce demand (both in the U.S. and by the IEA nations) should minimize upward price pressures which might otherwise be attributed to the U.S. suspension of Iranian oil imports.

Vance

246. Memorandum From Henry Owen of the National Security Council Staff to President Carter¹

Washington, November 21, 1979.

SUBJECT

Danger and Opportunity

US and allied reactions to the Iranian crisis may have created an opportunity for a more dramatic breakthrough on the energy problem than seemed possible even a month ago.

In the US the cut-off of Iranian oil has produced widespread media demands for more vigorous action to restrain oil imports.

Abroad, our representatives at the recent Paris meeting of the International Energy Agency received wide support when they proposed setting up a working group to devise a procedure for continually adjusting 1980 oil import targets to changing (and probably diminishing) oil availabilities, and to specify the concrete measures that countries will take to achieve resulting (and probably reduced) import targets.² They also got allied agreement to move the IEA Energy Ministers' meeting from January to December, so that these proposals can be acted on in time to influence the first quarter production levels set by several major OPEC countries. Such an agreement to allocate the

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil, 8–12/79. No classification marking. Sent for information. The President initialed the memorandum.

² See Document 244.

prospective marginal oil shortage internationally would greatly reduce the competitive scramble for oil that runs up prices and gives political power to radical OPEC countries.

If the Energy Ministers agree to these tighter and more effective limits on 1980 oil imports, we can decide whether any new domestic restraints on US demand are needed to play our part in fulfilling this agreement. Against a background of evident allied cooperation, such measures might stand a better chance of public and Congressional acceptance than in the past.

It is not just the Iran crisis, but your firm stand in that crisis, which has produced the apparent change in US and allied attitudes. Any action that was seen as a US retreat could dissipate the change.

Even without such an upset, the opportunity described above may prove a mirage: Confronted with specific proposals, our allies and the Congress may back away. But we won't find out without trying. The chances of success now seem sufficient to warrant the attempt—first in the IEA and, if this works, at home. We will report back to you on the IEA results.

247. Telegram From the Embassy in the United Kingdom to the Department of State and the Department of Energy¹

London, November 30, 1979, 2220Z.

23874. Pass Iran Working Group. Subject: Iran Oil Reporting from London. Ref: (A) State 299840, (B) London 22119.²

1. Confidential—entire text.

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D790556–0628. Confidential.

² In telegram 299840 to London, November 18, the Department authorized travel for the Petroleum Officer at the Embassy in Tehran, Andrew Grossman, from Tehran to London for 60 days, starting November 4. (Ibid., D790530–0416) Telegram 22119 from London, November 8, informed the Department that Grossman was “in safe haven from Tehran” and had been assisting “in reporting on Iranian economic issues, including regular reports on oil production and export.” It added: “In view of the heavy load of work resulting from Iranian crisis, and Grossman’s ability to reach his contacts in Tehran, Kharg and Ahwaz by phone from London, Embassy requests that Grossman be assigned TDY to London until Embassy Tehran can reopen for business.” (Ibid., D790515–0185)

2. Iran Oil Sitreps from London³ have contained extensive data collected directly from Iran by long distance telephone conversations between Embassy Tehran Petroleum Officer and his established contacts in Iran. Some of the latter are located in the oil-producing regions far from Tehran.

3. Data being collected by this direct link include daily production and export figures; information on the physical state of oil facilities, the organizational state of the National Iranian Oil Company, progress in construction projects, labor-management relations, product prices; and items of attendant politico-economic interest.

4. Embassy London has supplemented the above reports with information from some of the same sources we used last winter during the interruption in communications between Tehran and Iran's oil regions: BP, Shell, and other oil company London offices. However, with the old Iranian oil participants consortium now largely defunct, and with few foreigners now travelling to Iran, our own access to data is not what it once was. Most of the data in the Sitreps has been provided by Petroleum Officer Tehran's daily telephone calls.

5. With Iranian events unpredictable, one cannot say how long the direct telephone channel will last. To the extent that it does, it seems to be unusable except through established personal rapport: some of the contacts in Iran are already uneasy about using the channel—even with someone whom they know.

6. If EB/FSE, the Department of Energy, and other Washington agencies find this direct connection to be of value, as we do, they should contact PER/FCA and NEA/EX to pursue some arrangement on Tehran Petroleum Officer's London TDY (which currently expires January 2) to ensure that it is not curtailed precipitately.⁴ It should be

³ The first Iran Oil Sitrep was telegram 22008 from London, November 7. (*Ibid.*, D790513–0136) Beginning with telegram 22365 from London, November 10, which was "Iran Oil Sitrep No. 11," all of the reporting on Iran's oil industry from London had the subject heading, "Iran Oil Sitrep," followed by a number and a date. (*Ibid.*, D790518–0666)

⁴ On December 11, the Department informed the Embassy in London that, while it "appreciated" Grossman's reporting, it believed that "his TDY assignment should be curtailed as of January 30." (Telegram 319717 to London; *ibid.*, D790571–0327) Upon the imminent reassignment of Grossman, the Ambassador wrote to the Department on January 25, 1980: "I find it difficult to believe that Washington is prepared to sever this established direct link to Iran at a time when American journalists have just been expelled from Iran and when events near the Persian Gulf are the focus of the world—and Presidential—attention." He concluded: "We will obviously accept whatever decision comes out from Washington. However, in view of the above considerations, I believe senior officials in Washington should carefully review the decision to terminate his assignment here next week." (Telegram 1840 from London; *ibid.*, [no film number])

pointed out that given the heavy ongoing energy workload, we are also able to make good overall use of this TDY resource.⁵

Brewster

⁵ The final Iran Oil Sitrep from London, No. 69, February 2, 1980, was telegram 2481. (Ibid., D800058–0469) The Department assigned Grossman to the Embassy in Paris as a commercial officer, where he continued, with the Department's approval, "his telephone contact work and reporting out of Paris." Because the Department "and other interested agencies" found the Iran Sitreps "valuable in helping Washington understand current developments in Iranian oil sector and general economy," it instructed the Embassy in Paris to tailor Grossman's duties "to allow him to include reporting on conditions in Iran until hostage crisis is resolved." (Telegram 29929 to London and Paris, February 3; *ibid.*, D800059–0691) The first Iran Oil Sitrep from Paris was telegram 4055, February 5, but beginning with telegram 5684 from London, March 14, the reports came exclusively from London. (Ibid., D800063–0233, D800131–0146) The last Iran Oil Sitrep—at least under that subject heading—was telegram 19807 from London, September 17, 1980. (Ibid., D800447–0495)

248. Memorandum From the Deputy Secretary of Energy (Sawhill) and the Under Secretary of State for Economic Affairs (Cooper) to President Carter¹

Washington, undated.

SUBJECT

IEA Update

The International Energy Agency (IEA) has decided to move forward its previously-scheduled January Ministerial-level meeting to December 10. This was done largely on the initiative of the U.S., for two reasons:

1. The Tokyo targets for the Summit countries, and other tentative 1980 oil import targets for the remainder of the EC and for non-Summit, non-EC countries, do not give the prospect of a balanced oil market in 1980; even against a projected optimistic OPEC production level of 30 mmb/d, after allowance for net demand for the rest of the world, the aggregate IEA oil import targets may overshoot OPEC output by 600 to 900 mb/d.

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 45, Rutherford Poats File, Chron, 12/79. Confidential. At the top of the page, Carter wrote: "cc: To Duncan, Vance. Sounds good. C"

2. With the exception of France, which controls carefully its volume of oil imports, no other industrialized country has considered putting in place effective import control mechanisms such as an import quota.²

We therefore face the prospect of a worsening scramble for oil next year; this would aggravate price pressures in the market, would subject importing countries to political blackmail, and would create political tensions among importing countries.

To deal with this problem, we are proposing that the IEA adopt a system of national oil import targets, which would be adjusted quarterly to a level which gives a reasonable prospect of market balance. As a part of this system other countries will be required to put in place effective and credible enforcement mechanisms as well as demand restraint measures directed at achieving the targets. The proposed system would include penalties against countries exceeding the targets. Such an allocation mechanism should reduce incentives for buying at high spot market prices.

As part of the pro-rata reduction in import target levels to match available world oil supplies, the U.S. would have to be prepared to accept a 1980 oil import target below the level of 8.5 mmb/d agreed upon at the Tokyo Summit. Preliminary analysis indicates that the U.S. could comfortably accept an import ceiling in 1980 of approximately 8.1 mmb/d without adopting additional demand restraint measures. An interagency task force has completed a preliminary review and adopted an “unconstrained demand” estimate of 7.90–8.05 mmb/d (not including any SPR fill) as a safe projection for 1980.

In the judgment of some of your advisors, there is an additional safety margin built in to the high end of that range for the following reasons:

- An inventory build-up during 1980 of 100 m/b is included even though 1979 end-of-year inventories will be close to an all-time high;
- A voluntary nuclear moratorium is assumed which increases oil consumption by up to 250 mb/d. This moratorium could be offset instead by other policy actions such as coal-fired electricity and use of residual fuel oil from inventories. Additionally, if world oil supplies are as limited as currently expected, action to bring some of these 9 affected plants on line during 1980 will have to be considered.

We will press other countries to adopt stringent import control systems comparable to a quota mechanism as backstops for the reduced import targets. In the event that other countries resort instead to softer measures, such as “political” commitments rather than legisla-

² Next to this sentence, Carter wrote: “Tell me briefly how France does it.”

tive actions, it would be appropriate for us to follow suit, and back up our lower target with a political commitment rather than an actual downward adjustment in the 8.5 mmb/d import quota trigger point.

If the industrialized world is unprepared to adopt stringent demand restraint measures of its own choice, demand will be effectively limited by short supply leading to still higher prices and further economic slowdown. We can take the fixed volume of oil that will be available on the world market in one of two ways: at the very high price that will result from IEA nations bidding against each other, which is politically as well as economically damaging, or at a somewhat lower price under a cooperative system of demand restraint where shortfalls are shared equitably.

In the upcoming working group meetings in Paris, we will stress the criticality of adopting meaningful enforcement systems (e.g., import quotas) to the success of any effort made at the Ministerial, while conditioning our willingness to lower our quota commitment on other nations' willingness to commit to a rigorous enforcement mechanism.

We will report back to you on our progress following the Governing Board preparatory meeting in Paris next Monday.³

³ December 3.

249. Memorandum From Secretary of the Treasury Miller to President Carter¹

Washington, December 5, 1979.

SUBJECT

Middle East Trip Report
Visit to Saudi Arabia, United Arab Emirates, Kuwait
November 23–29, 1979

The three countries together produce almost one-half of OPEC oil and earn well over one-half of OPEC financial surpluses. In each country, our party was received with warmth and cooperation, despite tension in the area.

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 22, Treasury Department, 3/79–3/80. Secret. Copies were sent to Vance, Duncan, and Eizenstat. At the top of the page, the President wrote: "Good trip. J"

Summary

It is probable that the three countries will maintain oil production into the early part of next year at current levels, in excess of their preferred rates. This will be favorably influenced by evidence that the U.S. and other oil importing countries are making progress in containing and reducing demand. However, some scale-back in production can be anticipated as 1980 progresses, if the expectation of the three countries that supply will be comfortable is realized.

The countries seek return to a single benchmark price system,² although they do not believe it is likely to be achieved at the OPEC meeting in December. However, they feel that continued higher production levels will put downward pressure on spot prices as stockpiling ends and it becomes apparent (in their view) that production now exceeds final oil consumption. Their price objectives for December appear moderate, but uncertain because of the breakdown in OPEC price compliance.

All this is on the assumption that there is no serious reduction in Iranian oil exports.

The three countries' production and pricing plans seem motivated by (1) desire to return to stable oil pricing system with all producers receiving equal treatment, (2) concern over impact of oil shortages or substantial price increases on U.S. and world economies and hence on their own investments, and (3) internal pressures which question desirability of more rapid production than needed to finance orderly development plans.

Kuwait is most likely to cut back production somewhat next year, probably starting in the second quarter.

The three countries all expressed concern over the freezing of Iranian official assets.³ After explanation of the unique circumstances, there was a better appreciation and some public expression of understanding and acceptance of the action. Nonetheless, there remains an underlying nervousness, perhaps best illustrated in the comment: "capital is a coward." If the hostages are released and the assets unblocked promptly thereafter, the concern will probably fade away.

Underneath is the nagging question: "If we embargo oil or oppose the U.S. on major policy issues, will our assets be blocked?" We did our best to reassure them on this score.

² See footnote 3, Document 220.

³ Carter issued Executive Order 12170 freezing Iranian Government assets in the United States on November 14. It reads, in part: "I, Jimmy Carter, President of the United States, find that the situation in Iran constitutes an unusual and extraordinary threat to the national security, foreign policy and economy of the United States and hereby declare

The incident at Mecca⁴ somewhat preoccupied the Saudis. My appointment with Crown Prince Fahd in Riyadh was cancelled since he remained in Jeddah (or possibly Mecca itself) to deal with the Mecca situation.

Oil Production

In the aftermath of the Iranian revolution and the cut back in Iranian crude exports, each of the three Arab countries increased or maintained production. (Saudi Arabia from 8.5 to 9.5 mb/d; UAE stayed at 1.8 mb/d; Kuwait from 2.1 to 2.6 mb/d, including the neutral zone.) Even so, the world oil supply has been tight and there has been a breakdown in the pricing system. Officials of the three countries believe that current production is slightly above actual final oil usage, but that excess demand is resulting from stock building either as a hedge against shortages or to reduce dependence on supply from major oil companies. They, therefore, expect the supply-demand relationship to be more comfortable in the near future as stockpiling subsides.

The three also take the position that oil supplies will be adequate in 1980—with perhaps one million barrels per day surplus—*provided* there is no substantial reduction in Iranian output. Underlying this viewpoint is an implied willingness on their part to maintain production levels at or near present rates.

There is some reluctance to make public commitments as to production levels. Each country is now generating substantial financial surpluses, and there are internal pressures to reduce output to levels more in line with financial needs. There are those who question the wisdom of converting domestic oil resources into financial assets held outside their domains. Recent events in Iran and Mecca add weight to these voices. But the Governments recognize their interdependence with the world economy and appear prepared to maintain somewhat higher levels of production as their “sacrifice”, provided the U.S. and other oil importing countries make their “sacrifice” by conservation and constrained demand.

Saudi Oil Minister Yamani has stated publicly that his Government will consider extending the current production level of 9.5 million barrels/day into the first quarter of 1980 if the consuming nations will

a national emergency to deal with that threat.” The full text of E.O. 12170 is printed in *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, pp. 2118–2119.

⁴ On November 20, 26-year-old Saudi religious extremist Muhammad Abdallah and approximately 300 well-armed followers seized the Grand Mosque in Mecca and took hostages. An assault on the Mosque by Saudi forces on November 24 ended the incident. The Embassy in Jidda reported on the incident in telegrams 8041, November 21, and 8119, November 25. (National Archives, RG 59, Central Foreign Policy Files, D790536–0257, D790543–0581)

do their part to constrain demand. Any public commitment to this effect is not likely to be made until after the upcoming OPEC meeting. Privately, the assurances are somewhat more positive, again depending on evidence of U.S. and others taking measures to curtail demand. The value placed on our conservation is reflected in Minister Yamani's statement that Saudi production was increased in the third quarter as a direct result of the Tokyo Summit commitments on energy consumption.

In the UAE, there seemed to be an unqualified and public commitment to maintaining the current production level of 1.8 mb/d. However, in more specific discussions, we were informed that 1980 production would be down by about 70,000 b/d because of the need to treat a field that has been mishandled by the oil operating company. The production would be restored after treatment, we were told.

The Kuwaitis were more outspoken about cutting back production. This may be because of the greater internal pressure, a reflection of the population mix which includes large numbers of Palestinians and substantial numbers of Iranians. In private conversations with Oil Minister Ali Khalifa, I was told that the Council of Ministers was likely to approve a production scale-back (perhaps several hundred thousand b/d) in 1980, to be effective sometime between April and July. Actual cutback may be influenced by supply conditions, and the Minister told me he would advocate higher production rates if there was a significant reduction in Iranian exports.

Oil Production Capacity

Privately and in confidence, the Saudis indicate plans to expand production capacity to 10.5 to 11.0 mb/d by the end of 1980, and then going on to the 12 million level by 1982. The UAE, after some setback to treat a field, expects to double capacity to about 4 mb/d. Kuwait indicates a return to its previous maximum capacity of 3 to 3.5 mb/d.

Such expansion in capacity is, of course, important for longer run stability in the oil markets and I came away increasingly impressed with our own energy vulnerability. I believe that these three countries will respond positively on production as our energy program increasingly takes hold and accelerates. In view of existing plans, I see no need at this point for us to propose inducements to expand capacity levels.

Oil Pricing

All three countries share our desire to return to a single benchmark price for oil and limit the spot market—though none are confident that this can be accomplished soon. No one seems able to predict the outcome at Caracas and no one has decided or was willing to reveal his own position. The Kuwaiti Oil Minister—an avowed price hawk—told me privately that he is thinking of an increase of \$2 from the current av-

erage price of about \$23. The Saudis and UAE will almost certainly be moving to bring their prices up to the level of the other producers. The effect of this on oil consumers will depend on overall pricing and the change in the average of actual selling prices.

Financial Matters

Our freeze of Iranian assets was uppermost on the minds of all those we met, both governmental officials and private business executives. Most of the officials expressed concern about the precedential implication on their own sizable holdings.

At the same time, putting aside the question of blocked assets, they noted that the dollar had become increasingly superior to other currencies as an outlet for their investments—given the instability of sterling and the yen, and increased German restrictions on foreign investors. These attitudes are central to our own efforts to maintain a stable dollar over the longer term.

The three countries will probably run a combined surplus of over \$50 billion next year (\$30–35 billion for Saudi Arabia alone).

In this context, I stressed your commitment to reduce inflation and strengthen the dollar. All my counterparts indicated satisfaction with our efforts, though they also adopt a wait-and-see attitude regarding actual results.

Other Issues

The Saudis seem to have become somewhat unhappy with the American companies who have traditionally been their close friends. They said that these companies had taken advantage of Saudi price moderation by increasing their profits rather than passing on the lower prices to consumers. Although unrelated, the Saudis noted that a U.S. windfall profits tax would capture some of the excess profits; otherwise, they would consider larger price increases. Saudi officials, particularly Yamani, are also incensed that two of the companies complied with a Church Committee subpoena to reveal what they consider to be proprietary data.⁵ Crude allocations of those companies have been reduced as a form of punishment.

At present, the Saudis are extremely agitated with us over two company-related issues: the risk that Saudi taxes on oil companies will be declared non-creditable against U.S. tax liabilities of the companies (this affects Aramco, of which they own 60%); and the Justice Department's Civil Investigative Demand (in connection with its anti-trust in-

⁵ The Subcommittee on Multinational Organizations of the Senate Foreign Relations Committee, chaired by Senator Frank Church (D-ID), was investigating bribery payments by U.S. companies to foreign governments.

vestigation of the oil companies) for data which the Saudis consider to be their own sovereign property. These matters deserve early attention.

Conclusion

Deep reservoirs of good will for the United States continue to exist in all three countries, despite the current unrest in the area and some unhappiness with our Middle East efforts. We must expect occasional bursts of unhelpful rhetoric, but I believe their underlying interests will keep them largely in harmony with our own, if we do our part in the relationship.

In the economic area, this means above all showing steady progress in (1) reducing our requirements for imported oil and (2) maintaining a stable dollar. As we do so, I believe we can count on these three Arab countries to maintain adequate oil output, seek orderly pricing with greater stability, and continue to invest the bulk of their earnings in dollar assets.

There is, understandably, an underlying concern about the current Iranian incident (and the Mecca incident) and the fear that violence or force could spill out into the region and cause great harm. While less explicit, there is also concern about regional security and the Mid East peace process.

It is clear that personal relationships are of critical importance to the Arab countries. The trip has strengthened ties with my counterparts there, and I plan to maintain contacts on a regular basis.

250. Memorandum From Henry Owen of the National Security Council Staff to President Carter¹

Washington, December 7, 1979.

SUBJECT

Status Report on IEA Ministerial Meeting, December 10

Charles Duncan phoned Count Lambsdorff, pursuant to his talk with you yesterday.² He indicated to Lambsdorff that he might not at-

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 45, Rutherford Poats File, Chron, 12/79. Confidential. Sent for information.

² According to the President's Daily Diary, Duncan met with Carter in the Oval Office from 10:32 to 10:37 a.m. on December 6. (Ibid., Staff Office Files)

tend the Ministerial Meeting on December 10 unless we could have some assurance that it would demonstrate effective IEA action to restore order to the oil market by either cutting targets one mmbd or by the proposal outlined in paragraph 3(b), below. Lambsdorff was prepared to accept the latter proposal. UK Energy Minister Howell indicated that he wanted the meeting to succeed, and reserved his position until then. So here is the present state of play:

1. All major IEA countries agree that the December 10 meeting should fix *1980 import ceilings for each IEA country*. Each country's performance will be regularly monitored to see that ceilings are not exceeded. If they are, a country will be committed to take specific remedial action. There will be nothing fuzzy about the ceiling or the commitment; consequently, this part of the agreement will represent an important step forward in building an effective mechanism for collective action.

Comment: These country ceilings are too high in terms of both likely market demand and likely OPEC supply:

—This year's oil price increases, lower economic growth, and a probable reduction in the rate of stock-building may reduce IEA import demand by perhaps one mmbd below the agreed ceilings.

—On the other hand, OPEC is not likely to supply more than 30 mmbd of the 31 mmbd required by the IEA import ceilings, and it may well supply less.

2. *There is also agreement among major IEA countries on the principle that the countries, as a group, should adjust demand to available supply.* The question that will have to be settled at the December 10 meeting is how this should be done.

3. *To meet this need, the US has made two alternative proposals:*

a. *Reduce 1980 ceilings now by at least one mmbd*, allocating the reductions among countries, and making the reduced targets binding. If greater stringency is required in the future, in light of the changing market situation, the process would be repeated. Germany, the UK, Canada, and probably others are firmly opposed, arguing they will not go below the 1980 ceilings in the absence of demonstrated need.

b. *Agree on how future reductions in 1980 ceilings are to be made.* This means:

—Staying with the *1980 ceiling* as the starting point.

—Agreeing *now* to meet at a specific date during the first quarter (say March 1 or earlier, if the supply situation worsens), to determine by how much these ceilings have to be reduced to adjust demand to available supply.

—Agreeing *now* that any reductions in ceilings will be binding.

—Agreeing *now*, to the maximum degree possible, on the principles for allocating any further reductions, e.g., pro rata in proportion

to oil consumption, adjusted for such factors as growth rates, weather, or other individual circumstances.

This (3(b)) is the compromise that we discussed with Lambsdorff and Howell. The chances of securing this agreement appear sufficiently promising to warrant Charles Duncan's going to Paris. But it will be tough going. Other countries will try hard to water down the proposal seeking to avoid any commitment to unpleasant action until the need is demonstrated.

4. *If we obtain the agreement described under 3(b), above, the meeting will be a success:* It will clearly reflect IEA determination to take whatever measures are necessary to restore equilibrium to the world oil market. We will lose the possible benefit of announcing now a one mmbd cut in the IEA import ceiling, but we will achieve a strong IEA commitment to make whatever cuts prove necessary in March—even if they are more than one mmbd. Obtaining agreement in principle on how cuts would be allocated among countries will also be a step forward, although a wide area for disagreement will remain regarding critical details.

5. Under this proposal, *there would be no need at this meeting to commit the US* to any import ceiling other than the 8.5 mmbd representing the initial target for 1980. When an adjustment is required, however, we would have to reduce our ceiling, as would the other IEA countries and France. This reduction would depend on available supply and on the adjustment formula to be negotiated in the next month or two.

251. Memorandum From Secretary of Energy Duncan and Henry Owen of the National Security Council Staff to President Carter¹

Washington, December 12, 1979.

SUBJECT

IEA Ministerial

We reached agreement with our IEA partners at Paris on the main elements that we mentioned to you last week:²

—Agreement on firm 1980 import ceilings by all 20 IEA countries (paralleling the import ceilings agreed to by seven of these countries at Tokyo).

—Agreement to meet again in the first quarter of 1980 to decide whether, and if so how much, to cut these ceilings in light of what we then estimate to be likely oil availability.

—Agreement to meet quarterly thereafter to review and revise these ceilings in light of changing oil availabilities.

—Agreement by all countries to take additional restraint measures, as needed, to avoid exceeding their ceilings.

—Agreement to review each country's performance quarterly.

—Agreement to convene meetings of ministers, as necessary, to confront countries that are exceeding their ceilings and shame them publicly into taking additional measures.

—Agreement to undertake an urgent study of whether the IEA allocation system, which goes into effect whenever there is a 7% drop in oil availability, can be structured so as to penalize countries that violate the commitments they make at this IEA meeting. This system is embodied in agreements that have been ratified by some parliaments, but we are hopeful necessary changes can be made.

What we have done, in effect, is to create a structure for continuously adapting the Tokyo Summit national import ceilings to changing circumstances—and for monitoring national observance of these ceilings. If IEA Members carry out the commitments that they made at

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 48, Oil, 8–12/79. No classification marking. Carter initialed the memorandum.

² See Document 250. The IEA Governing Board met at the Ministerial level in Paris on December 10. The communiqué issued at the end of the meeting was transmitted in telegram 38652 from Paris, December 10. (National Archives, RG 59, Central Foreign Policy Files, D790569–0839) Telegram 327981 to all OECD capitals, December 20, circulated an account of the meeting. (Ibid., D790586–0729) The communiqué is printed in Scott, *The History of the International Energy Agency*, vol. III, pp. 364–367.

this meeting, oil supply and demand will be brought into continuing balance—which should substantially mitigate pressure on oil prices.

We obtained this agreement through difficult negotiations. Many of our allies would rather have waited for bad news on oil availability to materialize next year instead of anticipating it now. The British were particularly concerned about any changes in the targets because of their fear that this would reopen the debate over the relationship of increased North Sea oil production to EC import ceilings. The Germans were more helpful than expected and the British became more supportive through the course of the meeting as they observed the emerging trend.

It will be imperative that we maintain the same level of U.S. firmness and leadership as we proceed, through a newly established working group, to the even more difficult meeting that will be held in March.³ We will have to press in the working group to turn the general allocation principles agreed upon in Paris into an allocation of specific cuts among countries.

We were pressured to include in the Communiqué a statement endorsing the need for replacement cost energy pricing, and were able to finally secure agreement to the exact oil pricing language used in the Summit Communiqué.⁴ It was clear that our ability to secure further demand restraint commitments is related to our willingness to deal with U.S. oil pricing levels. In particular, the U.K. Energy Minister and others said privately that it would be much easier for them to secure firm domestic support for U.S. proposals for greater demand restraint if U.S. gasoline were selling for more than a third of European prices.⁵ Thus, any action in this area before next March could help in our forthcoming negotiations.⁶

³ Carter wrote "I agree" in the margin next to this sentence.

⁴ See footnote 18, Document 221. Both communiqués "agreed on the importance of keeping domestic oil prices at world market levels or raising them to these levels as soon as possible."

⁵ Under this paragraph, Carter wrote: "It's more than 1/3 now."

⁶ On December 14, the Department of State sent an aide-mémoire to the Embassy in Venezuela to be delivered to the Government of Venezuela as well as to the Embassies of OPEC members in Caracas, which in turn were asked to transmit it and the IEA communiqué to their nations' representatives to the OPEC Ministerial meeting scheduled for December 17–20. The aide-mémoire described the "firm action" taken by the member states of the IEA at their December 10 meeting "to help restore stability to the international oil market." It concluded: "The IEA nations agreed that a solution to the world's serious energy problems requires a common approach by producing and consuming countries, both developed and developing. They expressed their confidence that oil producers will recognize their important role in pursuing policies which contribute to the stabilization of conditions in the world oil market and in the world economy." (Telegram 321925 to Caracas; National Archives, RG 59, Central Foreign Policy Files, D790574–0785)

252. Telegram From the Embassy in Venezuela to the Department of State and the Department of Energy¹

Caracas, December 22, 1979, 1130Z.

12285. Subject: OPEC Conference—Preliminary Analysis. Ref: State 322193.²

1. (C—entire text)

2. Summary. OPEC appears unlikely even to meet to discuss a uniform oil price system for at least three and possibly six or more months, that is, until (1) Saudi Arabia and the other moderates believe the spot market has weakened enough to moderate the demands of those members seeking higher prices, or (2) they are convinced that this is not going to happen. There also appears to be no agreement on production cutbacks. Among the individual participants, the biggest surprise was Iraq's new moderate look. End summary.

3. The following is our preliminary and somewhat impressionistic assessment of the results of the 55th OPEC conference on prices and production levels, as well as comments on the special roles played by some OPEC members during this conference. We will attempt to provide more detailed comments on these and other aspects of the conference at a later date.

4. Prices—As best as we can piece together the development of the closed discussions, Saudi Arabia initially held fast in its insistence that the conference adopt a marker crude price of \$24 per barrel, while the African countries insisted on \$30 per barrel, either for the marker crude or for their own higher quality oil. Nigeria suggested as a compromise a 10 percent increase over \$24, that is to \$26.40, which was widely but erroneously reported as \$26. Saudi Arabia agreed to this level provided

¹ Source: National Archives, RG 59, Central Foreign Policy Files, [no film number]. Confidential; Niact; Immediate. Repeated Priority to Abu Dhabi, Algiers, Baghdad, Bonn, Brasilia, Brussels for the Embassy and USEEC, Dhahran, Doha, Geneva, Jakarta, Jidda, Kuwait, Lagos, Libreville, London, Mexico, Oslo, Ottawa, Paris for the Embassy and USOECD, Quito, Rome, Tokyo, and Vienna.

² In telegram 322193 to Caracas, December 14, the Department instructed the Embassy to transmit the full text of the final communiqué and any other official statements from the OPEC Ministerial meeting held December 17–20. The Department also requested "coverage of press conferences held by OPEC spokesmen or by Petroleum Ministers from key countries," as well as information on "any discussions of assistance by OPEC to oil-importing developing nations, possible membership in the food aid convention, the report of OPEC's Long-Term Strategy Committee, and proposals for North-South discussions of energy in various fora." (Ibid., D790575–0933) The Embassy sent the final communiqué in telegram 12246 from Caracas, December 20. (Ibid., D790586–0417) The communiqué was published in *The New York Times*, December 21, 1979, p. D3. The OPEC Long-Term Strategy Committee, chaired by Yamani, aimed to devise a unified policy to support oil prices and stabilize international markets.

a realistic set of differentials was established and maintained. The technical experts met to decide on such a system of differentials and agreed on a maximum spread of \$3 above the marker. Algeria, Libya, and apparently then Nigeria, insisted, however, on a larger spread, thereby creating the final deadlock.

5. It appears at this point that OPEC is unlikely to agree on a single official price for at least the first quarter and probably well into the year. Saudi Minister Yamani, in his press conference following the conference, said the extraordinary conference to establish prices would convene some time in the future (with emphasis on some time) and that Saudi Arabia would hold its price at \$24 as long as possible. He said the world has managed with chaos in the oil market for the past year, and that he saw no reason why this situation could not continue for at least one or two quarters more. He expressed as his personal view that there would be a glut of oil in the market in the next few months resulting in lower spot market prices, and thus the decision not to set an OPEC price should be considered good news by the consumers, since prices could be much lower in the future. Kuwaiti Minister Al Sabah followed Yamani, also predicting that demand would drop in 1980, causing a fall in spot market prices, but adding that no member of OPEC wished to see prices drop below the official OPEC price (apparently the \$24–26 level).

4. Production. There was clearly no agreement on production cut-backs, and it is not even clear that this issue was discussed at any length. Venezuelan Minister Calderon Berti stated in his final press conference that many countries believe production levels should not be discussed in OPEC, since each country should be free to decide its production based on its own criteria. Yamani confirmed that Saudi production would remain at 9.5 million BPD through the first quarter of 1980, and Al Sabah, replying to a question re Kuwait's reported intention to reduce production by 500,000 BPD, said that while he has always said that Kuwait will reduce its production, he has never indicated the amount or timing of such a reduction.

5. Thus, it appears to us that the moderates, at least those in the Gulf, intend to keep production close to current levels in an effort to drive spot market prices down to what they see as the correct price for oil, that is, a range of prices corresponding to a marker crude of \$24–26.40 per barrel. What is not clear is the extent to which other member countries will try to counter these efforts by production cut-backs of their own.

6. A number of member countries appeared to play particularly important or unusual roles in the Caracas conference. The following represent our impressions of this aspect.

A. Saudi Arabia—By all accounts, Saudi Arabia remained the most moderate of the moderates.³ Yamani scheduled and then cancelled a number of individual and general press interviews over the course of the conference, but in all other respects appeared to be a perfect gentleman throughout.

B. Kuwait—The Kuwaitis appeared to take an unusually low profile throughout the conference, until Al Sabah's press conference, when he went out of his way to praise Saudi Arabia for its efforts to reach a compromise, and otherwise came out in support of the Saudi views.

C. Iraq—Probably the greatest surprise of the conference was Iraq's moderate position. In his December 18 press conference, Oil Minister Karim said Iraq did not intend to reduce its current production of 3.7 million BPD because it was still attempting to balance supply with demand, but would be one of the first to act on production levels, if there was a glut. There were a number of clear indications that Iraq supported the moderates and nothing to indicate that it wavered significantly from this support.

D. Iran—Reactions to Iran's public and official statements were universally negative. Oil Minister Moinfar also reportedly antagonized the other OPEC members with his constant political revolutionary comments, and when Yamani called for a meeting of the Ministers about midway through the conference, Moinfar reportedly insisted that his whole delegation be included. While he apparently eventually backed down in this demand, it created just another delay. While Iran was generally accepted to have been one of the major stumbling blocks in the price discussions, and Yamani, asked if Iran was one of those seeking a higher price, agreed that this was the case, it now looks like Iran was not one of those causing the final deadlock.

E. Nigeria—By one report, it was Nigeria's late intervention for a high differential that caused the final deadlock, even though Nigeria had apparently initiated the earlier compromise on the price level for the marker crudes.

F. Venezuela—As the host, Venezuela apparently did everything possible to avoid a breakdown on prices, possibly including a tele-

³ On January 10, 1980, the Department of State instructed the Embassy in Jidda: "You are authorized to transmit a verbal message of appreciation from President Carter to Crown Prince Fahd concerning the Saudi decision to maintain production at current levels at least through the first quarter of 1980. You should indicate that: —President Carter is extremely pleased by the announcement that Saudi Arabia will continue production for the first quarter of 1980 at 9.5 MBPD; —this decision further reflects Saudi Arabia's statesmanlike concern for the health of the international economy; —this level of Saudi production will be most helpful in our common effort to maintain balance in the international oil market and stability in the world economy; —for our part we remain dedicated to continuing effective efforts to restrain demand in the United States and other major consuming countries." (Telegram 6722 to Jidda; National Archives, RG 59, Central Foreign Policy Files, D800051-0502)

phone call by President Herrera to King Khalid, and Calderon Berti's final press conference clearly showed his disappointment at the final outcome on this point. At the same time, Venezuela apparently did succeed in obtaining an increased OPEC commitment to assist the oil importing LDCs.

7. Administrative Support—The facilities and services provided the conference and the press by the GOV appeared adequate, and according to some veteran OPEC watchers, were among the best they had seen. The OPEC press office, however, drew heavy and largely well-deserved criticism for its failure to provide information on what was happening or even when something might happen, and the little information which was provided often proved to be unreliable. At least in part, this failure to provide the press with up-to-date information reflected the general uncertainties and confusions of the conference itself.⁴

Luers

⁴ The Embassy in Caracas provided daily reports on the conference in telegrams 12148 and 12164, December 18, and 12169, 12217, and 12274, December 19, 20, and 21, respectively. (All *ibid.*, D79058–0581, D790583–0006, D790584–0108, D790585–0098, [no film number]) The conference ended on December 20 with no agreement on a uniform pricing structure for oil. On December 28, Venezuela, Libya, Indonesia, and Iraq announced price increases of 10–15 percent. (*The New York Times*, December 29, 1979, p. 1)

253. Memorandum From the Under Secretary of Defense for Policy (Komer) to Secretary of Defense Brown and the Deputy Secretary of Defense (Claytor)¹

Washington, December 24, 1979.

Developing a strategy and capability to cope with the growing energy crunch should rank as high on our list of security objectives as coping with the Soviet threat. Indeed, at the moment the energy crunch is undermining the security of the West far more rapidly than the Soviet military buildup. CIA now estimates that already announced oil price increases will slow real economic growth in the developed countries to about half of one percent next year, and push their average in-

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 65, Summits, 9/79–5/23/80. Secret; Sensitive. The President initialed the memorandum.

flation rate into double digits. Moreover, OPEC can: (1) keep raising prices; (2) cut back production if prices soften; or (3) do both.

The economic impact of the above will play hob with defense resource availability. Higher direct fuel costs (already painful) will be minor compared to indirect effects from inflation and recession. This will be even more the case with our chief Allies, owing to their even greater dependence on OPEC oil. And the bleeding of Western economies could continue indefinitely. Ergo, how can we finance the needed Western defense buildup, when more and more real resources are siphoned off to pay for oil, and when meeting recession and inflation competes with defense spending? As only one example, FRG abandonment of 3% real defense growth was primarily an anti-inflation move.

Thus the West desperately needs an energy strategy which will get us out of this bind, or at the least reduce its impact. This much is painfully obvious; the hard part is “what strategy”? I have few ideas beyond those already being widely discussed, but I will make it one of our highest priority planning tasks to try and come up with more. In the meantime how do you react to the following preliminary thoughts?

1. A crucial precursor task is to do a better job of sensitizing the country—and the free world—to the sheer national security impact of the energy crunch. It *is* in effect “the moral equivalent of war” (the only trouble here was that the President declared war three years too early and then wasn’t politically able to follow through). I see “national security” as the only compelling argument around which to rally the Congress (by appealing to the patriotism of oil state senators). Otherwise we and others will continue fumbling around (like the US Congress) without facing up to the need. DOD can play a major contributory role: (a) in cabinet you should press hard for vigorous measures; (b) your Posture Statement should highlight this problem—not just in terms of RDF (which frightens mostly our friends) but of impact on our defense strength; (c) we should play up this theme in speeches as well, the objective being to influence Congress and the Administration to adopt stronger conservation measures.

2. Next, we must explain to friendly OPEC countries that they are undermining the very national security umbrella which they count on the US holding over them. For example, have we gotten across adequately to the Saudis and Kuwaitis that our ability to defend them is being gradually hamstrung? They look at how our defense budget is going up, plus all the stress on RDF and probably conclude the exact opposite.

3. Our overall security objective must be to *retain acceptable access to minimum essential ME oil*. In practical terms this means ensuring that at least the lower Gulf states (Saudi Arabia, the sheikdoms, Oman, maybe Kuwait) remain in friendly hands, and firmly under our security um-

rella (which means that we must have a visible will and ability to defend them). This is not to say that we should “abandon” Iran and Iraq as outside our “security perimeter,” but that in classified strategic terms we treat them as a buffer area—which we want to hold too if at all possible.

4. We should examine the pros and cons of an overt *declaratory policy* that ME oil is vital to our security and we will do whatever is necessary to retain access to it. This is tricky but may be essential. If possible, we should try to get our Allies (including Japan) to join us in an acceptable formulation. I have in mind a formulation aimed at deterring *external* intervention, rather than one aimed at indigeneous states.

5. Since Saudi Arabia is the key to security of the lower Gulf, *we must seek a new security relationship with Riyadh* along lines which we are already exploring (non-US presence but Saudi development of a base structure we can use). In return for our security “guarantees,” the Saudis should help pay for security assistance to other friendly countries, which is vitally needed to rent base and access rights to enable us to come to Riyadh’s assistance. We also need Saudi aid in *denying the USSR access* to similar base and access rights (for example, maybe instead of defending N. Yemen against PDRY, we should look at whether N. Yemen could take over PDRY—this would require a lot of Saudi rethinking).

6. Strategically speaking, *Egypt looks like by far the best main base* for projecting any sizable ground/air response into the Gulf. Despite all the problems, it is politically and militarily the best bet. Since this in turn dictates a Saudi/Egyptian rapprochement, it should be a major objective of our policy. It also dictates convincing the Israelis not to upset the applecart.

7. *Oman* looks like the best bet for a peacetime forward base. Besides the ships offshore, we need some visible US onshore presence in the PG area itself. We must convince the Saudis that if they don’t want US forces on their soil, they should agree to having them nearby.

8. In the Saudi, Omani, Egyptian and other cases we must *actively buttress internal stability* via economic and internal security aid and advice. While the price will be high in the Egyptian case, it is imperative that Sadat be able to show early visible payoff from a pro-US policy. If this requires buying off Israel, that too is cheap at the price—compared to the stakes for which we are playing.

9. Our *Iran* policy must be geared to this overall strategic design. My own sense is that preserving Iran as a unitary buffer state, however radical, is more in our interest than a fragmentation that invites partition. The last should be a worst case fallback, in event Iran nevertheless breaks apart or Tehran comes under Soviet influence.

10. We must also hedge our bets by *cementing relations with non-PG oil states*. It amazes me that (1) we are on the verge of cutting real aid level to Indonesia; (2) we are not exploiting Nigeria's interest in F-4s; (3) we are not encouraging in every way Venezuela's exploitation of Orinoco heavy oil; and (4) we are not more actively seeking long term *modus vivendis* with Canada and Mexico. All this will take billions in aid and investment, but this price is modest indeed compared to what oil is even now costing us—with more increases yet to come.

11. Last but not least, we must press harder for major user country conservation measures, using our economic clout with Europe and Japan to reinforce our security arguments.

The above is the merest outline of a strategy; it leaves out most of the all-important obstacles, costs, and details. But I hope it can serve as a strawman for active discussion and debate, first in this building and then in interagency fora. I'd value your personal reactions.

R.W. Komer²

² Komer initialed "RWK" above this typed signature.

254. Memorandum From the Assistant Secretary of Energy for International Affairs (Goldman) to the Special Assistant to the Secretary of Energy (Siemer)¹

Washington, January 8, 1980.

SUBJECT

DOE Intelligence Requirements

Review of DOE's requirements for intelligence on foreign energy developments, and the Intelligence Community's current ability to satisfy these requirements, suggests three kinds of information we do not now get which would be useful objectives of Department of Defense interest. First, we need better information on tanker loadings and movements. Second, detailed intelligence on foreign energy technology programs generally is lacking. Third, more comprehensive nuclear pro-

¹ Source: Department of Energy, Executive Secretariat Files, Job #8824, International Affairs, 1/80. Secret.

liferation intelligence is essential. Additional thoughts on these three needs are outlined below.

The Department of Energy requires additional, more detailed information on the movement of crude oil in world markets. As governments and national oil companies have assumed more responsibility for marketing and shipping, the quality and quantity of overt information available to the US Government has declined. Many oil-producing countries, including Iran, Saudi Arabia, Iraq, Libya and the Soviet Union, now consider production and export statistics to be “state secrets”, thus forcing DOE market analysts to rely on dated and often incorrect “official numbers” to develop short-term forecasts of supply and price. Moreover, in recent months the amount of crude oil passing through the major international oil companies also has declined, causing additional uncertainty. The DOD, and especially the US Navy, might be in a position to provide independent and timely information on oil tanker loadings, destinations, offloadings, shipping problems, and in-transit transactions.

It is important that the U.S. not be surprised by foreign technological developments in energy or energy-related fields. Community reporting on the political and economic aspects of oil supply and pricing generally is adequate. [8 lines not declassified] DOD assistance in filling this disturbing gap in our energy intelligence capabilities would enable the DOE International Energy Technology Assessment Program to provide more complete and balanced studies in support of DOE policy development and program planning.

The wider use of nuclear technologies to meet national/international energy demands, and the associated spread of various strategic nuclear materials in both spent fuel and separated form will enable an increasing number of countries to make nuclear and thermonuclear weapons. The diffusion of this potential for nuclear weapons will impact significantly on the criteria, procedures, and assessments involved in nuclear-related export cases, the implementation and verification of US bilateral technical agreements for nuclear cooperation, and the development of US non-proliferation initiatives. The past limited role of intelligence in providing a periodic watch of impending nuclear weapon capabilities in certain countries is no longer adequate, but this role must be expanded to provide a major input to national security policy development, implementation and verification. DOD’s information on the security concerns motivating nations to develop the capability to produce nuclear weapons, and these countries’ technological progress toward such capability, would be of particular use to DOE in meeting our various non-proliferation responsibilities.

The DOE intelligence staff continues to work closely with the Intelligence Community in defining and prioritizing collection, analysis

and production of energy related intelligence. However, energy intelligence must compete for limited National Foreign Intelligence Program resources with traditional military and political topics and, consequently, does not have sufficiently high priorities to ensure adequate attention. In addition to urging our friends in Defense to re-orient their resources toward the three topics discussed above, I suggest that we solicit their support for DOE representation by Secretary Duncan on the Policy Review Committee (Intelligence). Such representation, previously denied to Secretary Schlesinger by Admiral Turner, would provide a national-level forum for energy intelligence issues, thereby enabling DOE to influence the National Security Council guidance to the Intelligence Community.

Leslie J. Goldman²

² Goldman initialed "LJG" above this typed signature.

255. Editorial Note

From January 14 to 19, 1980, Edward Fried, a White House consultant on international energy issues, conducted "exploratory talks" in Paris, London, Bonn, Brussels, and Rome, with French, International Energy Agency, British, European Community, German, and Italian officials on energy questions "with a view toward preparations" for the Venice Summit in June and the IEA Ministerial meeting in March. Gerald Rosen, Director of the Office of Fuels and Energy at the Department of State, and John Treat, Deputy Assistant Secretary of Energy, accompanied him. (Telegram 7261 to Bonn, January 10; National Archives, RG 59, Central Foreign Policy Files, D800018–0616) Discussion topics included the outlook for the international oil market, the spot market, import targets, stock policies, less developed countries, producer-consumer dialogues, and other issues.

A summary of the delegation's discussion with French officials on January 14 is in telegram 1565 from Paris, January 15; with OECD Secretary General Emile Van Lennep on January 14 in telegram 1107 from Brussels, January 18; with IEA Executive Director Ulf Lantzke on January 15 in telegram 1107 from Brussels, January 18; with British officials on January 16 in telegram 1189 from London, January 17; with EC officials on January 18 in telegram 1187 from Brussels, January 21; with German officials on January 18 in telegrams 1288 and 1363 from Bonn,

January 22 and 23; and with Italian officials on January 19 in telegram 2119 from Rome, January 23. (All *ibid.*, D800026–0247, D800031–0150, D800029–0707, D800036–0487, D800038–0257, D800040–0056, D800039–1059)

256. Telegram From the Department of State to All Diplomatic Posts¹

Washington, January 24, 1980, 0936Z.

20298. Subject: Recent U.S. Energy Developments. Reftel: State 309970.²

1. (Unclassified entire text)

2. This cable is the second in a series of reports on U.S. energy developments. (Reftel) It is a report of activities as of January 18.

3. Report on IEA Ministerial.³

At the International Energy Agency (IEA) Ministerial meeting on December 10, the major oil consuming nations took a significant step toward stabilizing the world oil market by agreeing to control the level of their oil imports. They set national oil import ceilings for 1980 and agreed to establish a mechanism whereby the performance of each country would be regularly monitored and the ceilings would be adjusted quarterly if necessary to take account of changes in the world oil supply situation. This was an extension and reinforcement of target setting process at the Tokyo Summit Meeting in June, 1979. (At Tokyo, only the U.S., Japan, and Canada set national targets for 1980; the EC

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D800041–0694. Unclassified; Priority. Drafted by A. Hegburg (DOE/IA) and Alan P. Larson (EB/ORF/FSE), cleared in EUR/RPE, DOE/IA, AF/EPS, NEA/ECON, ARA/ECP, EA/RA, and OES, and approved by Rosen.

² In telegram 309970 to all diplomatic and consular posts, December 1, 1979, the Department sent its “first of continuing, periodic reports on US energy developments.” The reports were “intended to keep US Missions apprised of the latest developments, accomplishments, strategies and plans in the energy area.” The Department hoped that they would “serve as a valuable information source to Ambassadors and senior Mission officials in informing host country officials of US progress in coping with energy problems.” Telegram 309970 focused on “recent Congressional action on several of the President’s energy initiatives,” including: 1) a windfall profits tax, 2) an energy mobilization board, 3) an energy security corporation, 4) solar energy, 5) energy conservation legislation, 6) gasoline rationing, 7) assistance to low-income families, and 8) oil import quotas. (*Ibid.*, D790555–0193)

³ See Document 251.

nations simply reaffirmed the EC group target established earlier at Strasbourg.⁴ The seven countries did set targets for 1985, but with varying degrees of commitment and specificity.)

—The 1980 ceilings of IEA nations total 24.5 million barrels per day (MMB/D), including 1.4 MMB/D for bunkers. France, though not an IEA member, was closely involved in this process through the EC. Due to expected reductions in economic growth, and the demand restraint and fuel switching effects of higher oil prices, there is a good chance that the IEA nations will collectively import less than the sum of the ceilings. The U.S. ceiling for 1980 is 8.5 MMB/D plus .4 MMB/D for the territories.

—The IEA Ministerial also set national oil import goals for 1985. The sum of these goals is 26.2 MMB/D. When bunkers are excluded the collective goal becomes 24.6 MMB/D. This replaces the collective target of 26 MMB/D (excluding bunkers) set in 1977. The U.S. goal for 1985 is 8.5 MMB/D for the 50 states, plus 0.4 MMB/D for territories.

—The Ministers also directed the IEA to develop an improved information system on stock movements and a system of consultation on stock policies, and to consider additional measures leading to a more coordinated approach to spot market activities.

4. US Energy Performance

—During the last several years the United States has instituted a number of programs and policies aimed at reducing our dependence on imported oil and our overall consumption of energy. The full effect of these measures will take years to develop; however, results are already beginning to manifest themselves, in some cases dramatically, in reducing our oil import and energy use. In the past we promised to meet the energy challenge—we are meeting it as the preliminary data, primarily for 1979, indicate.

—For example, on a 50-state basis in 1977, net imports averaged 8.6 million barrels per day (MMB/D) of oil. By 1978 we reduced that level by nearly 600,000 B/D to about 8.0 MMB/D while 1979 levels are expected to be 7.8 MMB/D.

—U.S. petroleum product consumption in 1979 was well over 2 percent below 1978. Preliminary data indicates that total energy consumption was also less than in 1978. This occurred while U.S. GNP grew at 2.3 percent in real terms in 1979. This represents a significant change from the pre-1979 relationship between energy use and growth rates.

—Our very positive contributions to reducing demand pressures on the world oil market have not been limited simply to decreasing our

⁴ See footnote 4, Document 221.

oil imports, but include the overall performance in improving energy efficiency in the major sectors of our economy.

—In the transportation sector gasoline demand during 1979 was about 5 percent below that of 1978. Savings were due to a number of factors including higher prices, fuel efficiency standards and voluntary conservation. Our mandatory automobile fuel efficiency standards will ensure continued progress in this area. The savings were greatest in the second half of the year when shortages were not a constraint on consumption.

—We are also particularly pleased with the conservation performance of the U.S. industrial sector. Industry used about the same amount of energy in 1978 as in 1973, in spite of economic growth and industrial output increases during this period.

—In the residential/commercial sector our oil consumption between 1973 and 1979 has dropped by more than 200,000 B/D as a result of higher fuel prices and government incentives for retrofitting existing structures.

—Coal production in 1978 despite the prolonged strike was nearly 62 million tons above the 1973 level. In 1979 our coal consumption increased by more than 10 percent over last year as a result of government policy requiring greater coal utilization for generating electricity and in direct industrial use.

—In 1978, our domestic production of crude oil was 8.7 MMB/D largely due to our Alaskan North Slope fields reversing a long-term decline in our oil production (when natural gas liquids (NGL) and processing gains are included, total U.S. production was over 10.5 MMB/D). Overall there has been an increase in exploratory and production work in the United States. As a measure of exploratory effort, the number of seismic crews operating in the United States has increased by 57 percent between 1973 and 1979. For production, the number of rotary rigs in operation in 1979 was almost double that of 1973.

—Domestic gas production appears more promising as a result of pricing policies instituted by the U.S. Government; also the rate of decline in reserves has been slowed down.

—Nuclear power continues to play an important role in our energy production providing an average of 12 percent of total domestic electricity generation in 1979 compared with only 4.5 percent in 1973. In pursuing nuclear power development we will continue to emphasize safety in the operation of our nuclear plants.

—The commercialization and use of renewable energy and synthetic fuels has been greatly enhanced by the initiatives proposed by the President which are nearing final Congressional consideration. We believe that these sources of energy will play an increasingly important role in our energy future.

—At Tokyo the Summit countries agreed “on the importance of keeping domestic oil prices at world market prices or raising them to this level as soon as possible.” This is exactly what the US is doing. Over one third of US oil production is now free of price controls and this proportion will increase monthly until September 30, 1981, when all domestically produced oil will be free of price controls.

—Even with price controls on part of US oil production, the difference between the price of imported oil and the composite or average refiner acquisition cost of crude oil has been much smaller than commonly realized. In 1978 this difference amounted to an average of \$2.11 per barrel. The gap widened somewhat in 1979 as world prices rose faster than domestic crude oil prices. In September 1979 (the last month for which reliable figures are available) the composite price was 80 percent of the price of imported oil. The percentage gap between import prices and the average acquisition cost of crude oil to refineries will narrow because each month a large percentage of domestic production will be freed of price controls. By September 30, 1981 the gap will be eliminated.

—With the exception of gasoline and propane, the retail prices of major petroleum products have been decontrolled. In the case of gasoline, retailers are permitted to pass through fully all increases in product costs. Refiners are permitted to pass through to gasoline retailers 110 percent of the increased cost of crude oil used to produce gasoline. Therefore, the ex tax prices of gasoline and other petroleum products are almost the same in the US and Europe.

—Changes in prices can have as much or more influence on consumer behavior than absolute levels. The percentage rise in the real price of gasoline and home heating oil in the US since 1973 has been greater than in major European countries.

5. Energy Legislation

The following developments have taken place in the energy legislation reported in reftel:

A. Windfall profits tax

On December 17, the Senate completed action on its version of the windfall profits tax legislation. On December 19, a House/Senate conference committee began deliberations over resolving the differing provisions in the separate versions passed by each body. In a major decision, the conferees agreed on a tax level of 228 billion dollars over ten years and are now considering alternative tax regimes consistent with this revenue target. The administration hopes that action on this bill will be completed by the end of January.

B. Energy mobilization board

This measure is now before a joint House/Senate conference committee to resolve the differing versions.

C. Energy security corporation

This measure is also subject to conference committee consideration.

D. Conservation

The Senate has already passed legislation providing \$14 billion over five years for solar and energy conservation. In the House there are two bills under consideration, both of which provide for creation of an energy bank to provide subsidized loans for residential and commercial conservation. The bills differ, however, in two major respects:

—The Banking Committee bill provides for two separate banks, one for solar and one for conservation, whereas the Interstate and Foreign Commerce bill provides only for one bank;

—Only the Banking Committee version expands existing requirements that utilities provide energy audits for their customers.

To accelerate consideration of this legislation the House leadership has agreed to let the House conferees consider solar and energy conservation measures even though House action is not completed. The conference is expected to begin discussion of these provisions about February 1.

E. Gasoline rationing

The administration is preparing a standby gasoline rationing plan under authority provided in the Emergency Energy Conservation Act of November 5, 1979.⁵ The plan would give the President authority to impose an approved rationing plan at his discretion, if this is required by a severe energy supply interruption or to comply with the obligation of the U.S. under the International Energy Program (i.e., the IEA oil sharing program). The administration's final plan will be submitted to Congress; unless the plan is disapproved by joint resolution within 30 days, the plan is approved.

6. Mexican gas

The USG has also been working to enhance energy trade and cooperation with Mexico. The first contract negotiated under the framework of the September 1979 U.S./Mexican agreement to facilitate the import of Mexican natural gas⁶ received final regulatory approval on December 28, 1979. This cleared the way for imports of 300 million cubic feet per day of Mexican gas. This amount, about one half of one percent of total U.S. consumption and 8 percent of U.S. natural gas imports, is the

⁵ The President signed the Emergency Energy Conservation Act, P.L. 96–102, also known as the gas rationing bill, on November 5.

⁶ See footnote 4, Document 236.

equivalent of 50,000 barrels per day of crude oil imports. The price is \$3.625 per MMBTU with quarterly escalator based on a mix of world crude prices.

7. International energy R and D cooperation

The U.S. continues to pursue an active program of international cooperation in the development and commercialization of new or improved energy technologies. The primary focus for our efforts is in the International Energy Agency (IEA). We also conduct some bilateral, and occasionally multilateral activities, though in most cases these are complementary to or associated with our IEA efforts. The first meeting of the International Energy Technology Group (IETG) was held in Paris November 5 and DOE Under Secretary John Deutch was elected chairman. The IETG, growing out of a U.S. initiative at the Tokyo Summit, will examine the need for international cooperation in the commercialization of new technologies likely to be available in the mid-1980's. The Group's report, to be issued in late March, will be considered at the Venice Summit.

Significant steps in bilateral cooperation, primarily with Japan, were taken during November and December. The most important of these was Japanese agreement to participate in phase one of the SRC II (Solvent Refined Coal II) liquefaction project as a quarter partner (the same as Germany). The cost of the SRC II demonstration facility, to be built near Morgantown, West Virginia, is now estimated at \$1.3 billion. The first meeting of the U.S.-Japan Fusion Coordinating Committee was held November 8–9 in La Jolla, California, to review the progress of joint research at the Doublet III Tokamak. The Japanese are contributing \$50 million to upgrade the Doublet III facility.

A U.S.-Japanese high energy physics implementing agreement was signed November 11 followed by a meeting which laid out an experimental program at various U.S. accelerator facilities. Japanese financial participation will be some \$5–7 million. High energy physics cooperation is also being undertaken between the U.S. and the PRC. Over 40 PRC scientists are now working in this field at U.S. accelerator centers and universities. This is part of DOE's agreement to collaborate with the PRC in its effort to build the world's fourth largest atomic particle accelerator outside Beijing and to begin contributing to research into the fundamental properties of matter by 1985. The PRC also explored the possibility of collaboration with DOE in the field of magnetic fusion.

Other significant recent bilateral activities include the visits of a DOE alcohol team to Brazil to discuss possible areas of cooperation, and a DOE coal team to Poland to review on-going cooperative activities in coal liquefaction.

8. Nuclear affairs

The 23rd IAEA General Conference met in New Delhi December 3–10 and provided an opportunity for numerous consultations on nuclear matters, particularly as the International Nuclear Fuel Cycle Evaluation (INFCE) is scheduled to be completed this February. The conference, in an unprecedented 46–29 vote (with 9 abstentions), rejected the credentials of South Africa. The U.S. strongly opposed this action as introducing political issues into the IAEA. This action does not affect South Africa's membership in the IAEA or the agreements under which the IAEA applied non-proliferation safeguards with respect to certain nuclear activities in South Africa.

The President has approved an amendment to the U.S.–IAEA Agreement for Cooperation Concerning Peaceful Uses of Nuclear Energy. The agreement incorporates new non-proliferation controls required by the Non-Proliferation Act of 1978. This agreement is the primary vehicle for U.S. peaceful nuclear cooperation with countries that do not have bilateral agreements for cooperation with the U.S. The amendment will soon be submitted to Congress, where it must lie for 60 days of continuous session before it may enter into force.

A U.S.–IAEA–Indonesia supply agreement was signed on December 7 in New Delhi. Under this agreement, the U.S. will supply 18.3 kgs. of low enriched uranium for Indonesia's Triga Mark II research reactor.

Vance

257. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, January 31, 1980, 1813Z.

27703. Subject: Gulf Oil Price Increases.

1. In the light of Yamani's explanation to Ambassador West prior to last OPEC meeting and Shaikh Ali Khalifa's comments to Embassy Kuwait, we are frankly confused as to how Saudi price increase to \$26 followed by increases by Gulf states to what appears to be a \$28

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D800055–0244. Confidential; Immediate; Exdis. Drafted by Twinam, cleared by Calingaert and in E and the Energy and Treasury Departments, and approved by Cooper. Sent to Jidda, Kuwait, Abu Dhabi, and Doha. Repeated Priority to Dhahran, Riyadh, Baghdad, Muscat, Manama, London, Paris, Oslo, Lagos, Caracas, Jakarta, Algiers, Quito, and Libreville.

marker² squares with what Saudis, Kuwaitis and others have been telling us. Saudi announcement of \$24 marker prior to OPEC meeting was allegedly part of a coordinated strategy designed to reach an OPEC compromise on a marker not above \$26 and a narrowing of differentials above that marker. Price decisions by UAE and Qatar prior to OPEC meeting and Kuwait's after meeting seemed consistent with this alleged strategy. In this context, Saudi increase to \$26, once the ability of higher price OPEC members to hold their prices had been thoroughly tested is at least comprehensible (although retroactivity to January 1 is not). Decision by Kuwait, Iraq, Qatar, and UAE to increase prices an additional \$2 is totally incomprehensible within this concept of a coordinated Gulf strategy. We therefore think a strong case can be made for holding Gulf prices to present \$26 Saudi level (with appropriate differentials) and would of course welcome production policies and Saudi efforts with Gulf states to achieve a reunified Gulf price structure.

2. Action addressees are requested to approach host governments at Ministerial level to seek clarification of recent increases. You should seek clarification of following points:

—Are Gulf increases to \$28 range part of a coordinated strategy with Saudi Arabia or do they represent a change in pricing policy?

—What is SAG attitude on increases by Gulf states?

—How does decision of Gulf producers to raise prices shortly after OPEC meeting and do so retroactively square with assertions by Yamani and Ali Khalifa and others that a substantial surplus in the market is developing? Have Gulf producers modified their market outlook and if they foresee a tighter market does this suggest Saudis and Kuwaitis will be prepared to maintain present level of production further into 1980?

—What do SAG and Gulf producers see as impact of their price increases on price decisions by other OPEC members?

—If latest price increases by Gulf states were part of strategy coordinated with Saudi Arabia, how does this square with professed desire of Saudi and Gulf producers to unify prices? Is unification now being sought nearer the price levels of the upper tier of OPEC states? Are we to anticipate an additional Saudi increase up to the Gulf level?

—What do host governments foresee as the course of OPEC pricing in the remainder of this year?

² On January 28, it was reported that Saudi Arabia had decided to raise the price of a barrel of oil by \$2 to \$26, and that the price rise would be retroactive to January 1. The next day, Iraq, Kuwait, the United Arab Emirates, and Qatar raised prices to \$28 per barrel. (*The New York Times*, January 28, 1980, p. 1, and January 30, 1980, p. D1)

3. In this probing you should feel free to draw on State of the Union message³ and other available guidance, including Secretary Miller's late November discussions in Saudi Arabia, Kuwait, and the UAE,⁴ to emphasize efforts US is making to reduce consumption, combat inflation, and maintain stable dollar while undertaking significant new obligation of resources to maintain the sort of global strategic balance which permits Saudi Arabia and Gulf neighbors to continue to feel able to assert that they need no outside help in defending Gulf region from aggression. While in course of these conversations you should give credit where due to those OPEC members who are making an extra contribution on the supply side and seem less eager than some to charge all the market will bear for their oil. You should in no way suggest USG condones latest increases; on the contrary, we are baffled and disturbed by them. You might seek assessment of host governments as to impact of their latest price increases on international economy, with particular reference to developing countries. You should also probe as to the possibilities for rolling back these price increases to Saudi price so as to re-establish a consistent pricing structure in the Gulf, either definitively or by substantially postponing the effective dates of the increase.

4. For Baghdad: You should exercise your own discretion as to whether and to what extent you wish to join action addressees in seeking above clarification.

Vance

³ President Carter's January 21 State of the Union message, which is printed in *Public Papers of the Presidents of the United States: Jimmy Carter, 1980*, pp. 114–180, contains a section on "Creating Energy Security." Delivered soon after the Soviet invasion of Afghanistan, the speech also emphasized the strategic importance of the Persian Gulf area and U.S. willingness to defend it: "In recent years as our own fuel imports have soared, the Persian Gulf has become vital to the United States as it has been to many of our friends and allies. Over the longer term, the world's dependence on Persian Gulf oil is likely to increase. The denial of these oil supplies—to us or to others—would threaten our security and provoke an economic crisis greater than that of the Great Depression 50 years ago, with a fundamental change in the way we live. Twin threats to the flow of oil—from regional instability and now potentially from the Soviet Union—require that we firmly defend our vital interests when threatened." On January 23, the President delivered his State of the Union of message to a joint session of Congress and declared what became known as the "Carter Doctrine": "Let our position be absolutely clear: An attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force." The address, which was broadcast nationwide, is *ibid.*, pp. 194–200.

⁴ See Document 249.

258. Memorandum From Secretary of Energy Duncan to President Carter¹

Washington, February 7, 1980.

SUBJECT

Resumption of Oil Acquisition for the Strategic Petroleum Reserve

Background

The Department of Energy (DOE) suspended acquisitions for the Strategic Petroleum Reserve (SPR) last March due to tight oil market conditions caused by the reduction in Iranian production. The Tokyo Summit partners agreed in June not to resume SPR purchases as long as they would add undue pressures on the world market price and agreed to consult about decisions they will make in that regard.

Events in the Middle East are a clear reminder of our need for a substantial SPR. The present relatively comfortable world oil supply offers a good opportunity for resuming purchases. Consequently we are consulting with our Summit and selected IEA partners, and I will also consult with Saudi Arabia regarding the resumption of SPR purchases.² I will inform you of the results of the Saudi consultation. Imports for the SPR will be included in the 8.2 million barrels per day (MMB/D) oil import ceiling for the United States that you directed in the State of the Union message.³

DOE is committed to filling the reserve in line with existing Administration policy. Total volume of the reserve currently is 91.7 million barrels; existing storage capacity is 248 million barrels. The reserve can be filled at a maximum fill rate of 500,000 B/D over the next 6 months and has a withdrawal rate of 1 MMB/D that will be increased

¹ Source: Carter Library, National Security Affairs, Staff Material, Special Projects File, Box 14, Henry Owen, Chron, 2/1–8/80. Confidential.

² According to the Embassy in Jidda: "Oil Minister Zaki Yamani protested in strongest terms possible USG purchase of any oil for Strategic Petroleum Reserve. He likewise objected to diverting Elk Hills oil to reserve on grounds that both such intended actions would frustrate Saudi efforts to regain one-tier price system. He also predicted that such purchases or diversion would cause other OPEC producers to reduce production and attempt to raise prices even higher. In addition it would place substantial pressures on SAG not to continue 9.5 MBD rate after current quarter. He requested most fervently that nothing be done on purchase of oil for SPR, at least through the end of the third quarter." (Telegram 1093 from Jidda, February 17; National Archives, RG 59, Central Foreign Policy Files, D800085–0544) Elk Hills, located in central California, is the seventh largest oil field in the Continental United States, and was part of the Federally-owned Naval Petroleum Reserve before the U.S. Government sold it to the Occidental Petroleum Corporation on February 5, 1998.

³ See footnote 4, Document 257.

in accordance with additional fill. Over the longer term, the reserve can be filled at a sustained rate of 200,000 to 300,000 B/D, with a drawdown rate of 2 to 3.5 MMB/D.

Opportunity to Resume Oil Acquisition

Oil inventories in the OECD countries are at record high levels and the outlook for 1980 oil demand is for the lowest growth since 1975. U.S. net oil imports in 1980 (50-State basis) are projected in the range of 7.4 to 8.0 MMB/D including 200,000 B/D for SPR, allowing enough leeway within the 8.2 MMB/D ceiling for resuming SPR imports. Most projections indicate some softness in the international crude oil market in the middle quarters of 1980. Spot and term prices of internationally traded crude oil already appear to be converging. However, uncertainties exist on the supply side which could make for a tight market, particularly if there are significant OPEC production cutbacks or supply interruptions.

It is the collective judgment of the interagency open market committee, which has monitored the international oil market over the last several months, that now is an opportune time to resume purchases for the SPR. This committee consists of representatives from the Departments of State and Treasury, Office of Management and Budget, Domestic Policy Staff, and the National Security Council Staff, and is chaired by the DOE Under Secretary. The committee has agreed in principle to resume purchases for SPR at a rate of up to 200,000 B/D based upon consultations with the Saudis and major energy consuming nations. Continuation of purchases after their resumption would depend upon continuing assessments of world oil market conditions.

We currently estimate that an average fill rate of 200,000 B/D might slow the expected spot market decline in 1980 by about \$1 per barrel. If the spot market for crude oil accounts for 10 percent of U.S. oil imports in 1980, resumption of SPR procurement may increase our total non-SPR oil bill by some \$250 million in 1980. Resumption of purchases by other industrialized nations for their smaller government stocks would increase slightly this price effect. Apparent German and Japanese purchase goals are for an additional 16 and 32 million barrels respectively for completion of their reserve programs, far less than ours. However, we do not believe the Germans have the capacity to add to their stockpile and we do not know whether Japan intends to enlarge its reserve. In any case, we do not expect that reasonable fill rates on their part would lead to official OPEC price increases.

The reaction of Saudi Arabia to resumed government oil stockpiling and Saudi willingness to maintain current production levels will be determined during my consultations with Saudi officials. Assuming that my consultations with the Saudis indicate that our SPR acquisi-

tions will not trigger a cutback in their production, I now intend to resume acquisitions at an average annual rate of up to 200,000 B/D as soon as possible after consultations with the Saudis and our Summit partners have been completed. Actual fill rates may vary above and below this average from time to time, depending on buying opportunities and delivery schedules.

Potential Sources of Acquisition

We have examined a number of domestic and international sources of oil for SPR. Possible domestic options include the Naval Petroleum Reserve (NPR) at Elk Hills, California; Alaskan State royalty oil; mandatory industry allocations; competitive solicitations among domestic producers; or Federal royalty oil from the outer continental shelf in the Gulf of Mexico. The committee has agreed in principle to an acquisition strategy involving both domestic and international purchases. The domestic oil probably would come from the NPR. The principal advantage of using domestic oil for SPR is one of perception. OPEC producers are less likely to object to resumption of SPR fill if it involves significant domestic sources even though the overall effect on world oil supplies would be the same as if *all* the oil were purchased on world oil markets. From a budget perspective, it may be less costly to acquire all oil for SPR on the international market, since NPR oil in the recent sale received bids of \$35 to \$41 a barrel. However, as you know, other oil consuming nations have expressed their concern to us that our NPR sales policies are giving signals to producing countries that their prices could be adjusted still higher.

The details of our planned acquisition strategy are summarized below:

1. We intend to acquire approximately 100,000 B/D from domestic sources, assuming that this is necessary to overcome Saudi objections to resuming SPR fill or for domestic policy purposes. At this time the preferred domestic source is NPR oil. This volume represents approximately 75 percent of the government's share of NPR oil and could be exchanged in whole or in part for deliveries to the SPR. The remaining 25 percent, about 30,000 B/D, could be set aside for small refiners in California. Section 201(K) of the NPR Production Act of 1976⁴ requires a Presidential order to make NPR oil available for SPR acquisition. We will be submitting such an order for your approval shortly after the consultations.

2. Potential international sources for the remaining 100,000 B/D (or more depending on Saudi reactions) include producer governments and private suppliers. Purchase prices will be in the range of the av-

⁴ See footnote 4, Document 95.

erage term contract prices being paid for similar generic imported crudes. DOE will attempt to obtain long-term contracts for volumes sufficient to raise the annual fill-rate to 200,000 B/D. Other types of purchases will also be considered in accordance with the price guidelines. The fill rate would be adjusted, including halting acquisition of foreign oil if necessary, if market conditions dictate.

Budget and Organization

Over \$4 billion of budget authority is currently available for oil acquisition. Your 1981 budget includes \$255 million for oil acquisition outlays in fiscal year 1980 and \$1,111 million in 1981 which is sufficient for a fill-rate of 100,000 B/D, assuming resumption in 1980. If we are successful in resuming purchases at the rate of 200,000 B/D, there will be sufficient budget authority on hand, irrespective of acquisition strategy. However, a 200,000 B/D purchase rate could increase the 1981 budget deficit by up to \$1.2 billion either by increased outlays for oil, or from revenues foregone by the use of NPR oil.

259. Paper Prepared in the Department of State¹

Washington, February 8, 1980.

SUBJECT

International Energy Strategy

In deciding on an international strategy we should bear in mind the medium-term outlook (1985–1990) as much as, or even more than, the 1980–81 outlook. The two perspectives raise different problems.

In the short run, emphasis necessarily is on measures to mitigate the costs of a tight or tightening market through restraining the scramble for supplies and equitably sharing the burden of cutting consumption quickly through painful internal measures—price or otherwise. Establishing import ceilings, consultations on pricing, and coordinating stock policies are means of accomplishing these objectives. If the ceilings are tight, they amount to an international allocation of scarce supplies.

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 45, Rutherford Poats File, Chron, 2/80. Confidential. There is no drafting information on the paper.

Over the medium-term, with more time for adjustment, we can seek to improve the underlying market situation through measures to restrain demand and increase supply of primary fuels on a gradual basis. For 1985, primary reliance for adjustment must still rest on demand restraint measures. For 1990, supply side actions take on much greater importance. The economic justification for new measures in advance of a crisis is that they are less costly than relying wholly on price jumps imposed by OPEC and on reduced economic growth to adjust OECD demand to reduced oil supplies. In addition, reduced dependence on oil imports may well be essential to achieve political and strategic objectives. Since lead times are long, decisions on these measures have to be taken early if the results are to be worthwhile.

What are the likely oil market constraints over the next ten years with which energy and economic policy will have to contend?

I. The World Market Outlook:

A lot of work has been done on the 1980–81 outlook; a reasonable amount on 1985, and very little on 1990. This is what we have so far:

1980:

—OPEC production is likely to be down by 2 mmbd from 1979 levels. This assumes a return to baseline production in Saudi Arabia and Kuwait after the first quarter 1980, and moderate reductions in a few other countries.

—This reduction in supply could be offset by:

- 1) a reduction of 6 mmbd in consumption (resulting from higher prices and the assumption of zero OECD growth);
- 2) an increase in non-OPEC supply of .3 mmbd (assuming a further decline in net communist exports);
- 3) the absence of additional stock building, which amounted to 1.1 million barrels per day in 1979. Stocks are now at record levels.

—While these calculations suggest greater precision than is warranted, it is likely, new political disruptions aside, that much of the steam will be taken out of the spot market during most of 1980. On the other hand, downward pressure on contract prices can virtually be ruled out because of the ease with which OPEC production can be further reduced. At the least, contract prices should increase during 1980 by enough to offset inflation; if OECD economic growth is somewhat higher than zero, prices could significantly increase in real terms.

—IEA import demand should also be down by 1.5–2 mmbd from the import targets set for 1980 (which were based on OPEC supplies in 1979). The “surplus” will be unevenly spread among the IEA countries, but only Japan may have difficulty in undershooting its ceiling.

—The December communiqué² said that the ministers would meet in the first quarter of 1980 to review the need to adjust 1980 targets in light of the market situation. If both OPEC supplies and net import demand go down by roughly equivalent amounts and if spot prices continue to soften, those opposing adjustment of 1980 targets will hold strongly to their position—even though the underlying market balance is narrow.

1981:

Assuming significant economic recovery (3% OECD economic growth), oil consumption may still increase only moderately, principally because of additional use of coal, nuclear capacity, and gas. Even so, significant pressure on prices could reemerge, because OPEC supplies are not expected to increase and in any event are subject to major uncertainties—as are the projections for expanded use of alternative energy fuels (coal, nuclear and gas). The IEA Secretariat believes that the market could tighten in mid-1981, but clearly the margin for error is so small and the uncertainties so substantial that price pressures could develop earlier.

1985:

Present projections suggest that oil supplies available for OECD net imports could range from 19 mmbd to 22 mmbd. Saudi production is the major variable. Present estimates suggest that for both economic and internal political reasons, Saudi production is not likely to exceed 8.5 mmbd and it may be less.

This is a much more pessimistic outlook than OECD has assumed up to now. It rests on a growing belief that OPEC production will be more heavily influenced by conservationist policies (made feasible by high and rising real oil prices), that declining Soviet production will increase demand on the world market by 1.5 mmbd between now and 1985, and that OPEC oil consumption will grow by more than 1 mmbd, thus further reducing the amount of OPEC production available for export.

The main point is that even the optimistic estimate of OPEC supply would require that net OECD imports be 4 mmbd below the present, and recently reduced, IEA targets for 1985. OECD oil production is likely to decline by 1 mmbd because the continued fall in US production will not be fully offset by increased North Sea oil (in part because UK and Norwegian politics could also turn more conservationist). Thus, OECD oil consumption in 1985 may have to be on the order of 12% less than it was in 1979. If this reduced availability of oil is not

² See footnote 2, Document 251.

offset by supplies of non-oil primary fuels above the amounts now foreseen, and by non-price conservation measures, the prospect for the next five years is for further large increases in real oil prices and low economic growth.

1990:

We are only at the beginning of this forecasting exercise. If CIA's first rough oil availability numbers are to be taken seriously, the world will come to the end. We will soon have new figures, representing the results of further analysis. I doubt that the 1990 outlook will be more promising than 1985 (assuming present policy trends), and it is very likely to be worse.

II. Policy Implications:

1. The 1980 supply situation may provide some breathing room to get away from the present preoccupation with short-term emergency measures to deal with immediate shortages. The danger is that it will be used as an excuse for doing nothing. This would be a serious mistake. If we do not begin now to accelerate measures to restrain demand and increase supply, the macro-economic adjustments to a steadily tightening oil market in the future will be that much more severe and costly.

2. Going directly to setting 1981 targets as a way station to a program of sustained demand restraint through 1985 might now be the best way to proceed. There seems to be considerable support among the major countries for concentrating on 1981, although by no means a willingness to face the need for sustained demand restraint to cope at less cost with the certainty of long pull problems. To be realistic, we would have to face the probability that in a 1981 target setting exercise, most other IEA countries would insist on starting from actual consumption (e.g., 1979–1980 average) adjusted for growth, rather than from 1980 targets. This would greatly reduce, if not eliminate, the present margin in the US target, but it would require taking into full account the oil consumption requirements for US economic recovery in 1981, which would be of advantage to the US.

3. On the other hand, if we insist on achieving reductions in the 1980 targets in the present market situation, we are likely to get nowhere. At most, by shedding a great deal of blood, we might get a reduction of 1 mmbd for the IEA as a whole, of which considerably more than half probably would be from the US target. At worst, we could end up in disagreement and disarray. In any event, because the collective IEA target is 1.5–2 mmbd above actual demand for consumption, any reductions that might be negotiated would not result in tight targets and would not be likely to stimulate new demand restraint measures.

4. This suggests that at the March Ministerial meeting, we should try to concentrate minds on the bleak 1985 outlook, on setting 1981 targets consistent with this worsening supply outlook and, most importantly, on putting into place new measures that could improve the economic fundamentals of future markets. The Germans and the British have been saying we should concentrate on measures; we could take their statements at face value. The objective would be to have each country adopt new measures in 1980 that would restrain oil consumption in 1981 and beyond, bearing in mind the need to accelerate energy conservation and production to deal with the medium-term outlook. We would have to agree on price and non-price measures that were meaningful and could be quantified, so that rough equality of effort would exist, be perceived, and could be monitored. Setting tight import targets for 1981 would be the first step in this program.

5. If we pursue this approach, the *March IEA Meeting*, illustratively, could shape up as follows:

—The ministers would announce that as a result of reduced economic growth and energy conservation measures, net IEA imports in 1980 were likely to be 1–2 mmbd below the collective IEA target and that each country would at least meet its ceiling.

—They would express their concern about the medium term oil market outlook and announce a reduction of 4 mmbd in the collective IEA target for 1985, as required by that outlook. Individual country targets for 1985 would be approved and country programs for achieving these targets would be reviewed, at a November meeting. These programs would subsequently be monitored on a regular basis.

—The ministers would announce that net import targets for 1981 would be reduced by 1.5–2 mmbd from the 1980 target level. This would require that oil consumption be 3%–4% lower than in 1979. Ministers would meet in November to agree on how the reduction in targets would apply to each country and to approve the measures proposed by each country to achieve its target.

—If supplies proved to be higher than the collective 1981 target, the ministers would agree that their countries would absorb the additional amount into stocks so as to maintain stability in the market. If supplies proved to be lower than anticipated, the targets for 1981 would be reduced *on a pro-rata and semi-automatic basis* to share the burdens equitably.

—We might also seek to build up an informal system of close consultations among major consumers (a hot line) to stiffen resistance to leapfrogging prices when the market is comparatively slack and stocks are high, as at present. This probably would require informal understandings providing partially compensating import rights to countries that might suffer reduced supplies as a result of resistance to price in-

creases. It also would require understandings with the moderate OPEC exporters as being part of a joint program to avoid disorder and disruption in the market. Arrangements of this type, however, should not be part of the formal IEA system.

6. *The Venice Summit* could follow up on this approach. If agreement is reached on interim measures at the IEA, the heads of government could agree on:

—*An accelerated program to increase supplies of alternative sources of energy by 1990.* One way to do this would be establish expanded goals for the use of coal, nuclear energy and synthetic fuels by 1990. In this respect it might be useful to tie in the efforts of the US and Japan to a European Community-wide program, now being formulated by the Commission, which in part might be financed by a new community oil import fee or oil consumption tax. The report of the IETG could help to formulate goals for synthetic fuels. These goals for the expanded production of alternative fuels in 1990 could be presented as a contribution by the industrial countries to the achievement of an orderly transition to a world economy that will have to be less dependent on oil.

—*A program to accelerate production of primary energy fuels in the developing countries, both to lessen the damage done to developing country economies by rising oil prices and as a positive means of adjusting to the increasingly difficult world oil balance.* In proposing a new program (or an expansion of existing programs), the Summit leaders could invite both OPEC countries and other industrial countries to join in this effort. With the groundwork properly prepared in Saudi Arabia, Venezuela, and Mexico, this initiative could be presented as a Summit response to an OPEC call for joint action to deal with the energy problems of the developing countries.

—Also, if positive responses were received beforehand from moderate producing countries, (see section below on tactics, approach to the Saudis, Venezuela, and Mexico), the *Summit leaders might make some forthcoming noises about the need for new understandings between oil producing and oil consuming countries* to ensure an orderly world market, for their mutual benefit.

III. Tactics:

1. *Lambsdorff.* We are now dug in on adjusting targets for 1980 as a means of obtaining demand restraint. We should discuss with Lambsdorff the possibility of passing over target adjustment for 1980 and concentrating directly on 1981 and 1985 targets, and on the necessary demand restraint measures. Without going into specific numbers, we should seek his support for the concept of tight 1981 targets and strong proposals for measures as well as agreement on the general lines of an approach to energy issues at the Summit. We might also broach to

Lambsdorff, or leave for the subsequent visit of Schmidt to Washington, the question of a possible US/Japan, European Community approach on alternative energy fuels.

2. *Yamani*. Secretary Duncan's talks with Yamani should have ambitious objectives.

—We need to get Saudi understanding and agreement on stock policies—not only for the SPR but also for coordinated IEA stock management policies. Yamani must come to understand that by carrying and cooperately managing large stocks, the industrial countries can make an important contribution to orderly markets and avoid costly disruptions of the world economy. In international commodity agreements, stocks are either financed by producers or jointly financed by producers and consumers. In the case of oil, the importers could be asked to take sole responsibility for financing stocks even though the purpose of carrying stocks would benefit the world economy, including Saudi Arabia and other moderate producers. If we could get Saudi understanding and support for this position, it would immediately be feasible to work out a stronger and coordinated stock policy in the IEA, as well as a rapid building of strategic stocks.

—We should use this visit to explore the feasibility of developing an understanding between producers and consumers on the oil market, including understandings about the future course of prices and, most importantly provisions for standby capacity to underwrite such understandings. The place to begin is Saudi Arabia. Are the Saudis interested in such understandings, and if so, do they believe they should be based on informal discussions, bilateral or multilateral, with a few of the moderate producers, or on a broad agreement between producers and consumers along the lines of full fledged international commodity agreements. (Separate paper on these issues will be prepared.)

—We should obtain Saudi views on their willingness and that of other oil producers to participate in an expanded assistance program to increase LDC energy production.

3. *Calderon-Berti*. Depending on the talks with Yamani, C-B's visit to Washington in March provides an opportunity to explore producer-consumer understandings and OPEC participation in an LDC energy assistance program. A clarification of Venezuela's interest in the involvement of US and other industrial countries in heavy oil investments in Orinoco would also be helpful to action in this area and would be useful in shaping the IETG report for the Summit.

4. *Mexico*. Secretary Duncan's visit to Mexico provides another opportunity to explore with a key country (1) producer-consumer understandings; (2) support for an expanded LDC energy program; and (3) stock policies.

260. Memorandum From the Deputy Assistant Secretary of Defense for International Economic Affairs (Frost) to the Under Secretary of Defense for Policy (Komer)¹

Washington, February 12, 1980.

SUBJECT

DoD Involvement in International Energy Issues

REFERENCE

R. W. Komer Memorandum to SecDef/DepSecDef, 24 Dec 1979; (Secret/Sensitive, Tab A)

In response to your memorandum,² we have developed a number of specific follow-up actions. I recommend that you approve them and indicate your priorities. Depending on your decision, we may have to go for some temporary overstrength staff positions. My Office of International Economic Affairs is greatly overburdened as it is. I contemplate as many as two staffers for energy issues plus one administrative assistant serving the entire office.

Ellen L. Frost³

Attachment

INTERNATIONAL ENERGY INITIATIVES

Summary:

1. *Focus Attention on the National Security Impact of High Oil Prices and Tight Oil Supplies.*

It may cost the US *less* to develop alternative energy sources than it would to undertake force build-ups. The former *guarantees* supply; the latter is high risk and does not. In short, the former may be more cost-effective.

We point out the need to highlight specific NATO stresses and the vulnerability of key producer and consumer nations like Saudi Arabia

¹ Source: Washington National Records Center, OASD/ISA Files: FRC 330–82–0263, Box 1, ASD/ISA #2 Policy Files. Secret; Sensitive. Sent through the Assistant Secretary of Defense for International Security Affairs, and a stamped notation indicates that he saw it.

² Attached at Tab A; printed as Document 253.

³ Frost signed “Ellen” above this typed signature.

and Turkey. We suggest a program targeted on *communicating* the gravity of these factors.

2. *Examine the National Security Implication of Western and Eastern European Dependence on Soviet and OPEC Energy Sources. Examine Means to Assure Access to Crude and to Shift Supplies in the Event of Crisis.*

We distinguish between crisis capacity and a willingness to produce given that excess capacity exists. We outline a range of potential crisis possibilities involving Soviet, OPEC, OAEPC and other producers, and will develop a matrix of current dependencies and crisis options in and outside the IEA framework.

3. *Focus Attention on Increasing the Use of Alternatives to Conventional Petroleum in Military Applications within the US and Europe.*

We strongly suggest speeding up the current US oil shale program. If successful, this could *fully meet* US military needs by 1985; and *fully replace* the oil now supplied by either Algeria, Libya, or Indonesia. We will investigate other fuel substitution possibilities with an eye toward speed-up.

4. *Focus DoD and Interagency Attention on the Question of Energy Technology Transfer.*

The US has no clearly defined energy technology transfer policy. PRM 44, which was to develop the US-Soviet policy, was aborted.⁴ Energy technology, despite its specific importance, has been lost in overall technology transfer questions. DoD is strongly supporting development of a US policy which will discriminate between fuels and between national targets.

5. *Compare Alternative US, European, Japanese and other National Programs to Restrain Petroleum Demand and to Develop Alternative Energy Sources.*

Although this is being given NSC and IEA attention, we are not satisfied with the pace. Nor are we convinced that US domestic planning cannot benefit from a closer look at other nations' experience both in demand restraint and alternative source development.

6. *Review US and Soviet Coal Substitution Opportunities.*

The US and Soviet Union each have coal reserves that even at much higher utilization rates can serve for at least a hundred years. Technological problems, but for environmental factors, are more constraining in the Soviet Union. We suggest a comparison of opportunities in the two nations, to include technological cooperation, with the purpose of accelerating the pace of transition to coal.

⁴ PRM 44, September 21, 1978, initiated a study of the "Export of Oil and Gas Production Technology to U.S.S.R." (Carter Library, National Security Council, Institutional Files, Box 2, PRM 44)

*Discussion:**1. Focus Attention on the National Security Impact of High Oil Prices and Scarcity of Supply.*

We will focus on national security arguments understandable to the Congress and the public. These arguments will heighten awareness of linkages between energy and national security. We will seek support for new policy initiatives. We will emphasize the following points, each of which is discussed below:

- New energy sources and conservation as *alternatives* to force buildup and intervention;
- The impact of high energy prices and inflation on NATO budgets and of energy scarcity on NATO resolve and preparedness;
- The especially vulnerable situations of key producer nations (like Saudi Arabia) and consumer/NATO nations (like Turkey); and
- The need to direct a major effort to the problem of *communicating* the national security gravity of the energy situation.

OPEC presently exports some 6.3 million b/d to the US, accounting for over 80% of our imports. This comes to about 2.2 billion barrels per year. Assuming a \$20 per barrel cost differential between OPEC oil and oil that might be produced from shale, heavy oil deposits or coal, it would cost about \$44 billion annually to *fully replace OPEC oil*, using these non-conventional sources. Incremental defense costs aimed at improving the security of OPEC oil supplies may approach this amount in a few years with *no guarantee* of assured supply. Further, \$44 billion is the upper bound on marginal substitute oil costs; the margin will narrow as OPEC prices rise. Some non-conventional sources even today are considered no more costly than OPEC oil. Thus, *an expenditure on alternative petroleum sources could provide a much higher assurance of supply than an equivalent or much higher expenditure on military forces*. We have not yet made similar estimates for conservation alternatives but we feel the potential is equally striking.

Inflation is running at some 10 percent in NATO Europe, about 30 percent of which is attributable to energy price increases. With continued dependence on OPEC, and on the Soviets, who account for 5–10% of European oil and gas imports, we may expect further inflationary pressures. NATO military budgets are suffering, making the 3% real growth goal difficult if not impossible. Further, the Alliance is sorely weakened with each direct approach to an OPEC producer by a NATO member seeking a special deal for itself.

The particular vulnerability of key producer and consumer/NATO nations deserves special attention. The Saudis would be vulnerable to pressures from Iraq and South Yemen, not to mention internal pressures directed at the Monarchy. Yet, the Saudi Arabian oil fields are virtually unprotected. It has been said that the oil fields could liter-

ally be taken over by an infantry battalion. We have to balance the option of intervening militarily, or at least indicating that we might, which would be of questionable effectiveness in any imaginable circumstance, with that of seeking a greater degree of oil independence.

Turkey is a special circumstance. It occupies a unique and key position on the NATO flank. And it is facing political upheaval borne of intense pressure from both the extreme right and extreme left. Both extremes, for different reasons, would like to see an army takeover. The root of the problem is economic. NATO should help by mobilizing economic assistance from its member nations. Furthermore, NATO members could lend their support to priority IEA oil-sharing for Turkey. Korea and Brazil are also experiencing oil supply problems, and occupy key regional positions.

The above are specific examples of the linkage between energy and security. Unfortunately, although it would seem that this linkage can hardly be doubted, many still pay it only lip service. The US has no *orchestrated* approach to sensitizing the country and the West to the overriding strategic impact of the energy situation. Practically nothing has been said in a language understandable to the Congress and ordinary people who make up constituencies. The DoD should give thought to an effort aimed at getting the right people involved in this *communications* job.

We will participate much more intensively in interagency fora dealing with energy initiatives. We are already participants in the NSC study assessing international energy policy actions, are observing and will later testify before Senator Jackson's Energy and Natural Resources Committee on the geopolitics of energy, and participate in SCC and other White House-directed deliberations on energy technology transfer. We should integrate our international efforts with MRA&L's participation in the Sawhill Group working on domestic energy policy. We cannot separate US domestic actions from international activity.

(Action: IEA primarily; assistance from USD (P)), LA, MRA&L and other OSD offices as appropriate.)

2. *Examine the National Security Implication of Western and Eastern European Dependence on Soviet and OPEC Energy Sources. Examine, in Event of Crisis, Means to Assure Greater Access to Crude from Selected Nations and Possibilities for Shifting Supplies Outside the IEA Framework.*

There are two "dependence" issues here: crisis production (*will- ingness* to meet a "surge" rate) and crisis capacity (*ability* to meet "surge" rate). We will examine two cutback possibilities, Soviet and OPEC. Soviet cutbacks may be forced by Soviet shortages or be foreign-policy dictated. (The Soviets currently provide 5–10 percent of Western European oil and gas with gas dependence expected to increase.) OPEC

cutbacks may be OPEC-wide, OAPEC-wide, or selective. We will look at:

- Possibilities for increasing OPEC production in the event of Soviet cutbacks
- Possibilities in *friendly* OPEC nations in the event of *selective* OPEC cutbacks
- Possibilities in non-OPEC nations (e.g., UK, Norway, Mexico) in the event of Soviet, selective OPEC or OPEC-wide cutbacks
- The current pattern of oil and gas flow, and seek to develop a matrix that might suggest alternatives

We have begun work in this area. We have outlined the nature of Western European dependence on Soviet energy (oil and gas) and begun to shape possible US policy responses. We are less clear on the impact of Eastern European dependence; in particular, the impact of substituting dependence on OPEC for dependence on the USSR. (The Soviets currently furnish about 60% of Eastern European oil and 30% of gas.) We should examine stepping up joint energy projects with the East European moderates (Romania, Poland and Hungary).

As we examine political tradeoffs, we will examine the interrelationship between the major energy sources (oil, gas, coal, possibly nuclear). Possibly, by urging a change in fuel, we may uncover an attractive variant relating to dependence on external sources; e.g., greater European use of Dutch gas might conceivably reduce European dependence on both OPEC and Soviet oil (and Soviet gas).

The following variables will be major inputs to this analysis:

- An assessment of OPEC moderates (perhaps Saudi Arabia, Kuwait, the UAE) willing to build up a capacity to substitute in the event of Soviet export cutbacks. This would not involve Arab-Israeli issues. This would constitute less than a 2% increase in current OPEC production.
- An assessment of nations having unique vulnerability. Korea, Iceland, Turkey, and possibly Brazil would be among these. Korea has been threatened by an Iranian cutoff, Iceland is virtually dependent on Soviet oil at this moment (might Canada substitute?), Turkey's appalling situation has already been described, and Brazil, which imports 85% of its oil, is dependent on Iraq for about half of that.
- An assessment of productive capacity in key non-OPEC nations. Mexico is currently studying the possibility of moving up to 4 million BD, and Britain and Norway conceivably might be induced, as NATO members, to build crisis capacity.

In short, we will develop a matrix of current dependencies and potential options.

(Action: IEA primarily; assistance from European and other Regions as appropriate.)

3. *Focus Attention on Increasing the use of Alternatives to Conventional Petroleum in Military Applications both in the US and Europe.*

We will review the impact on NATO forces of petroleum scarcities and high prices. We will emphasize substitution possibilities—to include coal in meeting facilities needs and non-conventional petroleum in meeting transportation needs. Perhaps we and our NATO partners should undertake accelerated programs to develop military fuels from shale, heavy oil or coal.

We will examine boosting exports of US coal to Europe from the current annual rate of 13 million short tons. The NSC and DOE are looking at this possibility.

We will again ask the question, “Are we devoting enough DoD research money to unconventional sources given that within 5 years we may be desperately short of conventional fuels?” Past studies will be noted. Perhaps the Navy has a much more powerful argument for nuclear-powered ships now than it did just a few months ago.

We propose speeding-up the US program to develop oil shale production to meet *all* US military needs for oil. *The US has the clear-cut capability to meet fully its military needs for petroleum from oil shale.* The current overall US goal is 400,000 BD of oil shale production by 1990; the US military currently uses some 460,000 BD. Shale oil is now competitive; it can be produced at \$30–45 per barrel. The following actions could result in the achievement of the US production goal as much as 5 years earlier.

- a guarantee by DoD to buy the oil. This is cost-free.
- a concerted effort to speed up the “permitting” process.
- procurement priority for production equipment (there is *no* technology problem).
- relaxing, or adding funds to meet, environmental considerations.

Some DOE representatives are optimistic that this speed-up can be achieved with active DoD support. This is an ongoing program, needing only priority. It has obvious implications for meeting European needs and for replacing the most vulnerable segments of US oil imports. *The amount of oil is approximately that now supplied to the US by either Libya, Algeria or Indonesia.*

(Action: MRA&L and IEA)

4. *Focus DoD and Interagency Attention on the Question of Energy Technology Transfer.*

The US has no clearly defined energy technology transfer policy. Energy has never been singled out from technology in general, despite its obvious special importance. PRM 44, which would have done this for transfers to the USSR, was aborted.

We need to establish a set of energy technology transfer policies which discriminate effectively between fuels and between national targets. We need to review possibilities for major collaborative ventures with energy producers around the world, to include the Soviet Union and China. Where appropriate, we should think about strengthening incentives to the private sector to facilitate transfer. Compensation deals should be explored. We will review the role of domestic and international financial institutions which may provide guaranteed financial incentives.

Secretary Klutznick's technology transfer review group is recommending an urgent study of US-Soviet energy relationships. We strongly support this recommendation. We will emphasize the gravity of the global energy situation and work to ensure that the study does not get bogged down in abstractions. We will point out that if the Soviets, as predicted by the CIA, begin to import 15–20% of their oil by the late 1980s, the result could be truly catastrophic. Even a significant reduction in current Soviet exports of 3 million BD could trigger a crisis.

(Action: Primarily IEA)

5. *Compare Alternative US, European, Japanese and Other National Programs to Restrain Petroleum Demand and to Develop Alternative Sources of Energy.*

This is being given some consideration in a current NSC study action, but DoD needs to play a more forceful role. The pace is very slow, made more so by the need to coordinate with our IEA allies. The IEA is considering further import reduction targets. The current US target (8.2 MBD) may be revised as this effort proceeds. We should review other measures being taken, here and overseas, and those *not* being taken; and examine voluntary and mandatory demand restraint measures and efforts to develop substitutes for conventional petroleum.

The basic purpose will be to generate a series of specific near-term proposals, to be floated via the NSC staff procedure, that draw from the measures taken by the other nations ideas most appropriate to the US. Korea, as one example, has developed a comprehensive program aimed at reducing electric power dependence on oil. We do not expect to uncover a dramatically new approach but we do hope to speed up the current NSC action while culling from other nations' experience ideas of possible value in US domestic planning.

(Action: Primarily IEA, assistance from Regions.)

6. *Review US and Soviet Coal Substitution Opportunities in General.*

US and Soviet coal reserves are truly awesome. Even at much higher utilization rates, both nations have the capability, using coal, to reduce dramatically all liquid fuel consumption but for that in transportation. US production constraints, with the single exception of

having to meet environmental restrictions, are not nearly what they are in the Soviet Union. The Soviets do not have the gasoline buffer we do; in that sense their need to reduce non-transportation oil consumption is more urgent. Technological cooperation with the Soviets will be investigated as part of the overall technology review.

We should review the arguments as to why coal usage cannot be stepped up quickly and then urge the other Executive Departments to take appropriate specific steps to accelerate the transition to coal. If transition to coal or coal derivatives as our major energy source is inevitable, then the rising national security costs of relying upon oil clearly mandate our *accelerated transition*.

(Action: IEA, DR&E and European Region.)

261. Telegram From the Department of State to the Embassies in Nigeria and Saudi Arabia and the Liaison Office in Riyadh¹

Washington, February 15, 1980, 1407Z.

41711. Subject: Impact of Oil Price Increases. Ref: A) Lagos 1013 (Notal), B) 79 Riyadh 1986 (Notal), C) Lagos 1174.²

1. Entire text Confidential.

2. In response to request Refs A and B, Department is pouching all addressees copies of two CIA studies and a Department analysis of the impact of oil price increases in 1980. Most of the text and all of the tables in the CIA studies are unclassified; the Department's analysis is admin-

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D800081–1236. Confidential. Drafted by Todd; cleared by Raymond Hill (E) and in EB/ORF/FSE, EB/PAS, AF/W, NEA/ARP, NEA/ECON, DOE/IA, and the Treasury Department; and approved by Calingaert. Repeated to Caracas, Quito, Jakarta, Algiers, Baghdad, Kuwait, Abu Dhabi, Doha, Dhahran, and Libreville.

² Telegram 1013 from Lagos, January 30, reads in part: "Embassy agrees that it is both useful and important to engage FGN in meaningful dialogue on the price of oil. In our view FGN will be principally motivated by short-term considerations of maximization of revenue. Nevertheless, a strong and sophisticated argument which directly relates Nigerian economy to the health of Western economies and the world price of oil might make an impression over time." (Ibid., D800052–0930) In telegram 1986 from Riyadh, December 13, 1979, the Liaison Office requested "specific data useful to a professional economist backing up conclusion of 0.8 percent decline in OECD GNP growth and 1 percent increase in inflation attributable to 1979 oil price increases." (Ibid., [no film number]) Telegram 1114 from Lagos, February 2, contains a quote from the newspaper *New Nigerian* on the announcement of a crude oil price increase by the Nigerian National Petroleum Company. (Ibid., D800058–0360)

istratively controlled and may be discussed privately with foreign government officials. We are also sending posts an unclassified paper describing methodological techniques used in preparing projections of OECD energy demand and the economic impact of oil price increases.³

3. Department wishes posts to be aware that, in the experience of Department officers who have discussed oil price increases with officials of various oil producing nations, the use of detailed economic analyses such as those described above has not been very productive. Discussions often degenerate into debates over the econometric model being used, premises and assumptions being employed, and disagreements over data chosen for base-line cases. (Even within the U.S. Government, there is considerable disagreement between various agencies and departments over these issues.) Furthermore, the use of various hypothetical oil price increases lends itself to misinterpretations, and can be misconstrued as evidence the USG was expecting such an increase when we are arguing against an increase.

4. Economic analyses of the impact of oil price increases are based upon weighted average oil prices; nothing in them examines the question of differentials among different qualities of crude oil, a topic which OPEC members themselves are notably unable to agree upon. When supplies are perceived as adequate, such as during the slack oil market conditions in 1974–78, these differentials would be determined by net-backs to refiners. The premiums charged by producers of high quality oil are theoretically limited by the ability of refiners to invest in facilities to handle lower-priced, lower quality crudes. As Embassy Lagos is aware, Nigeria and the North African producers were forced into competitive price reductions, discounts, etc. during slack market in 1978.

5. At the present time, Iran's attempts to maintain a \$6 per barrel differential vis-à-vis similar quality Persian Gulf crudes distort the crude oil market and encourages the upward ratcheting of oil prices we have seen thus far in 1980. These unstable conditions have created opportunities for producers in North Africa (and Mexico and the North Sea) to increase prices, using the excuse of Persian Gulf price hikes. In the long run, we expect the market will sustain some, but likely only a small portion, of the widening of differentials for North African/Nigerian crudes which occurred last year.

6. For Lagos: Ms. Schwartz (AF/W) will hand-carry documents described paragraph 2 to Lagos February 20 and will be able to provide additional background information.

Vance

³ None of these studies has been identified.

**262. Memorandum From the Director of Economic Research,
National Foreign Assessment Center, Central Intelligence
Agency (Ernst) to Gary Sick of the National Security Council
Staff¹**

Washington, February 25, 1980.

SUBJECT

The Oil Supply Problem in the 1980s

1. Jim Cochrane indicated to me that you want to read a paper recently done by the Office of Economic Research for Ed Fried.

2. This is OER's first hurried attempt to analyze and project the OECD energy supply through 1990. We have sketched out the main elements of our thinking on the subject and made up 2 scenarios, which we consider to be respectively, highly optimistic or highly pessimistic. We have not detailed oil and other energy production projections on all individual countries to avoid unnecessary arguments. We could specify several combinations of country projections that would be consistent with our more aggregative projections.

3. The paper reflects current OER views. It is still in rough-draft form and the subject needs a great deal of additional work. I would like to present it as a basis for discussion, not as representing CIA's eventual best estimate. So please do not give it wide dissemination.

4. Specifically, the following additional types of analysis are needed:

- More systematic calculations of potential oil production profiles in key countries under various assumptions. We are currently doing this for Saudi Arabia and Iraq.

- More systematic analysis of the probability of finding new oil in various areas, and of the difficulty in extracting it.

- A fuller assessment of projected revenue requirements of key OPEC countries.

- Assessments of the possibilities for changes in the composition of final energy demand to accommodate the changing mix of energy products available.

- [2 lines not declassified]

¹ Source: Carter Library, National Security Affairs, Staff Material, Middle East File, Box 66, Middle East Oil, 11/79–10/80. Confidential.

5. We hope to put out a more elaborate study, with some of these gaps partially filled, this summer.²

Maurice C. Ernst

Attachment³

The Oil Supply Problem in the 1980s

Conclusions

World oil production may have already peaked and is likely to decline at least slowly throughout the 1980s. Whether the decline is slow or rapid will depend on the following:

- whether greater oil exploration efforts occurring in response to growing oil scarcity are successful in offsetting more of the depletion of oil reserves than was the case in the 1970s;
- whether oil production rates in the Persian Gulf and other policy-constrained countries will be cut as depletion progresses;
- whether political change in key producing countries will lead to a further curtailment of oil supply.

Specifically, we expect:

- Persian Gulf production to decline, or at best to remain near current levels;
- production in other OPEC countries to decline, at least slightly;
- OECD production to decline after the mid 1980s;
- production in LDCs to increase, the extent depending largely on Mexican discoveries and decisions;
- Communist oil trade to shift from a net export to a net import position.

Overall, we project declines in Free World oil supply in the 1980s ranging from less than 5 percent to about 25 percent. Most of the decline will be in the lighter grades of oil, from which most light oil products are made. The interaction between OPEC price decisions and the production decisions of OPEC countries will tend to give results closer to the lower than to the higher end of the range. As oil prices are ratcheted upward during periods of tight markets, oil producers often cut production—initially to avoid excessive surplus revenues, and later, as demand drops, to sustain the new real oil price.

It is virtually certain that the OECD countries will get a declining share of Free World oil supplies, as has been the case in the past decade. This is because of the tendency of the oil producers to give their own

² The study has not been found.

³ Confidential. The paper is dated February 1980.

needs priority, a likely continued differential in economic growth rates between the LDCs and the OECD countries, and the particular energy needs of developing countries. We consequently expect OECD oil supplies to fall at least 15 percent and as much as one-third.

Increased supplies of other forms of energy to the OECD, especially coal and nuclear power, are likely to just about offset the decline in oil supply. At best, total OECD energy supplies would grow about 1 percent a year; at worst, they would decline 1 percent a year.

It would be extremely difficult for the OECD to achieve acceptable rates of economic growth with energy supplies stagnating. To achieve even 3 percent economic growth would require annual declines in energy consumption per unit of GNP of between 2 and 4 percent, or 2 to 3 times the rate achieved since 1973. Energy, especially oil, prices are bound to rise rapidly in this situation, leading to far greater conservation, as well as to slower economic growth.⁴ Adjustment of energy demand to stagnating energy supply will be hindered by the likely depressive effect of slower economic growth on investment and consequently on the rate of introduction of more efficient energy-using durables. And demand adjustment will be greatly complicated by a rapid decline in supplies of light oil products for which there are no good substitutes while potential coal supplies may not be used.

[Omitted here is the body of the 35-page paper.]

⁴ The International Energy Weekly Review produced by the National Foreign Assessment Center, March 19, focused on "International Payments Implications of Rising OPEC Oil Prices." A copy is in CIA's FOIA Electronic Reading Room.

263. Memorandum From Secretary of Energy Duncan to President Carter¹

Washington, March 6, 1980.

SUBJECT

Saudi Arabia Trip Report, March 1–4, 1980

I travelled to Saudi Arabia at the invitation of Sheik Zaki Yamani, Minister of Petroleum and Mineral Wealth, and held a series of discussions with Minister Yamani and other Saudi officials with economic and finance portfolios, including Crown Prince Fahd; Mohammed Aba Al-Khayl, Minister of Finance and National Economy; Hisham Nazer, Minister of Planning and National Economy; Ghazi al-Gosaibi, Minister of Industry and Electricity; Farouk Akhdar, Secretary General of the Royal Commission on Yanbu/Jubayl; and Abdel Hadi Taher, Governor of Petromin.²

We found in Saudi Arabia a strongly held view that they were managing their oil industry responsibly and with broad international objectives in mind. They alleged that it was at some “sacrifice” that they maintained their production level at 9.5 MMB/D. It is significant to me that the economic officials with whom I spoke gave no discernible weight to the American national security commitment to the region, as expressed in your State of the Union speech.³ Their view seems to be that we had no option but to provide regional security. I believe, however, that ministers with military and foreign affairs responsibilities would take a different position, as did the Crown Prince. The discussions with the Crown Prince were primarily on subjects other than energy and are summarized in a separate memorandum.

Issues Discussed

1. *Excise Tax on Gasoline*—We mentioned the “possibility” of a tax on gasoline that would be imposed through an import fee on crude oil

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 8, Energy Department, 11/79–9/80. Secret. Copies were sent to Brzezinski, Vance, and Brown. Carter initialed the memorandum.

² A summary record of Duncan’s meetings in Saudi Arabia is in telegram 63912 to Riyadh, March 10. (National Archives, RG 59, Central Foreign Policy Files, D800123–1051) His March 4 discussion with Yamani was reported in telegram 1621 from Jidda, March 10. (Ibid., D800123–0373) A memorandum of his March 2 conversation with Prince Fahd is in the Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 8, Energy Department, 11/79–9/80. His March 3 discussion with Taher was reported in telegram 1622 from Jidda, March 10. (National Archives, RG 59, Central Foreign Policy Files, D800123–0507)

³ See footnote 4, Document 257.

and allocated to gasoline through the entitlements system. Yamani indicated that would cause him great difficulty with other OPEC members but was supportive of the conservation objective of such a fee. After considerable discussion, it is my view, and also that of Ambassador West, that an import fee would be manageable provided that proposed legislation imposing a gasoline tax was submitted to the Congress simultaneously with the introduction of the import fee and that it is made clear the fee would be terminated if and when legislation were enacted.

2. *Strategic Petroleum Reserve*—We discussed the filling of the Strategic Petroleum Reserve and Yamani's reaction was vigorously negative.⁴ Yamani said he was doing everything possible to create a surplus of crude oil in the world market in order to achieve both price discipline and pricing unity among OPEC members.⁵ To add to crude oil demand at a time when he was trying to build a surplus was counter to this objective. It would make it difficult, if not impossible, to hold Saudi production at present levels in view of the belief of many Saudi officials that current production levels are too high. In effect, our action could defeat his program to achieve real progress at the June OPEC meeting. He raised this issue with me on three other occasions and reverted to it in his final comments to me just before my departure. He repeatedly urged, in the strongest possible terms, that we not compromise his program at this time. He indicated in a private conversation that he would have no problem with a U.S. decision to fill the SPR after the market stabilizes and that he understood our national security need.

3. *Energy Conservation*—I described in some detail both the actions that we have taken and the substantial results we have already achieved. Saudi officials expressed strong and continuing interest in conservation measures, not only in the United States but also in other industrialized countries. They seem to be impressed by recent achievements in the United States, against a background of skepticism concerning the ability of the industrial countries in general and the United States in particular to get energy demand under control. The Saudis see reduced demand for oil by the industrialized countries as a necessary complement to their own policy of high production levels in the effort to reintroduce order into the world oil market. They also see sustained conservation as necessary to avoid future "gaps" between supply and demand and consequent pressure on them to increase production to undesired levels, which they are determined to withstand.

⁴ See footnote 2, Document 258.

⁵ Next to this sentence, Carter wrote: "I agree."

4. *Production Policy*—Yamani believes that the current level of Saudi production is in excess of that warranted by Saudi revenue needs and reaffirmed the baseline Saudi production target of 8.5 MMB/D. He indicated, again privately, that he favored continuing production at 9.5 MMB/D at least through the next quarter to achieve his objective of pricing unity.

We were told by Dr. Taher, Governor of Petromin, and the Chairman of ARAMCO, John Kelberer, that the Saudis are on an investment course to expand their production capacity to 12 MMB/D. It is my view that this capability is a lever to discipline other OPEC producers, rather than a reflection of a desire to increase actual production.

5. *Continuing Dialogue*—Yamani believes that a world “dialogue” on energy matters that involved many countries and a broad agenda is bound to fail. He believes constructive results can be achieved if a relatively few countries, using a narrow agenda, work bilaterally or in small groups for the next two years. Only then will it be possible to reach agreement in a broader international arena such as the United Nations.⁶

6. *Other Issues*—Yamani mentioned the Civil Investigative demand issued by the Department of Justice requiring ARAMCO to provide information respecting Saudi Arabian reserves, production potential, and other prospective activities. He expressed his view that these requests for information had no bearing on an investigation that is directed to past practices and are unacceptable intrusions into high confidential national secrets. We informed him that a team from the Justice Department would be in Saudi Arabia next week to address this issue. I am meeting with Ben Civiletti tomorrow before the team leaves.⁷

Yamani also expressed concern over proposed Internal Revenue regulations “directed at ARAMCO,” that would preclude ARAMCO from realizing a tax credit against U.S. income taxes for taxes paid to Saudi Arabia. He reiterated the point made strongly to Secretary Miller that the end result of this tax action would be the dissolution of ARAMCO to the detriment of American policy. In a separate discussion, Mr. John Kelberer, Chairman of ARAMCO, told me that the \$300 million to \$1 billion in additional taxes such a regulation would require would destroy ARAMCO’s utility to its American corporate stockholders.

⁶ In this paragraph, Carter underlined “world ‘dialogue’” and “bound to fail” and wrote in the margin: “I agree” and “good.”

⁷ Carter underlined “meeting with Ben Civiletti tomorrow” and wrote in the margin: “OK.” Benjamin R. Civiletti was the Attorney General. Regarding the investigation, see footnote 5, Document 249.

Many in the American business community and the Saudi Government raised the issue of heavy U.S. income taxes on American expatriates, arguing that the effect of these taxes is to render American industry noncompetitive with Europeans and Japanese. In the judgment of these people, shared by Ambassador West, American industry is losing billions in Saudi business as a result.⁸

Saudi Objectives

1. *OPEC Discipline*—The Saudis are exerting strong pressure and undertaking various initiatives to achieve pricing unity. Yamani thinks there is a possibility of achieving this objective at the June OPEC meeting if continued Saudi production of 9.5 MMB/D results in crude oil surpluses. He thinks that will happen even if Kuwait reduces production, as announced.

The Saudis are also interested in achieving future stability and predictability in pricing and supply. Yamani believes pricing shocks such as those that occurred in the latter part of 1979 could be avoided by having regular quarterly adjustments to compensate for inflation and to share in real economic growth.⁹ Presumably, downward adjustments in real prices could be made during economic down-turns. Yamani did little more than float the concept and indicate he had the approval of several other OPEC countries.

2. *Industrialization*—The Saudis are concerned about the post-oil era and want to take actions now to plan for that inevitable transition. They are investing billions in an industrial infrastructure (e.g., ports, cities, gas distribution systems, electrical grids, and communications systems). They will be finalizing arrangements with foreign companies for huge industrial facilities in the petro-chemical area during the next several months.

The Saudis mention the need for “technology transfer,” but I suspect they understand they are now purchasing the best foreign technology available in their industrialization projects and other modernization programs.

3. *Less Developed Countries*—The Saudis seem to have a genuine interest in assisting the oil importing developing countries to expand production of energy alternatives to oil. We mentioned World Bank initiatives in this area and the possibility of this being on the agenda at the Venice Summit. The Saudis also seem to be willing to consider additional development assistance in general but they are chary of ex-

⁸ Next to this paragraph, Carter wrote a question mark.

⁹ Carter underlined “to share in real economic growth” and wrote in the margin: “Here’s the problem.”

tending direct long-term government-to-government credits to the oil importing developing countries.

4. *Political Relations in the Region*—Progress in Arab/Israeli peace negotiations is an overriding issue with the Saudis. The issue arises constantly, softly but resolutely. They are very concerned about Soviet moves and objectives in Afghanistan, and seem proud that the Islamic population is resisting Soviet aggression strongly.

Conclusion

I view the trip as successful, even though I could not gain Saudi understanding for filling the SPR now. I believe we made some headway on this issue, particularly because they said, for the first time, that they have no objection in principle to our building up the SPR—once the market has stabilized. I also believe a comfortable relationship has been established with Yamani, in which easy, forthright, and constructive communication can be maintained on a regular basis. Finally, I would stress the need to preserve the confidentiality of Saudi views and intentions, even though, as a consequence, there will be reverberations from the Hill and the press on the short run issues that have received prominence—the SPR and whether the Saudis are specifically committed to continue production at 9.5 MMB/D. I did a press conference today on the trip, and I think these issues were handled satisfactorily. By preserving confidentiality, we would improve our credibility with Saudis and greatly improve their ability—internally and within OPEC—to come through on the more durable and important issues.

264. Editorial Note

On March 14, 1980, President Jimmy Carter addressed the nation on the rapid rise in inflation and interest rates during the previous 8 weeks. After outlining what he viewed as the domestic and international causes of soaring inflation, including “the soaring prices for energy throughout the world,” he announced a five-part intensive anti-inflation program, which contained these components: 1) a balanced budget for fiscal year 1981 based on expenditure cuts in personnel, operating, and maintenance throughout the Federal government; 2) restraining the growth of credit by using the Credit Control Act of 1969 to authorize the Federal Reserve to impose new restraints on credit on a limited and carefully targeted basis; 3) requesting voluntary wage and price standards based on the revised pay standards of the Council on Wage and Price Standards and expanding the price and wage moni-

toring activities of the Council on Wage and Price Stability; 4) asking that Congress finish work on the administration's energy policy concerning the windfall profits tax, the Energy Security Corporation, and the Energy Mobilization Board, reiterating his goal to cut the nation's oil imports by 50 percent by 1990, and also exercising Presidential authority to impose a gasoline conservation fee on imported oil amounting to 10 cents a gallon on gasoline; and 5) pressing for long-term structural economic changes that would encourage productivity, savings, and research and development based on specific recommendations from the Presidential commission on an agenda for the 1980s. For text of the President's remarks, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980*, pages 476–482.

The Department of State sent a telegram to the Embassies in all OECD and OPEC capitals instructing Ambassadors to inform the highest available level of the host governments of Carter's address, particularly the gasoline conservation fee on imported oil. (Telegram 67332, March 14; National Archives, RG 59, Central Foreign Policy Files, P910096–1659)

265. Memorandum of Conversation¹

Washington, March 20, 1980.

SUBJECT

Meeting between Secretary Vance and Foreign Minister Okita

PARTICIPANTS

US

Secretary Vance
 Undersecretary Newsom
 Undersecretary Cooper
 Richard Holbrooke, Assistant
 Secretary (EA)
 Reginald Bartholomew, Director
 Pol-Mil Bureau
 Donald Gregg, NSC Staff
 Michael Armacost, Deputy Assistant
 Secretary (EA)
 Nicholas Platt, Deputy Assistant
 Secretary (DOD/ISA)

Japan

Foreign Minister Saburo Okita
 Ambassador to US Fumihiko
 Togo
 Deputy Foreign Minister Yasue
 Katori
 Shinichiro Asao, Director General,
 N. American Bureau
 Kiyoshi Sumiya, Minister,
 Japanese Embassy
 Mitsuhiro Hazumi, Deputy Director
 Gen. Economic Bureau
 Yoshio Hatano, Economic
 Minister, Japanese Embassy

1. Following a one hour briefing earlier in the morning by INR and Assistant Secretary Holbrooke on Soviet naval and air deployments in Southeast Asia and the Indian Ocean area, on developments within Indochina, and on Secretary Vance's meeting with PRC Vice Minister Zhang, Foreign Minister Okita met with Secretary Vance during a working luncheon and follow-on talk for three and a half hours on March 20.

2. The Secretary welcomed Okita warmly, noting that "productive partnership" is of vital importance to the US. Okita responded that he had been trying to come to the US ever since assuming his post in November 1979, but that Diet business had prevented that.

[Omitted here is discussion unrelated to energy.]

¹ Source: National Archives, RG 59, Executive Secretariat Files: Lot 84D241, Nodis 1980 Memoranda of Conversation for Secretary Vance. Secret; Nodis. Drafted by Alan Romberg, Country Director for Japan, and approved by Raymond Seitz of S/S on April 7. A note indicates the list of participants was continued on the last page, which is not printed here. The full text of this memorandum of conversation and additional documentation on Okita's visit are scheduled for publication in *Foreign Relations, 1977–1980*, volume XIV, Korea; Japan.

Energy

14. Okita then turned the conversation to broader energy matters. He said the discussion in IEA² centered on three aspects: a) scientific co-operation; b) energy economy and savings; and c) shifting to alternative sources of energy. He said that the GOJ has introduced a plan this year to save 7 percent on energy usage. He noted that for the last six years, real GNP has grown at over 6 percent annually, but oil consumption has not grown at all. Thus there has already been great economizing. There might be some increase this year, but this would be discussed in the IEA.

15. On alternative sources, the GOJ plans to reduce its dependence on oil from 74 percent at present to under 50 percent by 1990. This will require large imports of coal, a subject he had discussed with the Australians during his visit there in January. In addition to coking coal, they can provide some burning coal for power generation. Also, they can supply some uranium and natural gas. The Chinese also said that while the oil prospects are not so bright as before, the PRC could supply 100 million tons of coal if Japan requires that. Okita also mentioned US coal. Beyond that, Japan is working on alternative sources such as solar and fusion. They appreciate US cooperation in all these areas.

16. Under Secretary Cooper then described our view of the energy situation and its relation to the Venice Summit. He said we have been working with Japan and others for three years on these issues. In preparing for the Venice Summit, we would be relying on progress at the IEA Ministerial in Paris in May. We hope there to establish a common assessment of the near- and mid-term future, including oil consumption targets for 1981 and goals for 1985. Cooper said there is some controversy on this, largely with Germany and the UK who think the exercise may be unnecessary and unwise. Most others, however, feel that some international framework regarding conservation and substitution is necessary. The Secretary added that the President certainly feels that way.

17. The Secretary and Under Secretary Cooper stressed the importance of progress at the IEA Ministerial for success at Venice. Cooper said there was also the question of measures to be taken individually by countries. These would vary, of course, from country to country, but each needs to take steps.

18. Beyond the IEA meeting and individual country measures, Cooper noted a third concern was the spot market. We have, of course,

² The IEA Governing Board met March 13–14. During the meeting, the members “went to work in earnest” on preparing for the IEA Ministerial meeting in May. (Telegram 71281 to Ankara, March 18; National Archives, RG 59, Central Foreign Policy Files, D800137–0534)

discussed this issue with Japan, the UK and others. There is no magic solution so long as demand exceeds supply. However, in 1979, some countries got substantial supplies on the spot market, scrambling for oil and building stocks, only to find in the end that supplies were not short. We need new, multilateral technical discussions, Cooper said.

19. The Secretary observed that a collateral issue was how the energy discussion in the UN special session³ was related to the IEA/Venice discussions. Although it has not worked in the past, to what extent should we seek a producer/consumer dialogue?

20. Cooper said that the whole question of a late August special session was obscured by the agreement to global negotiations. Until we have various preparatory meetings in the Committee of the Whole we will not be able to sort out the respective responsibilities of the special session (e.g. international development strategy for the 80's with which the LDCs do not seem to want to grapple) and the global negotiations (where people now think energy is the key issue). The G-77 thinks the global negotiations should go from January to September 1981, thus filling up the entire gap between UNGAs. In fact, the Indians, who are in the chair of the G-77, have said they would welcome suggestions how to use all that time.

21. To speak of a "dialogue" on energy is much too vague, Cooper continued. Some in the US and elsewhere literally think of a global bargain between suppliers and producers. But though they don't rule it out, most who have looked hard at this question, including OPEC countries, are skeptical. Much is possible short of that, however. Perhaps the greatest promise, Cooper said, is in helping non-OPEC LDCs in developing conventional and non-conventional sources of energy. It is certainly in our interest to do so, and OPEC countries sees it in their interest as well. Thus there is a clear convergence of interests if we can work out the modalities. So far as OPEC is concerned, some of the members are cool on multilateral efforts, others would like to see them linked to aid flows.

22. Okita responded that, so far as the special session is concerned, there are too many countries participating for meaningful results. Though there is need for a dialogue, the size of that session is not conducive to a good outcome. The dialogues should mainly be conducted bilaterally. For its own part, Japan needs to work on shifting from purchases of oil from majors to direct deals since supply to Japanese refineries by US majors had been cut back. There has been a serious effort in

³ The Preparatory Committee of the UN Conference on New and Renewable Sources of Energy held a special session in New York February 4-8 to lay the groundwork for the Conference in Nairobi in August 1981. For further information on the Committee's session, see *Yearbook of the United Nations*, 1980, pp. 705-708.

this respect over the past several months. In the past, the majors supplied 1.4 million barrels/day (b/d), but now that is down to 400,000 b/d, and this will disappear completely after the spring. This has presented very serious problems. Some government officials say that the GOJ should ask the USG to influence majors to keep supplies going to Japan. But, Okita said, this may not be “quite easy”. So, Japan has endeavored to increase contacts with producer governments to increase supply. This is one aspect of Japan’s relations with the Middle East. (In response to a question from Cooper, Okita noted that, though the government was trying to facilitate them, these direct deals were private, not governmental.)

23. Regarding assistance to LDCs in developing their own energy, Okita agreed this was very important and said it is an issue that we need to face at Venice including in the areas of solar, biomass, coal, natural gas, etc.

24. At the Secretary’s request, Cooper explained the consequences of the Saudi takeover of ARAMCO.⁴ Cooper said that if it is carried out in “benign” circumstances, it will be a sheer formality with no substantive change. The Saudis already consider ARAMCO theirs and have only delayed the takeover for interministerial reasons. ARAMCO is viewed by the Saudis as a service company now, and it will continue as that after the takeover, though it will get some payment in oil.

25. In response to the Secretary’s question whether the shares of the majors would be affected, Cooper said that in the short run they should not be affected, again assuming a “benign” takeover. Over the long run, the Saudis are still considering how to handle it. Congress and the FTC are fishing for sensitive data. If the pressure is too great, Saudi Arabia could say it is too difficult to deal with the US. This is not likely, but it is possible.

26. Under Secretary Newsom observed that the total amount of oil in the world now under control of the majors has been reduced. Cooper said that the share of crude handled by the majors has dropped from 65 percent to 45 percent. But shares in distribution of product are not so different from the past.

[Omitted here is discussion unrelated to energy.]

⁴ Saudi Arabia completed the full acquisition of Aramco in early September although the final payment was reportedly made on March 9. (*The New York Times*, September 5, 1980, p. D3)

266. Telegram From the Department of State to the Embassies in France, the United Kingdom, Italy, West Germany, Japan, and Canada¹

Washington, April 1, 1980, 1855Z.

85839. Subject: Venice Summit: Energy Preparatory Meeting.

1. Summary. The Energy Preparatory Meeting chaired in Germany by Engelmann (FRG) on March 26–27, agreed that the oil market outlook was serious (although the UK remains skeptical) and that the Venice Summit should focus on longer term (1990), but delegations differed significantly on specific actions to be taken. The United States was represented by Fried (NSC), Treat (DOE), and Pickering (State). The FRG and the UK opposed quantified objectives, preferring general although strengthened commitments to additional policy measures and monitoring of results. After a year or so experience, they argued, the base might exist to establish 1990 goals. However, neither excluded some quantification as a possible compromise. Canada, Japan, and Italy all expressed some support for quantified objectives if limited to two or three aggregate targets, e.g., oil consumption, non-oil supply, energy/GNP ratio. Only France indicated strong support for the U.S. position, which called for sectoral oil consumption goals and targets for coal, synthetics, and nuclear power. In spite of FRG and UK opposition, strong U.S. advocacy of quantified objectives resulted in clear majority for at least some quantification. Energy group will meet again May 25–26 in Rome to complete preparations for the Summit. End summary.

2. Summit Objectives. All delegations agreed that short and medium term (1981, 1985) should be the subject of the IEA Ministerial, with the Venice Summit focussing on the longer term. All delegations agreed that the oil market outlook was pessimistic, although UK (Jones), citing a recent OECD study ("Shriner Report") insisted that a soft market was still a possibility in 1990. Chairman Engelmann outlined his intention to redraft his discussion paper for eventual presentation at the April preparatory meeting in Sardinia, but agreed at U.S. insistence to attach U.S. draft communiqué containing quantitative projections. Delegations were invited to submit latest 1990 forecasts by April 2 so that Engelmann could disseminate second draft by April 4. Energy group will convene again May 25–26 in Rome, following IEA Ministerial, to complete draft communiqué. At that meeting, IEA Exec-

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D800165–0421. Confidential. Drafted by Treat; cleared by Treat, Fried, and Pickering; and approved by Pickering.

utive Director Lantzke will provide a report on the progress made in implementing the decisions taken at the Bonn and Tokyo Summits, fulfilling commitment to monitor results.

3. Oil Consumption Objectives. U.S. pushed hard for reduced consumption targets for major sectors (utility, residential/commercial, industry, and transport). Only the French indicated support for this approach. FRG and UK strongly opposed quantified sectoral targets, citing lack of credibility of previous targets and inadequate time for analysis of appropriate consumption levels. Canada, Japan, and Italy took middle ground, supporting concept of some quantified objectives for oil consumption, but not accepting need for targets in each sector. FRG and UK left door open for possible compromise, with Engelmann agreeing to present options in his redrafted backup paper.

4. Coal. All delegations supported strong statement on doubling the use and production of coal, although Canada insists on an equally strong statement on protecting the environment. UK urged consultation with non-Summit countries, particularly Australia, at IEA Ministerial to avoid any misunderstanding.

5. Synthetics. All delegations agreed Summit should endorse IETG report, but U.S. proposal to set 2 MMB/D goal for synthetics production in 1990 met widespread opposition. Delegations also concluded the work should go forward in OECD/IEA on developing new energy technologies and constructing demonstration plants. FRG and UK were particularly vehement in opposing establishment of 1990 targets on grounds (ostensibly) that such a decision went beyond the hard-fought IETG compromise on a two-phase approach and would be “revising” the report only days after its adoption. U.S. argued that while IETG report did not have quantitative goals, it was within the province of Ministers or Heads of Government to react to the report by setting goals.

6. Nuclear Energy. With the exception of objections by the FRG and the UK to the idea of quantified objectives for 1990, there was a general agreement that, in the nuclear energy area, increased efforts should be made to develop nuclear power. In doing so, account should be taken of the requirement to improve health and safety protection and to undertake programs to demonstrate the safe storage and disposal of nuclear waste. Germany proposed, as did the U.S. draft communiqué, that special account be taken of the work of INFCE and that the IAEA be the center for future cooperative works. Japan proposed more support for reprocessing and the creation of a nuclear energy pressure group, but did not receive support. France, and to a lesser extent Canada and Japan, supported the U.S. proposal for quantitative targets.

7. LDC Energy Production. U.S. proposal for considering establishment of a new energy development facility affiliated with the

World Bank received sympathetic hearing from all delegations. While other delegations stressed need to consult in capitals with Finance Ministries, all indicated strong support for additional action to encourage primary energy production in LDCs and indicated interest in specific U.S. proposal on conditions that OPEC surplus countries would participate. In addition to briefing by World Bank (Chardenet) on status of its energy program, group focussed extensively on tactics of presentation. Strong desire to win OPEC financial support translated into differing views on appropriate form of Summit action. FRG and others initially counselled slow approach, suggesting no new initiative should be presented at Summit, but should wait for progress in the UN global negotiations. However most other delegations joined U.S. in favoring Summit action in June. Engelmann agreed that issue would be discussed again at May meeting.

8. Relations With Producers. No delegations expressed expectation of imminent breakthrough in prospects for producer/consumer dialogue. Group generally accepted U.S. draft language for communiqué, but preferred to omit specific reference to price and supply as potentially dangerous. All considered this area as troubling and most expressed perplexity as to what should be done.

Vance

267. Action Memorandum From the Assistant Secretary of Energy for International Affairs (Goldman) to Secretary of Energy Duncan and the Deputy Secretary of Energy (Sawhill)¹

Washington, April 23, 1980.

SUBJECT

Impact of Iranian Oil Embargo/Boycott

Issue

What action should be taken in response to an Iranian oil embargo or in support of a coordinated boycott of Iranian oil by our allies.

¹ Source: Department of Energy, Executive Secretariat Files, Job #8824, International Affairs, 4/80–5/80. Confidential. Drafted by Treat. A handwritten note indicates that the memorandum was handcarried to Duncan.

Background

In the first quarter of 1980, Iranian oil production averaged 2.5 million b/d, with exports of about 1.8–1.9 million b/d. Of these exports, approximately 1.5 million b/d went to the OECD countries. Since early April, however, there has been a substantial drop in Iranian exports. In response to the pricing dispute between NIOC and various Japanese and British companies, exports are reported to have recently fallen to a level of .3–.4 million b/d. Thus, the balance of Iranian exports, roughly 1.5 million b/d, are at stake.

The distribution of Iranian exports among the industrialized countries is very uneven (as shown on Table 1),² ranging from the relatively high dependence of Japan, Germany, and some smaller European countries, to very low levels in France, the UK, Italy, and Canada.

The current debate over sanctions³ could result in various actions which might interrupt Iranian oil exports to major industrialized countries, or political groupings such as the European Communities or the IEA. The EC plus Japan might eventually discontinue their purchases of Iranian oil; the IEA might take action to activate its sharing system; or the Iranians themselves might declare an embargo in retaliation for other political/economic measures. Whatever the precise nature of events, the loss of Iranian oil to all or some of our allies does not appear at this juncture to pose insurmountable difficulties to the world oil market because:

- Analysis by both DOE and CIA suggests that the oil market could absorb a complete loss of Iranian exports with only modest pressures on oil prices, if spot market speculation or inventory hoarding can be avoided. Demand has been falling rapidly due to the past price increases and to the reductions in economic activity.
- Iran may elect to sell a substantial portion of its exports to alternative markets in Eastern Europe and the Third World. Such sales could displace other sources of supply which might then become available to our allies to offset the loss of Iranian oil.
- Some additional supplies may be available from other OPEC producers. Iraq might be willing to sell an additional 300,000 b/d. Ven-

² Attached but not printed.

³ On April 7, President Carter announced a break in diplomatic relations with Iran and issued Executive Order 12205, which imposed several economic sanctions on Iran, including the prohibition of U.S. exports. Executive Order 12211, April 17, extended the sanctions to include the prohibition of all direct or indirect imports from Iran. See *Public Papers of the Presidents of the United States: Jimmy Carter, 1980*, pp. 612–614 and 714–716. Meeting in Luxembourg on April 22, the European Community also voted to impose full economic sanctions on Iran on May 17. The text of the EC resolution was published in *The New York Times*, April 23, 1980, p. A12. On April 24, Japan allied itself with the EC decision.

ezuela may have some volumes of heavy oil for sale and might also be persuaded to raise its production ceiling by 200,000–300,000 b/d. Kuwait has some oil available for contract sales and could temporarily relax its recently announced production cut, although the Kuwait stance on prices and contract terms has become harsh, as of late. There may be offsetting potential elsewhere, such as Nigeria, the North Sea, and small Gulf producers such as Qatar.

- Current world stocks are 500 million barrels above last year's level and at least 200–250 million barrels above normal. If properly used, these "excess" stocks could offset the loss of 1.5 million b/d from Iran for up to 6 months.

Discussion

The principal danger in the current situation is panic buying and a competitive scramble for incremental supplies, particularly by the Japanese and British companies which were most dependent on Iran. To deal with this threat, there is a continuum of actions which the United States might consider:

- *Company Approach*—The Deputy Secretary has initiated calls to major U.S. oil companies (Talking Points are attached),⁴ urging them to facilitate a reallocation of world oil supplies. Following the results of the ongoing IEA discussions, a second round of discussions with companies should be undertaken to cover spot market and inventory management policies.

- *Good Offices*—We could also approach key producing governments to urge that production be increased to offset the loss of Iranian oil.

- *IEA Action*—The IEA Governing Board (GB) is currently considering two possible courses of action:

- Soft Option*—The GB may soon endorse this approach, which calls for consultations with oil companies, approaching other producing countries, careful monitoring of oil market developments, restraints on spot market activities and consultations on stock management.

- Hard Option*—In addition to the above actions, the GB could trigger the IEA sharing system. If the loss of Iranian supplies stems from a self-imposed boycott rather than an embargo, there might be some opposition from the IEA neutrals, but this should be manageable. Preliminary calculations indicate that activation of the IEA system would only require a minor reduction in U.S. imports (of perhaps 100,000 b/d) and

⁴ Attached but not printed.

would require the triggering countries to first absorb a 7 percent short-fall; further work in this area is underway.

- *Increase U.S. Production*—If the State of Alaska would temporarily relax its MER requirements, we could increase Alaskan production by about 100,000 b/d for a period of perhaps 3 months. This would be a modest but dramatic gesture, emphasizing our willingness to be supportive. The incremental Alaskan oil should be kept in the United States. A more ambitious option—seeking legislative authority to exchange or export Alaskan oil, seems unnecessary and politically unwise.

- *Reduce U.S. Import Quota*—The President could also reduce the 1980 U.S. import quota to emphasize willingness to free up supplies for our allies. This action would not necessarily require additional U.S. policy actions since the impact of higher prices, existing prices, and lower economic growth seem very likely to keep U.S. imports well below 7.5 million b/d this year.⁵

Recommendation

Our most important objective should be to prevent a competitive scramble for marginal oil supplies which drives up spot prices, in turn touching off further increases in official prices. We need to reassure the Japanese, other allied governments, and the public that the loss of Iranian oil can be absorbed with only minor adjustments. Some overt U.S. action is essential in this regard, as is close cooperation with our allies.

As a first response, we should:

- Maintain close consultations with our major companies, advising them of Governing Board actions on inventories and spot market activity, and enlisting their support;
- Initiate approaches to other producing countries, in coordination with our IEA partners;
- Implement other elements of the IEA soft option, as they may emerge from today's Governing Board;
- Assess rapidly the feasibility of quickly increasing Alaskan production.

As a later round of actions to be taken, if deemed necessary, we could:

⁵ On April 22, Johnston sent an action memorandum to Vance on "whether to encourage or support a boycott of Iranian oil by our allies by a) obtaining White House concurrence that the United States would be prepared to forego a portion of our oil supplies to share in a likely supply shortfall, and b) exploring with Congress the possibilities of using existing authority or seeking new legislation to facilitate the diversion of some oil from the United States for this purpose." Johnston added: "Whether or not a boycott is agreed on, these steps would encourage our allies to impose economic sanctions in the face of Iranian threats to embargo oil exports to nations joining in sanctions." (National Archives, RG 59, Central Foreign Policy Files, P870128–2590)

- Support activation of the IEA allocation system;
- Increase Alaskan production;
- Reduce our oil import ceiling either individually or in conjunction with our allies.

We should maintain close consultations with the Congressional leadership throughout these efforts, but we need not seek new legislative authority at this time.⁶

Leslie J. Goldman⁷

⁶ No decision for action is indicated.

⁷ Printed from a copy with this typed signature and an indication that Goldman signed the original.

268. Telegram From the Department of State to All OECD Capitals¹

Washington, April 28, 1980, 0415Z.

112008. Subject: Démarche In Response to Iranian Oil Cutoff.

1. Entire text Confidential.

2. Posts should promptly approach host government to inform them of measures taken or being contemplated by the U.S. Government in response to the cutoff of Iranian oil to Japanese and British oil companies and to seek their cooperation in coordinated efforts aimed at avoiding the repetition of last year's price explosion in the world oil market.

3. You may draw upon the following talking points:

(A) The National Iranian Oil Company (NIOC) is seeking a \$2.50 per barrel increase in the price of Iranian oil. British and Japanese oil companies which were purchasing Iranian oil have refused to buy at the higher price and on April 21 Iran stopped all crude oil deliveries to those companies.

(B) Because of this, Iranian exports have reportedly fallen substantially. It is possible that Iran will find other customers for a portion of its

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D800212–0983. Confidential; Immediate; Exdis. Drafted by Todd and approved by Rosen. Repeated to Algiers, Abu Dhabi, Baghdad, Caracas, Doha, Jakarta, Jidda, Kuwait, Lagos, Libreville, Mexico, and Quito.

exports, although it will probably have to lower its asking price in order to do so.

(C) In the meantime, we are seeking ways to cope with the cutoff in order to prevent an explosion of spot prices which could lead to increased OPEC official prices such as occurred in 1979.

(D) At this time, loss of Iranian oil to UK and Japan ought not to pose unmanageable difficulties if the oil consuming countries cooperate in several ways.

(E) We urge IEA member governments and France to counsel their oil companies to refrain from spot purchases beyond normal levels and at unwarranted prices.

(F) Consuming countries should also urge producers with whom they have influence to increase production to offset the impact on the market of the loss of Iranian supplies.

(G) The United States is taking the following measures:

—We are discussing with the major U.S. oil companies ways of allocating oil within their systems on a consumption basis, to ensure that countries which suffer an interruption in oil supplies from Iran do not bear an unfair burden;

—We are actively seeking antitrust mechanisms (i.e., Business Review Letters) to improve the capability of U.S. oil companies to operate more effectively in dealing with shortfalls which may emerge;

—We are approaching certain producing countries in OPEC and elsewhere to encourage them to maintain or increase production levels;

—With respect to the spot market, we are ready to implement immediately a quick response reporting system; this will give us lifting prices for crude imports by our 35 largest refiners, with a maximum lag of two weeks from the date of loading;

—We are already discussing with our largest companies the need to avoid spot market pressure, and have alerted them to the prospect of coordinated IEA action;

—We are willing to consider with other IEA members additional measures to dampen spot market pressures.

4. For Tokyo: Please assure GOJ that we have their requests very much in mind. We continue to work with U.S. oil majors and with oil producing countries, and we are actively considering what else we can do. In the meantime, however, it will be important that the GOJ do what it can to keep companies from paying high spot prices, to draw down stocks as required in the interim, and to share supplies as necessary among refiners.

5. For London and Oslo: We urge that the UK and Norway maximize production during this period in order to alleviate the impact of the Iranian cutoff.

6. For London and Paris: Host governments should be encouraged to approach Iraq, Kuwait, and the UAE to seek expanded production.

Christopher

269. Telegram From the Department of State to the Embassies in Venezuela, Nigeria, and Saudi Arabia¹

Washington, April 28, 1980, 0037Z.

112009. Subject: Approach Re Increased Oil Production.

1. Entire text Confidential.

2. Unless you believe it would be counterproductive, Embassy Caracas should promptly approach host government to urge that current oil production levels be increased to meet market demand stemming from cutoff of Iranian oil to Japanese oil companies, British Petroleum and Shell. Embassy Lagos should make a similar approach, expressing USG appreciation that oil production was not reduced April 1, and urging that present output be maintained and if possible increased. Posts may draw upon the following points:

—Since Iranian oil exports resumed in March 1979, Iran has demanded prices not justified by traditional standards of quality and location, and it is not surprising that the market will not support Iran's latest price hikes.

—The absence of substantial quantities of Iranian oil in the marketplace risks renewal of unsettling pressures on the spot market, which, owing to joint efforts by producers and consumers, has recently been in somewhat better balance.

—Any disturbances in the world oil market at this time will further exacerbate the current delicate state of the world economy.

—The United States is pursuing a strong conservation policy and producing at maximum levels; we believe orderly oil market conditions are in the best interests of producers and consumers alike.

¹Source: National Archives, RG 59, Central Foreign Policy Files, D800212–0980. Confidential; Immediate; Exdis. Drafted by Todd; cleared by Hinton, Twinam, Michael A. Armacost (EA), and Edward L. Morse (E) and in ARA/AND, AF/W, and DOE/IA; and approved by Rosen. Repeated Priority to all OECD capitals, Algiers, Abu Dhabi, Jakarta, Kuwait, Baghdad, Doha, Quito, Libreville, and Mexico, and to Helsinki and Reykjavik.

—Thus we urge producer governments, especially those which recently reduced oil production levels, to increase output to meet market demand resulting from the loss of Iranian oil exports.

3. For Jidda: Unless Ambassador West sees overriding reasons not to do so because of the other pressures on our relationship at this time, it would be helpful if he could make our concerns known to Petroleum Minister Yamani, and pursue with him in the context of the SAG effort to reunify OPEC oil prices Yamani's thoughts on what might be done to encourage other producers with the capacity of doing so to increase production at this time, and whether the Saudis might be helpful in this regard.

4. Info addressees in oil producing nations may draw upon this message if they believe it might be useful, or if they discern any evidence that host governments might be contemplating a reduction in present oil production levels. FYI We are suggesting to the British and French Governments that they consider making similar approaches in Iraq, Kuwait and the United Arab Emirates.

Christopher

270. Memorandum of Conversation¹

Washington, May 1, 1980, noon–2 p.m.

SUBJECT

Summary of the President's Meeting with Prime Minister Ohira of Japan

PARTICIPANTS

President Jimmy Carter
Vice President Walter Mondale
Acting Secretary, Warren Christopher
Secretary of Defense, Harold Brown
Secretary of Treasury, William Miller
Secretary of Energy, Charles Duncan
Assistant to the President for National Security Affairs, Zbigniew Brzezinski
Special Trade Representative, Reubin Askew
Ambassador Mike Mansfield, Ambassador to Japan
Ambassador Henry Owen, Ambassador at Large
Assistant Secretary of State for East Asian and Pacific Affairs, Richard Holbrooke
NSC Staff Member, Donald Gregg (Notetaker)
Deputy Assistant Secretary of State for East Asian and Pacific Affairs, Michael Armacost
Deputy Assistant Secretary of Defense, Nicholas Platt
Japan Desk Officer, Alan Romberg
United States Interpreter, Cornelius Iida
Prime Minister Masayoshi Ohira of Japan
Foreign Minister, Saburo Okita
Ambassador Yoshio Okawara, Ambassador to The United States
Deputy Chief Cabinet Secretary, Koichi Kato
Deputy Minister for Foreign Affairs, Yasue Katori
Minister Kiyoshi Sumiya
Director-General, North American Affairs Bureau, Shinichiro Asao
Director-General, Economic Affairs Bureau, Reishi Teshima
Director of the First North American Division, Hiroshi Fukuda
Executive Assistant to the Prime Minister, Yoshiyasu Sato
Counselor, Embassy of Japan, Koichiro Matsuura
First Secretary, Yutaka Kawashima
Chief of Second North American Bureau, Kazuo Ogura
Japanese Interpreter, Sadaaki Numata

The President opened the meeting by extending greetings to Prime Minister Ohira as a great leader and a great friend. Prime Minister Ohira responded by saying that he was pleased to be meeting with the

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 38, President's Memoranda of Conversation. Secret. The meeting was held in the Cabinet Room of the White House. Prime Minister Ohira visited Washington April 30–May 1. Documentation on his visit, including the full text of this memorandum of conversation, is scheduled for publication in *Foreign Relations, 1977–1980*, volume XIV, Korea; Japan.

President in very trying times. Ohira said that he was gratified by the strong leadership exerted by President Carter, not only for Japan's sake but for the entire world. He said he hoped to revitalize the underlying trust which exists between our two countries.

[Omitted here is discussion unrelated to energy.]

In a more serious vein, the President said that he recognized the special significance of actions taken by Japan in not buying high-priced Iranian oil.² The President said that he knew that this action had been a difficult one for Japan, but that it had been highly important to have held the line on oil prices. The President added that if Iran continues to sell its oil to other countries, the total world supply ought to be sufficient for Japan to make up its short-fall. This is particularly true, the President noted, since both our countries have good oil reserves at the moment. The President said that countries like Mexico and Saudi Arabia have been asked to increase their production, to help ease the situation. The President went on to say, however, that he wanted Prime Minister Ohira to know that the US will help Japan acquire oil, if such a need arises. The President said that in an emergency situation, American oil could go to Japan. He added that he did not feel that this would be necessary, since Japan purchases oil so wisely. The President said that he felt that he could get US oil companies to help Japan voluntarily, and had the authority to order it on a mandatory basis, should the need arise. The President said that this assurance was being offered in the privacy of the meeting, but that it could be made public at a later time, should Japan wish. The President concluded by saying that should Japan decide to trigger the IEA plan, the US would support its position.

Ohira expressed his gratitude for the President's offer. He said that Japan has to be careful in its oil purchases so as not to "disturb the world market." It was for this reason that Japan refused to buy from Iran at such a high price. Ohira said that if there were to be a sustained world oil shortage, Japan would be in a difficult position. Ohira said that if Japan got into "dire straits" it might ask for US help. Ohira again thanked the President for his offer of oil, and for his stand on triggering the IEA plan. As of now, Ohira said, Japan would try to meet its oil needs through its own efforts.

The President said that since the Tokyo Summit, the US has made progress in reducing oil consumption. As of now, the US is using and importing 5% less oil than one year ago. He expressed the hope that more countries can follow suit in reducing oil use. The President urged Ohira to join forces with him in Venice to urge others to cut back on oil use, and to thereby stabilize the international oil market. The President

² See footnote 3, Document 267.

said that America's reduction of oil use was a source of pride, but that we can do more. He praised the fine example that Japan has set in terms of limiting its oil use.

Ohira said that at least year's Summit in Tokyo, the President had taken the lead in setting oil ceilings. This had helped save the international economy. Ohira noted that statistics show the progress America has made in reducing oil use, but that all major countries need to do more. Ohira said that along with setting numerical ceilings, we need to develop policies that will sustain those numerical quotas. Such policies will need to be developed on conservation, development of alternative sources of energy, etc. Ohira joined the President in calling for more progress to be made at Venice.

The President asked what the Japanese experience has been with conservation over the past year. Ohira replied that Japan had been successful in reaching its goal of 5% reduced oil consumption. In JFY (Japanese Fiscal Year) 1979, oil use was 99.6% of the previous year, while the economy grew by 6%. The President noted that the Japanese economy is more efficient than ours. He noted that we use about 50% of our oil for transportation. This means, the President noted, that we have the potential to reduce oil use more. The President said that in the near future, Congress will finish passing legislation involving tens of billions of dollars that will be devoted to the development of alternative sources of energy, and improved public transportation. He noted that the recently passed windfall profits tax³ will help pay for this program, that will involve development of new technology, new plants and new equipment to convert shale and coal into usable energy.

Foreign Minister Okita noted that Japan's oil consumption has held steady for the past six years, while its GNP has increased by 35%. The President expressed admiration for this record, and said that America had done well in terms of industrial energy use, but not in terms of use of energy in transportation.

[Omitted here is discussion unrelated to energy.]

³ President Carter signed the Crude Oil Windfall Profit Tax Act (P.L. 96-223) on April 2. For the text of his remarks on signing the bill, which he called "an historic step to the Nation's energy security," see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980*, pp. 584–590.

271. Memorandum From the Under Secretary of Defense for Policy (Komer) to the President's Special Representative for Economic Summits (Owen)¹

Washington, May 8, 1980.

Henry

Harold, Dick Cooper, David Aaron and I agree that the energy crunch has critical security implications which ought somehow to be aired at the Venice Summit. Here are some propositions to prove the point.

Oil price increases are slowing economic growth and promoting inflation in both developed countries and LDCs to an extent that is seriously undermining needed real defense budget increases. In the US, FRG, France, Japan and other countries added fuel costs appear to be major reasons why defense strengthening cannot proceed faster and why real budget increases instead get partially eaten up by inflation.

Indeed added fuel costs themselves are directly eating up an ever greater proportion of defense outlays. The FY 80 DoD fuel bill alone will be around \$7 billion, compared to \$3.3B in FY 79.

The oil cost impact is even greater on key LDCs like Korea, Thailand, Pakistan, and Turkey whose net outflow on oil account probably exceeds the net inflow from foreign aid. We are providing massive military and economic aid credits to these countries which will never be repaid because the money will go to OPEC instead.

The energy crunch has far greater adverse impact on Free World deterrence/defense than it does on the USSR's. It is an added major Free World burden not imposed on the USSR, whose military spending already is much larger than that of the US. In sum, we keep running faster just to stay in place, and can't catch up with the Soviet effort.

Ironically, this impact of the energy crunch is undermining our ability to defend the oil-producing states, who depend on our security umbrella to protect them from the Soviets. The Persian Gulf producers are good cases in point. They are now undermining their own security as well.

For all these reasons we must not treat energy issues as primarily politico-economic, but take fully into account the dire security implications.

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 65, Summits, 9/79–5/23/80. Confidential. The salutation is handwritten.

The West badly needs an energy strategy which will reduce the security impact of the energy bind.

R.W. Komer²

² Komer signed "Bob" above this typed signature.

272. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, May 12, 1980, 2226Z.

125558. Subject: OPEC Meeting in Taif and Algiers.

1. Secret entire text.

2. Action addressees are requested to seek early meetings with Oil Ministers or other appropriate officials to seek impressions of OPEC long-term strategy meeting held May 7 in Taif.² You should cast your inquiry in context of importance USG attaches to sustaining an exchange of views with producers on how consumers and producers can best work together over long haul to fulfill common responsibility to achieve orderly transition to new energy economy in a manner that safeguards the health of the international economic system.

3. During course of discussion of long-term market prospects you should take occasion to reinforce recent approach in certain capitals on maintaining or increasing production levels (State 112009)³ and that USG view is that price restraint by producers continues to be essential. You may draw on the following:

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D800236–0401. Secret; Exdis. Drafted by David Patterson (NEA/ECON) and Todd; cleared by Rosen, Schotta, John A. Bushnell (ARA), and Morse (E) and in EA/IMBS, NEA/ARP, EUR/RPE, ARA, AF/W, and the Energy and Treasury Departments; and approved by Twinam. Sent Immediate to Jidda and Priority to Abu Dhabi, Kuwait, Jakarta, and Caracas. Repeated to Algiers, Quito, Libreville, Baghdad, Dhahran, Lagos, Manama, Muscat, Riyadh, Cairo, London, Paris for the Embassy and USOECD, Bonn, Rome, Tokyo, Ottawa, and Brussels for the Embassy and USEC.

² The meeting in Taif considered the report of the Long-Term Strategy Committee.

³ Document 269.

—World economic conditions and the basic oil market situation over next few months do not in our view justify a new round of oil price increases. Such increases at this time would deal a severe blow to the world economy, struggling to cope with the extraordinary price increases of the last eighteen months.

—We are urging buyers to exercise restraint and to follow rational stocking policies. Producers in turn should feel responsibility to avoid raising prices or imposing new premiums and to refrain from testing the market to bid up prices. It would be inconsistent with our long-term common interests and common responsibilities for producers to take advantage of the current short-term uncertainty.

—The U.S. is making strong and painful efforts to cope with inflation, about which producers have indicated great concern, by restraining credit and balancing the budget. Equally painful and intensive efforts to reduce dependence on imported oil are in train and have been welcomed by producers. These are taking effect: U.S. oil imports have dropped and per capita energy use, as well as oil use, is declining. Interest rates have fallen and we believe we have turned the corner on inflation.

—We face the prospect of very low or negative growth rates in several major countries, a trend that would be accelerated by new oil price increases.

—If recession deepens sharply in major industrial countries, with attendant declines in general imports, the developing countries, a number of which are now in serious difficulty, will be caught in a hopeless squeeze between declining export revenues and rising oil import costs.

—It is imperative that producers carefully consider the full impact of their decisions in order to avoid lasting damage to the structure of international trade, finance and security in which they have a large and growing stake.

3. For Jidda, Abu Dhabi, Doha, and Kuwait: We are aware that Gulf countries oppose Iranian sanctions and might argue that uncertainty in market is a result of USG actions and is thus USG responsibility. If they do so, you should respond by drawing on standing guidance on U.S. policy. In doing so, you should stress that Gulf countries have urged that we seek to resolve Iranian situation by peaceful means and that sanctions are important component of our efforts to do so.

4. For Jidda: You should point out to Yamani that in line with his urgings we have engaged in strong and sensitive efforts to resist Iranian attempts to pressure consumers to accept higher prices (State

122313 and State 122311).⁴ You should add that we appreciate his efforts at price unification; in view of market situation, which we would characterize as tightening somewhat in an atmosphere of uncertainty, we hope SAG will be cautious about trying to achieve reunification unless it has firm assurances that others will cooperate by holding the line on prices.⁵

5. For Lagos: This cable is FYI at this time, since Nigeria reportedly did not attend the Taif meeting, but you should draw upon it if appropriate occasions arise.

6. For Quito, Libreville, Algiers, Baghdad: You may draw upon this cable if you believe it might be useful and if appropriate occasions arise.

Muskie

⁴ In telegram 122313 to London, May 9, the Department informed the Embassy that in response to a request by the British Ambassador for clarification on whether the U.S. Government was opposed to BP and Shell purchasing Iranian oil at the old price of \$32.50 per barrel, the British were asked to "hold the line." (National Archives, RG 59, Central Foreign Policy Files, D800229–0086) Telegram 122311 to Tokyo, May 9, described Duncan's meeting with the Japanese Ambassador in which Duncan asked for "strong Japanese support on national numerical oil import ceilings" and explained that "an Iranian oil price effectively or nominally above \$32.50 would be too high." (Ibid., P890016–0460) According to a May 8 memorandum from Dodson to Tarnoff, the President directed that the Department of State "inform the Japanese and the British (and others who may inquire)" that the United States was "asking them *not* to purchase Iranian crude oil above an effective price of \$32.50 per barrel." (Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 31, Iran, 5/80)

⁵ Saudi Arabia announced a price increase of \$2 per barrel on May 14. Yamani explained the decision to West on May 15. (Telegram 3116 from Jidda, May 15; National Archives, RG 59, Central Foreign Policy Files, D800240–0506) On May 17, in telegram 129124 to posts in oil-producing countries, the Department described the Saudi increase as a "catch-up" increase and a "step in the Saudi campaign to return to a normal alignment of OPEC oil prices." The telegram instructed Chiefs of Mission to "seek prompt opportunity to express to appropriate host government officials USG concern that recent Saudi price increase should not be taken as an occasion for increases by others." (Ibid., D800242–0971)

273. Memorandum From Secretary of Energy Duncan to President Carter¹

Washington, May 23, 1980.

SUBJECT

International Energy Agency (IEA) Ministerial Meeting and Visit with French Industry Minister Giraud, May 18–22, 1980, 1980

I returned last night from a five day trip to Europe during which I attended a Ministerial Meeting of the International Energy Agency (IEA),² held bilateral meetings with the energy ministers of the UK, Germany, Italy, Canada and Japan and the Executive Director of the IEA and visited several French nuclear facilities with French Industry Minister Giraud.

IEA Meeting

Since the December 1979 IEA Ministerial Meeting,³ we have maintained pressure on our allies to follow through on the commitments to establish and adjust targets to reflect our short, medium and long-term expectations for the world oil market.

The December Ministerial decision to establish annual national oil import ceilings for 1980 was taken in recognition of our failure to deal effectively with the market disruptions of 1979 and of the need to plan our oil strategy in anticipation of lowered OPEC supplies. While the initial U.S. proposal in December was directed primarily at establishing a system that provided an allocation mechanism for use in those circumstances short of triggering the formal IEA emergency oil sharing mechanism, we have refined this system to serve both as a flexible planning tool to achieve a smooth transition from our short-term (1981) to our medium-term (1985) and long-term (1990) objectives and as a means to deal with abrupt deterioration of the oil market. Our efforts initially were strenuously opposed by the British and the Germans, who sought to postpone action and avoid commitments to reduced oil imports,

¹ Source: Carter Library, Staff Office Files, Council on Economic Advisers File, Box 28, Energy Department 1. No classification marking. Copies were sent to Muskie and Owen. Carter initialed the memorandum.

² The Department of State's summary of the May 21–22 Ministerial meeting is in telegram 137327 to all OECD capitals, May 24. (National Archives, RG 59, Central Foreign Policy File, D800255–0512) The final text of the IEA Ministerial paper, "Measures To Ensure That Structural Change Occurs," redrafted after the May 8–9 Governing Board meeting, is in telegram 15282 from Paris, May 12. (Ibid., D800235–0657) The final text of the IEA Ministerial paper, "Draft Conclusions," also redrafted after the May 8–9 Governing Board meeting, is in telegram 15362 from Paris, May 13. (Ibid., D800236–1090)

³ See Document 251.

even though they agreed with our pessimistic outlook for future world oil supplies.

A System of Yardsticks and Ceilings

Our principal accomplishment at this Ministerial meeting was to establish a system for continuous IEA monitoring of national energy performance. Here is how the system will work:

—The IEA Secretariat will prepare annual estimates of each country's oil requirements, which will serve as yardsticks for IEA monitoring of national progress in implementing needed measures to reduce oil imports and consumption.

—If Ministers conclude that tight oil market conditions exist, they will make a decision on the use of individual oil import ceilings, based in part on these estimates—i.e., a decision to convert the yardsticks into import ceilings. We felt that this decision should follow automatically on the finding of a tight market; but the British and Germans were intransigent.

—In fixing its annual yardsticks or ceilings, the IEA will take account not only of estimated oil availabilities for the coming year but also of the need to undershoot substantially the previously agreed 1985 oil import targets. The Ministers noted that the IEA Secretariat estimates this required reduction at 4 million b/d below the previously agreed 1985 IEA group oil import objective of 26.2. The Secretariat will thus use a 1985 target of 22 in making its annual country-by-country estimates and in its monitoring operations. This gives us most—but not all—of what we wanted in this respect. The Germans and most others wanted to avoid any mention of a figure for 1985, only after considerable debate did we get agreement to this formulation. This resulted in the 4 million b/d demand reduction estimate being mentioned in the communiqué.⁴

The IEA Secretariat reported to the Ministers its assessment of national policies. In the case of the U.S., it called for more action to increase coal production and to accomplish projected nuclear progress; it indicated that we should continue our progress toward decontrolling oil prices. The Secretariat's report is a balanced one; the comments on other countries were pointed and, in some cases, critical.

I took the occasion to explain our recent progress on oil decontrol, the Windfall Profits Tax, the Synthetic Fuels Corporation, the Energy

⁴ The communiqué of the meeting of the Governing Board at the Ministerial level is printed in Scott, *The History of the International Energy Agency*, vol. III, pp. 368–376. The portion of the paper, "Ministerial Actions on Short-term Energy Measures, May 21–22, 1980, on "Yardsticks and Ceilings, and Stock Policies," which includes annexes on "A System for Adjusting National Import Ceilings and Goals" and "Consultations on Stock Policies," is *ibid.*, pp. 114–121.

Mobilization Board, your recent oil displacement initiative, and the Coal Export Task Force.

When the Ministers meet again this fall, they will continue this monitoring of national performance and, based on the yardsticks referred to above, they will decide whether the 1981 oil market seems likely to be tight enough to justify transforming the yardsticks into oil import ceilings. On the basis of present trends, this does not seem likely, but these conditions could change very quickly.

It was also agreed that IEA imports should be even lower in 1990. This agreement, combined with the annual yardsticks, ensures a gradual decline in IEA oil imports during this decade, from 23 million b/d last year to 18–21 million b/d in 1990, depending on economic growth rates.

Alternative energy sources

Ministers also agreed on actions to increase production of alternative energy sources, however this was not treated in great detail; we expect the Venice Summit will focus heavily on this area, while endorsing the other IEA actions described above.

Consultations on Stock Policies

There was considerable discussion of recent price increases, in what seems to be a soft market. This led to agreement that the Secretariat should urgently propose guidelines regarding use of stocks for consideration by the IEA Governing Board. If the Board approves these guidelines, this could lead to coordinated efforts by national governments to influence the use of stocks in such a way as to try to mitigate short-term price increases. The potential effectiveness of this action is limited sharply by the fact that most oil stocks are in private hands.

OPEC Dialogue

There was an unstructured discussion respecting the advisability of a dialogue with OPEC which clearly showed that there is a lack of consensus among the IEA countries on how best to proceed. As a result, the communiqué's reference to dialogue restates the group's willingness to discuss with producers economic development issues flowing from our policy decision. We also stated our desire to assist developing countries in exploiting their indigenous resources in partnership with OPEC. This latter issue will receive fuller attention at the Summit. Finally we reaffirmed our intention to be constructive participants in UN global negotiations and to support the UN Conference on New and Renewable Resources.

With these decisions, we have made some progress toward a solid foundation for future IEA action and have begun the move from targe-

try to meaningful measures to reduce imports. Coupled with rigorous monitoring, the yardsticks can serve as a catalyst for policy action and help move us toward an orderly evolution of the world oil market. They will also respond to the call by OPEC moderates for a system of demand restraint by the industrialized countries. The standby ceiling arrangement will add a new tool which may help manage sudden supply interruptions that do not reach the 7 percent threshold necessary for triggering the formal emergency sharing system. This decision also dovetails with the actions under development for the Venice Economic Summit.

Key Bilateral Meetings

While my conversations with my counterparts covered a wide range of issues, the most critical were:

—*Iranian Oil Prices*. Both the British and the Japanese express concern over Iranian demands of \$35/b for cargoes delivered to UK and Japanese companies against their April allotment, before such sales were suspended on April 21. Although both governments agree that the \$35 price is unwarranted in current market conditions, they both cited legal problems which made it difficult to prevent private companies from paying the higher price, because their contracts, they said, clearly gave the Iranians the right to set the price. Each government sought our assurances that the other would “hold the line.” The Japanese in particular hedged their commitment by indicating they could only “suspend” payment of the \$35 price temporarily. The British also sought additional supply assurances from the U.S., raising especially the desire of Shell and British Petroleum for greater access to Saudi oil that now goes to ARAMCO. I reiterated our strong belief that both governments should resist all Iranian price increases and simply took note of the British interest in Saudi oil.

I believe that we will have to give way on the oil already shipped, but we should do so only in exchange for firm commitments against taking any additional oil at the high asking price.

—*Libya*. The British also requested that the U.S. Government look into the question of pressuring U.S. oil companies to resist the latest round of Libyan price increases. UK Energy Secretary Howell observed the Libyan price rises were increasing the pressure to raise North Sea prices. I made no commitments, but agreed to consider his request.

—*SPR*. I took the occasion of my meeting with our Summit partners to advise them that we were thinking about placing Elk Hills oil into the SPR to avoid an auction which could result in embarrassingly high prices. Our allies are hesitant to endorse our desire to resume purchases for the SPR and the general reaction during the IEA meeting to my statement was non-committal.

Discussions with French Minister Giraud

My discussions on energy with French Minister of Industry Giraud were cordial, covering the full range of energy issues facing our two countries. At his invitation I toured the French vitrification plant for processing of high level fission waste at Marcoule and the Eurodif enrichment plant at Tricastin. On nuclear topics, Giraud emphasized his view that our non-proliferation objectives were driving potential nuclear customers away from the U.S., thereby increasing the proliferation risk. I responded that this was only a problem if other nuclear suppliers failed to act in concert with us in minimizing the risks of proliferation. On the IEA, he was generally supportive of our efforts to set meaningful oil targets although he prefers that the targets be supported by accelerated and stronger policy measures. On LNG, he confirmed the French intention to hold firm at the current \$3.00 per million Btu for LNG in the face of Algerian demands for a doubling of the contract price. I am optimistic that the consensus among the U.S., France and Germany which we have carefully constructed over the past few weeks will hold. Giraud expressed strong reservations however about our desire to begin purchases for the SPR, noting that he thought this action would have a severe impact on the international oil market. He repeated the French desire to invest funds in U.S. facilities for export of coal from the U.S.

274. Telegram From the Department of State to the Embassy in Saudi Arabia¹

Washington, May 31, 1980, 1808Z.

143707. For Ambassador. Subject: Text of Letter to Prince Fahd.

1. (S) Entire text.

2. You should review the following letter from the President to Crown Prince Fahd and get in touch with us immediately if you wish to withhold it or change it in any way.²

3. *Begin text:*

Your Royal Highness:

The events of recent months have reaffirmed the value of our remaining in close touch on matters of deep interest to both our countries. I have been gratified by the reports I have received from John West on his conversation with you.

As the time nears for the Economic Summit Conference in Venice, I am aware of just how critical the supply and price of oil are to the economic well-being of the world. Saudi Arabia plays a vital role in determining whether we will be able to dampen inflation, adjust to a world less dependent on oil, and still maintain satisfactory economic growth. This is a grave responsibility. Under your leadership, Saudi Arabia has carried out that responsibility in a farsighted, consistent, and statesmanlike way.

The counterpart to Saudi Arabia's policies is effective oil conservation in the industrial nations. The United States is doing—and will continue to do—its share. The comprehensive energy policy I have fought so hard to put in place is showing results. U.S. oil consumption declined in 1979. That is unprecedented in a period of considerable eco-

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 68, Saudi Arabia, 5/80. Secret; Immediate; Nodis. Drafted in the White House.

² West replied that he had two concerns about the letter: 1) "It commits the President's prestige when such a commitment is likely either to be unnecessary or unproductive"; and 2) "We should distinguish between our concerns about price and about production; the issues obviously are related, but they are not identical." West concluded: "If the decision is made to forward the President's letter, I strongly urge that Secretary Duncan discuss its content with Yamani in the context of U.S. support for the Saudi objective of price unification. This should serve to prevent Yamani's feeling that we are in any way circumventing or undercutting him." (Telegram 3432 from Jidda, June 2; National Archives, RG 59, Central Foreign Policy Files, D870094–0893) On June 5, Dodson wrote to Tarnoff that Carter reviewed West's concerns, determined that the Ambassador should deliver the letter, and agreed that Duncan should contact Yamani. (Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 17, Saudi Arabia: Crown Prince and First Deputy Prime Minister Fahd ibn Abd al-Aziz Al Saud, 6–10/80)

conomic growth. This decline, which included a marked drop in gasoline consumption, is continuing in 1980. Furthermore, we have taken the initiative in the International Energy Agency to encourage all industrial countries to conserve oil. Only last week, at the urging of Secretary Duncan, these countries agreed to develop measures for increasing their energy efficiency and to improve substantially upon their oil conservation goals for 1985 and beyond.³

The period immediately ahead, however, is of great concern to me. Last year's oil price increases will ultimately add more than six percent to the level of world prices and will reduce world output by about five percent. As the world economy struggles to adjust to these losses, a new wave of oil price increases is taking effect—despite the sharp reduction in oil consumption. These increases will make it very difficult to control inflation and rebuild the foundation for sound economic growth. They pose a substantial threat to my personal effort to restore economic stability in the United States, while avoiding a deep recession—a difficult task at all times, but especially in an election year. The fact is that the resilience of the world economic system, which has so far proven to be considerable, is being pushed to a dangerous point.

In addition, security considerations are involved. I know you share my view of the importance of sustaining a strong U.S. and Western defense capability to maintain a global deterrence to Soviet pressures and aggression. I have made economically difficult decisions to increase U.S. defense spending, and I am encouraging our allies to do the same, but I am concerned that inflation, aggravated by rising international oil prices, is eroding our ability to maintain defense budgets at a level adequate to meet an increasing Soviet threat.

I was pleased to learn through John West that Saudi Arabia does not believe that additional price increases at the OPEC meeting on June 9 would be justified in present circumstances. A decision at that meeting to impose further price increases beyond those already in place would rekindle inflationary expectations and increase recessionary forces, developments you are helping to avoid by maintaining high production and by advocating price restraint.

I want you to know what great importance I attach to your efforts. I urge you to consider maintaining present production levels and prices through the end of this year. It would be extremely helpful in the current international situation if you could make such a decision public. An announcement to this effect at this critical time would make a major contribution to the health of the international economy and to public confidence in world financial markets.

³ Reference is to the decisions taken at the IEA Ministerial meeting held May 21–22. See Document 273.

At the Venice Summit on June 22, I will emphasize that Saudi Arabia's price and production policies and its efforts to restore order and predictability in the world oil market call for commensurate action by the industrialized countries. I will seek effective measures to reduce oil consumption and increase production of alternative fuels during this decade of transition in the world energy system. Such medium-term measures by the Summit countries should make it possible to preserve orderly economic growth without requiring excessive production by the oil-exporting nations.

The health of the world economy and the common security are interests our two countries share to an extraordinary degree. I will welcome your views and advice on how we can continue to work together to advance these interests.⁴

With warmest regards,

Sincerely, Jimmy Carter.

His Royal Highness

Prince Fahd Ibn Abd Al-Aziz Al Saud

First Deputy Prime Minister of Saudi Arabia

Riyadh.

End text.

Muskie

⁴ On June 21, Fahd replied: "As Your Excellency is well aware, we here in the Kingdom of Saudi Arabia give great attention to your points of view and we sincerely wish to cooperate with you on all of the above mentioned considerations and strengthen the traditional friendship between our two countries. I find that the exchange of advice and opinions between our two countries on matters of common importance leads to achieving greater bilateral understanding and cooperation." (Telegram 3859 from Jidda, June 23; National Archives, RG 59, Central Foreign Policy File, P870094–0872)

275. Memorandum From Secretary of Energy Duncan to President Carter¹

Washington, June 7, 1980.

SUBJECT

Meeting with Sheik Yamani, June 5, 1980

I was with Sheik Yamani for 6 hours and 15 minutes on Thursday, June 5th, at his home in Surrey, England. Part of this time was devoted to a birthday dinner in honor of his daughter.

—*Summary*: We discussed a variety of energy issues and details follow. The key points were our discussion of the Strategic Petroleum Reserve, and his statement that he “is recommending to Crown Prince Fahd the continuance of a 9.5 million barrels per day production rate for the third quarter.”

—*United States Energy Developments*: I briefed him on legislative programs, our conservation achievements thus far in 1980, and responded to his questions concerning Congressional action to discontinue your authority to impose a conservation import fee on crude oil to be allocated to gasoline. He was impressed with our legislative program and conservation achievements, and was disdainful of the Congress for their unwillingness to support you on the fee, citing the low U.S. tax rate on gasoline as compared to other industrialized countries. (It was interesting to see the change in his position on this issue since our visit in Riyadh.)²

—*World Economic Conditions*: We discussed generally the economic conditions prevailing in the United States, the industrialized nations and the less developed countries, making the point that further energy price increases or supply constraints at this time would be severely disadvantageous. He seemed to understand this position.

—*International Energy Agency Meeting*: He was interested in the IEA meeting in Paris and I gave him a rather complete debrief.³

—*Future Price Prospects*: He told me he had been very disappointed when other producing countries raised their prices following the Saudi increase of \$2.00 per barrel on May 14th. He told me he felt he had firm commitments that other producers would not raise their prices. He

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 8, Energy Department, 11/79–9/80. Secret. Copies were sent to Muskie, Brown, Miller, Brzezinski, Eizenstat, and Owen.

² See Document 263.

³ See Document 273.

does not anticipate achieving pricing unity at the June 9 OPEC meeting in Algiers. He hopes this might be possible later in the year, if sufficient crude oil availability continues throughout the next few months. He thought a \$30.00 “unified” price would be the appropriate level, and that an indexing formula to increase beyond that level should be considered. This would involve a further \$2.00 increase for Saudi Arabia, but decreases for many other countries. Our average cost of imported crude would be about \$2.00 per barrel less than at present. I was left with the impression that his view of the timing for a unified price was late this year.

—*Saudi Production Levels for the Third Quarter*: He agreed that maintaining the 9.5 million barrels per day production level was important in view of the economic issues and pricing considerations mentioned above, and said he “was recommending the 9.5 million barrel per day production rate to Prince Fahd for the third quarter.” He said this statement should be very closely held and I have classified this document “Secret” for that reason.

—*National Security*: I made the point that inflation was eroding the capacity of most nations to fund adequate defense needs which contributed adversely to the Western-Soviet military balance. This situation was energy derived to a significant extent. It was a mutual problem. I said that Harold Brown would be discussing their military equipment needs with Prince Sultan. I did not discuss the national security issue as fully as contemplated in my agreed talking points because every time it was mentioned, he would launch into a discussion of the counter-productiveness of the U.S. policy towards Israel. Detail on this issue is best left to Harold.

—*Strategic Petroleum Reserve (SPR)*: I mentioned the language in S-932⁴ requiring a SPR fill of 100,000 barrels per day within six months, or the discontinuance of production at the Naval Petroleum Reserve. He said while Saudi Arabia is not a democracy, the opinion leaders there argue for a lower production level on technical and business grounds. Our filling the SPR will cause concern and we shouldn’t be surprised if this happens. He said we should do everything possible to control publicity on the SPR, and lower the visibility threshold. I told him I understood these considerations, but he should understand our political considerations too, that we would work to minimize the publicity, and that it would not be constructive to sell further Naval Petroleum Reserve oil at exorbitant prices.

⁴ Introduced in the Senate on April 9, 1979, the bill became the Energy Security Act of 1980 (P.L. 96-294), which President Carter signed on June 30. Among other things, it established the Synthetic Fuels Corporation.

—*Your letter to Prince Fahd*: I mentioned your letter to Prince Fahd, and the general points made.⁵ He did not react.

—*Venice Summit*: He was very interested in the agenda and the extent to which energy issues would be involved. I told him energy was very heavily involved, and that I felt the meeting would be a good one with respect to energy issues. I mentioned our expectations as to outcome, in the identical way we had done with the IEA member countries in Paris. He responded favorably to the forty percent target for oil's share of total energy consumption for Summit countries by 1990, and the target of .6 for the ration of growth in energy consumption to growth in Gross National Product.

—*Future Duncan/Yamani Meeting*: He inquired as to whether I would be at the Venice Summit. When I responded affirmatively, he asked if we could get together immediately following the Summit. He said he could brief me on the OPEC meeting and I could brief him on the Summit. We made a tentative date to get together on June 23rd in either London or Geneva.

He was concerned about the United States political scene, mentioning specifically:

—the adverse consequences of Senator Kennedy's continuing to seek the nomination.

—the possible adverse consequences of the Anderson candidacy.⁶

—his concern that Ronald Reagan does not comprehend energy issues, could only be a one-term President because of his age, and said "If Ronald Reagan is elected, it would set the Middle East back five years."

He wants very badly for you to be reelected and thinks it would be severely disadvantageous to the interest of the Middle East in general, and Saudi Arabia in particular if this did not happen.

⁵ See Document 274.

⁶ Congressman John Anderson (R-IL) ran as an independent candidate for President in 1980.

276. Telegram From the Department of State to All Diplomatic and Consular Posts¹

Washington, July 9, 1980, 2239Z.

180781. Subject: Highlights of Venice Summit, June 22–23, and Follow-Up Action. Ref: (A) Secto 04021, (B) State 177830.²

1. The Venice Summit was a well-prepared, highly successful, and harmonious event. The sessions were marked by a strong sense of unity—"we are all in the same gondola", as the Japanese Foreign Minister said—and an awareness that the difficult decisions that will need to be taken in the period ahead will be less difficult if the industrial democracies act together. Energy dominated the economic discussions and Afghanistan the political. Participants reached a common assessment of the strategic importance of these and related challenges facing the Western world, as the communiqués make clear. Their language is strong, forthright, and unambiguous; the positions and decisions are fully consistent with, and indeed supportive of, US policies. Whether the long-term goals the principals endorsed at Venice will be given effect will depend on sustained follow-up action by all the Summit countries.

2. The communiqués are being repeated to all diplomatic and consular posts: the "Declaration of the Venice Summit",³ which is the major statement on key economic issues; the separate political communiqué on Afghanistan, Secto 04021; the statements on hijacking, and on refugees.⁴ Posts have already received the Summit declaration on the taking of hostages, State 177830.

3. For the first time since the economic summits were initiated in 1975, one of the main sessions in the two-day period was set aside for political discussion. The other two sessions were devoted to the eco-

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D800329–0967. Limited Official Use; Immediate. Drafted by Ruth S. Gold, Special Assistant to the Assistant Secretary of State for Economic and Business Affairs; cleared by Hormats and Treat and in EUR/RPE, EA/J, S/P, E, and the Treasury Department; and approved by Cooper.

² Telegram Secto 4021, June 22, contains the Political Communiqué from the Venice Summit. (Ibid., D800303–0574) Telegram 177830 to all diplomatic and consular posts, July 6, contains the Venice Declaration on the Taking of Hostages. (Ibid., D800324–0816) All of the statements issued at the Summit, the Final Declaration of June 23, and Carter's interview in Venice with reporters at the Summit's conclusion are printed in *Public Papers of the Presidents of the United States: Jimmy Carter, 1980*, pp. 1170–1204. For Carter's personal recollections of the Summit, see *White House Diary*, pp. 439–442.

³ Transmitted in telegram 192218, July 21. (National Archives, RG 59, Central Foreign Policy Files, D800349–0815)

⁴ Transmitted in telegram 184724, July 13. (Ibid., D800336–0955)

conomic agenda. In addition, the participants took their meals together, the Heads of Government in one group, the Foreign Ministers in another, and the Finance and Energy Ministers in a third group, at all of which there were useful wide-ranging informal discussions. The Summit also provided opportunities for bilateral meetings. President Carter met separately with each of the Heads of Government and with the President of the EEC Commission.⁵ Thus the value of the Summit meeting lies not only in the decisions reached but also, and equally important, in the expanded contacts and understanding among national leaders that the two-day meeting encouraged. It lies also in the benefits derived from the preparatory process and follow-up. The work of preparing this Summit began in February and served not only to resolve contentious issues which would otherwise have required the attention of heads of government, but also gave impetus and direction to other international activities, particularly the IEA and OECD Ministerials. As a result, Summit participants were free to spend a larger part of their limited time together discussing broad policy issues. Further, the preparatory process involved frequent discussions among a range of officials from the Summit countries covering all of the issues covered in the communiqué. This process fosters a higher level of mutual understanding and compromise than would be the case without the Summit. Organized follow-up is also an integral part of the Summit process, helping to assure that commitments undertaken by Heads of Government are pursued. The Summit series will continue with the seventh Summit meeting scheduled to take place in Canada in 1981.

4. Political Discussion. The introduction of a separate political discussion at the Economic Summit was natural, given the strategic importance of the Soviet invasion of Afghanistan and the opportunity the Venice Summit offered the Heads of Government to share their assessments of this event face to face. The principals confirmed the strong Western reaction to the Soviet aggression. The advance work on the political agenda and communiqué prepared the leaders to deal promptly and directly with the Soviet ploy in announcing the withdrawal of some troops from Afghanistan on the eve of the Summit. The result was solid Summit unity in calling for complete Soviet withdrawal from Afghanistan.

5. Economic Discussions. Energy was clearly the central issue. As the President said on arriving at Andrews Air Force Base, "the one word that permeated all of the discussions was oil."⁶ It occupied more

⁵ Carter's notes from the Summit are in the Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 38, Presidential Memoranda of Conversation, 5/80.

⁶ For the full text of his remarks on June 26, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980*, pp. 1234–1236.

than 75 percent of the time devoted to the economic agenda. “Unless we can deal with the problems of energy, we cannot cope with other problems” says the Summit Declaration in its opening paragraph. It recognizes OPEC’s responsibility for exacerbating inflation, recession, and unemployment in the industrialized world, and undermining and in some cases destroying the prospects for growth in the developing countries. The Declaration lays out at some length the essential elements of a strategy agreed among the seven nations to free themselves from their excessive dependence on imported oil within this decade. The main elements are conservation of oil in all sectors of their economies where substantial savings in the use of oil are possible, and reliance on fuels other than oil to meet the energy needs of the future—coal, nuclear, synthetics, and renewable sources—whose potential to increase supply is estimated at the equivalent of 15–20 million barrels daily of oil by 1990. By carrying out the agreed strategy, the participants expect that the share of oil in total energy demand will be reduced in the Summit countries from 53 percent now to about 40 percent by 1990, that collective energy use will increase only 60 percent as fast as GNP (the ratio used to be one to one), and that collective oil consumption in 1990 will be significantly below present levels. The Declaration notes the mutual dependence of the industrialized democracies, the oil exporting countries, and the non-oil developing countries for the realization of their economic aspirations, and adds, as the Western countries have said many times before, that the participants “would welcome a constructive dialogue . . . between energy producers and consumers in order to improve the coherence of their policies.”

6. On his return from the Summit, President Carter said of the energy talks, “We recognize that we must break the relationship between economic growth in the future and our dependence on energy; in other words, to have more growth for less energy . . . Obviously our overdependence on foreign oil takes away our own basic security, the right that we have to make our own decisions . . . Oil politics is literally changing the interrelationship among nations. We must stand united, cooperate whenever we can, and meet a common challenge to the security and certainty of the future brought about by rapidly increasing uncontrollable prices of oil, and excess dependence by all of us on imports of oil.”

[Omitted here is discussion unrelated to energy.]

Muskie

277. Telegram From the Department of State to the Embassy in Saudi Arabia¹

Washington, July 1, 1980, 2358Z.

174172. For the Ambassador. Subject: Proposed Presidential Letter to Fahd.

1. (Secret—entire text)

2. In Secretary Duncan's recent meeting with Yamani latter suggested President urge Fahd directly to increase productive capacity beyond 12 MBPD in order to help Yamani withstand pressures from within SAG to abandon 12 MBPD goal.² Would appreciate your immediate judgment on effectiveness of such a communication and suggestions on following proposed text:³

3. *Begin text:* "Your Royal Highness: I would like to share with you my reflections on the implications of the Venice Economic Summit meeting for our nations' mutual security in the years ahead.

"The Heads of Government of the major industrial countries agreed on the importance for world economic stability of continuing our fight against inflation, even in the face of some increase in domestic unemployment. We also recognized that the severe financial problems faced by developing countries require the special attention of all governments capable of offering assistance.

"In addition, we agreed on an ambitious plan of action to break the link between economic growth and the consumption of oil over the next ten years. One of the central features of this plan is the intention of the seven countries to increase their production and use of substitutes for oil by the equivalent of 15–20 million barrels per day over this period. We will start toward this goal immediately.

"In setting this goal, we realized that we must work in close cooperation with Saudi Arabia and other responsible oil producers to effect

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P910096–0044. Secret; Niact; Immediate; Nodis; Cherokee. Drafted in the Department of Energy, cleared by Poats and Twinam, and approved by Cooper.

² Duncan met with Yamani on June 25, after the Venice Summit. The memorandum of their conversation is attached to a June 27 memorandum from Duncan to the President summarizing the discussion with Yamani. (Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 17, Saudi Arabia: Crown Prince and First Deputy Prime Minister Fahd ibn Abd al-Aziz Al Saud, 6–10/80)

³ West replied: "We agree that a letter from President to Crown Prince would be constructive. Text set forth in reftel is excellent." He added that in a June 25 meeting with Yamani, the latter expressed "his satisfaction with the Duncan meeting and seemed highly pleased with the understandings reached." (Telegram 4057 from Jidda, July 2; National Archives, RG 59, Central Foreign Policy Files, P900077–1443)

an orderly transition away from the excessive dependence upon the world's petroleum resource base, which must be preserved for future generations.

"I stated at Venice, and I reiterate to you now, my deep appreciation for the responsible policies of your government on petroleum matters. I can appreciate the very real difficulties that you may have experienced in advocating and pursuing policies of moderation and prudence.

"Recent international events give clear warning that our countries face growing challenges to our vital security concerns in the years ahead. I was reassured by the determination of all of the industrial powers represented at Venice to strengthen our military and economic capacity to define our common interests. I believe this posture is of great value to Saudi Arabia, just as your country's readiness to meet emergency shortfalls in world oil supply is of great importance to the industrial nations' security.

"One of the stark lessons of the recent past is that the world's economic security depends heavily on the ready availability of a significant margin of oil production capacity to offset sudden supply disruptions. Saudi Arabia's policy of raising sustainable production capacity to 12 million barrels per day is, thus, a major contribution to world order, and we look forward to its early realization. As the future unfolds, I believe that you may find that a further increase in Saudi Arabia's capacity beyond 12 million barrels per day will be important to assuring a secure international environment.

"Looking back over the last several years, I am pleased to see how the dialogue between our two governments has developed on the wide range of economic, political, and security issues that affect the present and future well-being of our two countries and indeed of the world community generally. In the months ahead I look forward to further developing these close consultations and to benefitting from your counsel." *End text.*

4. This text has not been cleared by White House nor seen by the President.⁴

Muskie

⁴ On a July 2 memorandum from Owen to the President, with a draft of the letter to Fahd attached, Carter wrote: "Either delete marked passage or don't send letter." The passage he instructed to be deleted was: "Saudi Arabia's policy of raising sustainable capacity to 12 million barrels per day is thus a major contribution to world order. As the future unfolds, you may find that a further increase in capacity beyond 12 million barrels per day would serve Saudi Arabia's interest in a secure international environment." On the same memorandum, Owen wrote: "The letter was sent as a message with the indicated passage deleted. No hard copy will follow." (Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 17, Saudi Arabia: Crown Prince and First Deputy Prime Minister Fahd ibn Abd al-Aziz Al Saud, 6–10/80)

278. Memorandum of Conversation¹

Washington, July 1, 1980.

SUBJECT

Highlights of Secretary Duncan's Meeting with Venezuelan Energy Minister,
Humberto Calderon Berti, Tuesday, July 1, 1980

LIST OF PARTICIPANTS*U.S.:*

Secretary Duncan

Henry Owen, Ambassador at Large and Special Representative of the President
for International Economics

Richard Cooper, Under Secretary, DOS

Leslie J. Goldman, Assistant Secretary for International Affairs, DOE

Edward Fried, Consultant, NSC

Bob Swandby, International Affairs Officer, Office of Energy Producing Nations,
International Affairs, DOE

Venezuela:

Perez Chiriboga, Ambassador

Humberto Calderon Berti, Minister for Energy

Ivan Sigurani, Minister Counsellor for Petroleum

USG/GOV Energy R&D Cooperation

After being welcomed by the Secretary, Venezuelan Energy Minister Calderon expressed his pleasure at the progress which has been made in implementing the Energy R&D Agreement signed on March 6 during his visit to Washington. The Minister indicated that despite some criticism by leftist opposition for cooperating with the U.S., the presentation of the Agreement to the Congress has gone very well.

Further OPEC Price Increases

The Minister stated that the recent OPEC meeting in Algiers,² was marked by feuding, particularly between Iran and Iraq. The Secretary

¹ Source: Department of Energy, Executive Secretariat Files, Job #8824, Box 3135, IA Memoranda of Conversation. Confidential. Drafted by Swandby on July 2 and approved by Goldman who signed at the bottom of the last page.

² At the June 9–11 meeting, OPEC members established a new price structure, which sought to achieve “an equilibrium between supply and demand in order to avoid further stockpiling” that they considered “harmful to producers and consumers alike.” OPEC set the marker crude price of oil at a ceiling of \$32 per barrel starting July 1, a limit that would be reviewed at an autumn meeting. OPEC also determined that the value differentials which would be added over and above the \$32 ceiling “on account of quality and geographical location should not exceed in any case” \$5 per barrel. (Telegram 1864 from Algiers, June 11; National Archives, RG 59, Central Foreign Policy Files, D800285–0481) Telegram 1838 from Algiers, June 9, and telegram 1853 from Algiers, June 10, detail the meeting's highlights. (Ibid., D800281–1076, D800283–0407) Excerpts from the June 11 communiqué were published in *The New York Times*, June 11, 1980, p. D4.

asked him how prices might be moving and whether there was a chance for pricing unity prior to the next OPEC Ministerial in November. He responded that Venezuela planned to increase its prices approximately \$.50/BBL, effective July 1. He also stated that Saudi Arabia would probably increase their price to \$32/BBL, but in two steps, possibly to \$30/BBL before the next OPEC meeting. He was uncertain whether such a move would help to achieve price unity. He also indicated that Saudi Arabia might cut production by 2 MMB/D.

The Secretary expressed his concern over possible Nigerian and Algerian price increases and that the current prices of these countries were not justifiable based on historical ratios. Assistant Secretary Goldman stated that the exploration fees being charged by African countries amounted to a surcharge because few companies had decided to increase exploration activities. The Minister indicated that it was extremely difficult to convince the African producers and Iran that prices and production levels could not be discussed separately. The Secretary stated that the only way to convince them is for the other producers to keep substantial supplies available to the market, and that the OPEC long-term pricing formula can only work when there is unified pricing. Ambassador Owen asked what was likely to result from the November Ministerial. The Minister replied that an aid program for the developing countries was likely to be formulated, but he was uncertain whether oil price unity could be achieved.

New Role for OPEC

The Minister indicated that OPEC is beginning to realize that its continuous price increases are contributing to a vicious cycle of inflation which is eroding the economies of Venezuela and other developing countries. He stated that both the perceived reduction in living standards, and in some cases, absolute decline in family income would pose increasing political problems. The Minister indicated that he believed that OPEC would be broadening its role to include bilateral agreements whereby producing countries would supply oil and consuming countries would supply the producing countries with technical and other services at agreed prices. He indicated that he believes such arrangements could be beneficial to both producing and consuming countries by providing the former with badly needed technology in such areas as housing and agriculture and the latter with oil at prices which they know will not be arbitrarily increased.

Ambassador Owen stated that the USG is willing to establish a USG/GOV Joint Commission to explore the implementation of such agreements. He pointed out that the USG has a similar arrangement

with Saudi Arabia which has worked very well.³ Under Secretary Cooper pointed out that, historically when barter arrangements were tried between countries, problems arose over the use of money, but he reaffirmed Ambassador Owen's recommendation to facilitate a Joint USG/GOV Commission. Ambassador Perez pointed out that the USG and GOV already had established a number of joint agreements in the areas of agriculture, energy, science and technology, and that soon there would also be a joint agreement in health. Ambassador Owen indicated that the USG was flexible, and that if the GOV preferred, we could continue to pursue sectoral joint agreements without establishing a joint commission. Minister Calderon indicated that he would think further about these suggestions and elaborate his ideas in a month.

Country Energy Assessment

Minister Calderon stated that due to domestic political considerations, it would be necessary for the GOV to conduct the assessment under the auspices of a Venezuelan university. Assistant Secretary Goldman stated that under U.S. law, a government-to-government agreement was required to conduct the assessment. The Secretary and Minister Calderon agreed that the cooperative country energy assessment was important for both countries and that a way would be found to overcome any potential legal difficulties. Assistant Secretary Goldman suggested that DOE consult our legal counsel and thereafter further consultations could be held with GOV officials, if required.

Oil Assistance to Central American and Caribbean Countries

Minister Calderon stated that President Herrera and Mexican President Lopez Portillo will announce, before August 15, an agreement to share oil supplies for Caribbean and Central American countries. The announcement will be made in Costa Rica to show support for this democratic government. Up to 30 percent of the region's oil purchases (up to \$700 million) will be jointly financed by Mexico and Venezuela by five-year loans repayable at 5 percent, or convertible to 20 year loans repayable at 2 percent if the participating country converts the loan to energy development projects. The Minister indicated that this is the most important agreement he has negotiated with a non-OPEC country because he views it as an essential first step toward halting the deteriorating political and economic condition in this region resulting from increasing oil prices. Trinidad will also be invited to join the program. He stated that even though Trinidad exports only about 10 MB/D, its acceptance into the program would mean that all of the region's oil needs

³ See footnote 5, Document 143.

could be supplied by these three countries and therefore add solidarity to the pact. He also indicated that he has discussed the program with Minister Yamani and believes that a similar program could work in Asia and Africa.

Western Hemisphere Energy Cooperation

Ambassador Owen asked Minister Calderon how the Venezuelan/Mexican agreement on oil sales to the Caribbean and Central America fit into the Minister's proposal for hemispheric energy cooperation. Minister Calderon stated that he believed the former agreement to be an important first step in avoiding further political deterioration in the region, but that broader hemispheric cooperation must also be implemented to assist these smaller countries to develop alternative energy supplies which will reduce their dependence on imported oil. He further stated the role accorded to the Organization for Latin American Energy Development (OLADE) in the draft outline developed last March was too modest.

Ambassador Owen stated that he hoped that during the drafting of the outline it was pointed out to GOV officials that the USG would not have funds for participation in such a program. Minister Calderon indicated that he could approach other countries for financial assistance, but that U.S. technical support was essential to the success of any such program. He pointed out that many of the solutions to energy supply problems in the region are probably low-cost, but that many of the countries do not know how to begin—for example, to develop their geothermal energy resources.

Mr. Fried pointed out that the World Bank oil exploration program was moving in the direction of increased funding for pre-exploration and exploration activities, as well as providing governments advice on exploration contracts with private firms. Under Secretary Cooper raised the problem of funding such a program, in terms of obtaining adequate breadth and depth of technical expertise, as well as an adequate funding level. He indicated that one of the problems with the World Bank program is that risk sharing for dry holes is not spread among the participating countries, rather each country is responsible for funding the program within its borders.

Ambassador Perez stated that there was a need for USG financial participation in a hemispheric energy cooperation program, and that the Congress might be more amenable to providing funding under the aegis of energy development rather than foreign aid. Ambassador Owen indicated that funding was not so much a problem with Congress as with the Executive Branch's commitment to maintain an austere budget with no new funding programs at this time.

Minister Calderon reiterated the importance of implementing a hemispheric energy cooperation program by pointing out Brazil's dan-

gerous position as an importer of approximately 700 MMB/D of oil, of which approximately 80 percent comes from Iraq. The Minister believes that Iraq's Government is unstable and that political instability in that country could cause a major oil supply disruption. He also reaffirmed his commitment to funding such an initiative through an international organization such as the World Bank and that the OPEC Special Fund could also be a partial source of funding. Under Secretary Cooper suggested that even though funding were through the World Bank, the U.S. would probably have to increase its contribution.

The Secretary indicated that hemispheric energy cooperation was both in the interest of the USG and the hemisphere. The Secretary and Minister Calderon indicated that they would separately assess what might be next steps in implementing hemispheric energy cooperation and talk again in a few weeks after the Minister's emissaries return from Brazil, Argentina, Ecuador and Colombia.

North/South Dialogue

Minister Calderon asked how the North/South Dialogue was going. Under Secretary Cooper replied that while progress had been made on some issues, there were several major problem areas. A major issue was that some of the G-77 countries were demanding that IMF fund contributions be negotiated in New York. The Under Secretary stated that this position is entirely unacceptable to the USG due to potential Soviet subversion of the negotiations. He further indicated that the North/South Summit proposed by the Brandt Commission had been discussed at the Economic Summit,⁴ but was not mentioned in the communiqué due to divisions among the industrial countries. Ambassador Owen indicated that the Austrian and Mexican Governments have been pushing for a North/South Summit.

The Ambassador stated that he met privately with Austrian officials during the Summit and indicated to them that President Carter had reservations. The President was not sure that concrete objectives could be achieved at such a meeting, and if they were not achieved, the USG would be blamed. The President also believes that the agenda for a North/South Summit would have to be carefully developed.

⁴ See Document 276. The Independent Commission on International Development Issues was chaired by former German Chancellor Willy Brandt in 1980.

279. Memorandum From the Deputy Assistant Secretary of Defense for International Economic and Technology Affairs (Frost) to the Under Secretary of Defense for Policy (Komer)¹

Washington, July 16, 1980.

SUBJECT

Security Implications of the Energy Crunch

You recently asked for an analytical paper on the security implications of the energy crunch² that might be sent to Under Secretary Newsom, along with the cover memo at Tab A.³

Attached, next under, is a draft memorandum prepared by Don Goldstein that builds on your earlier thoughts on this issue.⁴

We have coordinated the draft with Major General Boverie.

Ellen L. Frost⁵

Attachment

ENERGY AND SECURITY

Summary

The global energy squeeze poses multiple threats to the security of the United States and the maintenance of international order. It contributes in a major way to international economic problems such as inflation, balance of payments deficits, slowed growth, and rising unemployment. In addition to the social and political strains they cause, these effects impair the ability of the US and our allies to marshal the resources necessary for the defense of the non-communist world. The impact of rising energy prices and the concomitant economic slowdown is burdensome enough in the industrialized countries, but it is even more serious for the developing countries. The resulting instabilities constitute a danger to the entire Third World, including the major oil producers.

¹ Source: Washington National Records Center, OASD/ISA Files: FRC 330-82-0263, Box 1, ASD/ISA #3 Policy Files. Secret. Sent through Assistant Secretary of Defense for International Security Affairs David E. McGiffert.

² Komer requested the paper in a June 21 note to McGiffert. (Ibid.)

³ The unsigned and undated cover memorandum from Komer to Newsom is attached but not printed.

⁴ See, for example, Document 271.

⁵ Frost signed "Ellen" above this typed signature.

More profoundly, the dependence of most of the non-communist world on access to Persian Gulf oil affects the way we must think about our security relationships. Because only the United States can even attempt to guarantee the security of the free world's major oil supplies, new demands will fall on us. Because we cannot do that job alone, new demands will also be placed on others. We must convey the mutual responsibilities growing out of the energy crunch in a clear and consistent way to our allies, the countries in the Persian Gulf region, and our friends in the Third World. Our basic message must be that we intend to assume much of the additional burden of safeguarding access to Persian Gulf oil, but we expect others to share in these burdens as appropriate. We especially hope that those who will benefit from our acceptance of new responsibilities will not pursue separate courses of action that make our efforts more difficult.

The Threat to Supply

Both the importance and the vulnerability of Persian Gulf oil can hardly be overstated. The eighteen million or so barrels of oil that flow out of the Persian Gulf every day comprise nearly forty percent of non-Communist oil production. This figure is roughly equal to the total crude oil imports of the seven largest OECD consumers. Some states, like France and Japan, depend on the Gulf for over two-thirds of their crude imports. Despite intense efforts by consumers to diversify their sources of supply, no other region could substitute totally for the loss of Persian Gulf oil. While some individual oil importers, such as the United States, may not currently depend on the Gulf for the bulk of their supplies, it would be impossible for them to insulate themselves from the direct or indirect effects of a major cutoff for any great period of time.

Dependence on Persian Gulf oil is not new. What is new is the graphic and continuing demonstration of the vulnerability of access to that oil. The Soviet invasion of Afghanistan, whether or not it was part of a conscious strategy to increase influence in the Gulf, constitutes fair warning. The Soviets showed that they are willing to use military force in the pursuit of their interests in a region of vital importance to the West. The boldness of their action is especially sobering when considered in the light of the very real prospect that the Soviets may also face a substantial oil shortfall in the coming decade. We can hardly count on the Soviets to pass up opportunities in Southwest Asia which may help improve their situation or worsen ours. Indeed, the evolving situation in Iran may provide a pretext for a new "phase" of Soviet policy in this part of the world.

The shocks set off by the Iranian revolution have not yet been contained and still reverberate throughout the region. Perhaps the greatest effect is the heightened awareness of the fundamental weaknesses of

the Persian Gulf regimes. They are susceptible to both internal challenges—religious, tribal, and factional—and external threats—regional rivals and external powers. Their domestic weaknesses hamper their ability and willingness to seek the aid we can provide to help meet foreign challenges. This makes it difficult for us to prepare to meet threats originating within the region or arising from outside of it. Even those states that are willing to cooperate with us do so in a cautious and tentative manner.

The Threat of Rapidly Rising Energy Costs

We all recognize that higher energy costs are inevitable. Indeed, some have gone so far as to argue that higher oil costs may even be desirable over the long term. More specifically, it is suggested that high priced oil eventually will lead us to alternative fuels and more efficient energy use, and will provide additional incentives to reduce current levels of dependency on imported oil. Whether or not one accepts these propositions, it is true that increasing prices are one factor contributing to the transition away from oil—including that from the Persian Gulf. The nature of this transition is critical, however. If it does not take place smoothly (i.e. without sudden interruptions of production or jumps in price), the economies of both the developed and the developing world could sustain severe damage. The major oil producers must concern themselves with this damage since it has direct and serious consequences for their security.

The rapid increases in oil prices (some 130 percent) over the last 18 months, far in excess of what economic conditions could justify, poses a very real strain on the global economy and ultimately international peace and security. In the first place, the economic foundation on which our defense effort rests has been hard hit by slowed growth and high rates of inflation spurred in part by surging oil prices. According to the IMF, about one-third of the total inflation affecting the major industrialized nations is directly attributable to higher oil prices. The indirect effects on related prices is believed to raise that fraction even more. A number of strategically important LDCs find themselves in even more desperate straits. A major cause of the economic difficulties of South Korea, Thailand, Pakistan, and Turkey, for example, is the huge growth in their oil bills. Non-OPEC LDC debt as a whole is predicted to surge in 1980 to \$109 billion, up from \$58 billion in 1979. In 1981 the strain will be even worse. Even though we may be able to scrape through the enormous recycling difficulties presented—if OPEC countries are cooperative—it is clear that politically destabilizing belt tightening will be necessary in many LDCs.

The economic problems caused by the surge in oil prices and the accompanying wealth transfers affects international security in several ways. First, it reduces the sum of resources available to meet the Soviet

challenge. It is difficult to devote increasing amounts to defense when the overall economies of the West are constrained by a rapidly rising energy tax. Also, because of inflationary effects partly derived from oil, not to mention the higher cost of fuel itself, we simply get less military strength from the nominal defense dollar. The net result is that the West's defense effort falls short of what it should be in the face of the long-term buildup of the Warsaw Pact and more immediate crises such as Afghanistan. This is not the only reason, of course, why our military strength is not what it should be, but it helps explain the difficulties in redressing our problems.

Secondly, the worsening economic plight of the non-oil producing LDCs increases the likelihood for internal instability and perhaps regional conflicts. The trade and finance aid efforts of the West are more than offset by rising oil import costs. As an illustration, Turkey's oil bill in 1980 is estimated to be \$2.7 billion, totally overwhelming U.S. (\$295 million) and other OECD (\$866 million) 1980 economic aid pledges. The entire fabric of international trade, aid, and finance is being stretched to the limit by the effects of oil price increases. It is impossible for the West, itself transferring enormous amounts of funds to the oil producers, to underwrite the oil bills of the LDCs as well. To some extent the gravity of this problem has been recognized by OPEC in the creation of recycling facilities. But much more needs to be done if instability is to be contained in the Third World.

The Response of Consumers

A concerted response is required to meet the challenge presented by vulnerable supplies and surging energy prices that includes the industrialized democracies, the major producers, and the threatened LDCs. The OECD countries have taken some effective steps forward in the energy economic area, as the Venice communiqué shows. We have adopted measures aimed at reducing our energy consumption. We have established mechanisms to mitigate the effects of market disruptions. We have agreed to coordinate oil stock policies, and the US is moving toward renewed fill of the SPR. We are seeking to diversify energy sources, including greater use of coal. But more needs to be done in the energy security arena, especially if the military dimension becomes paramount.

The United States is committed to defending the oil producing region of the Persian Gulf. We have increased our presence in the region and will do more as time goes by. What is required is an equivalent commitment on the part of our allies in Europe and Asia. This means we need to urge our allies to shoulder more of the burden of European and Asian defense. Our European and Asian allies should be queried about what economic and security assistance responsibilities they could take on. Increased host nation support for regional and South-

west Asian contingencies is also required. Cooperation and understanding regarding the measures we may need to take to prepare to fight in Southwest Asia, if need be, is also necessary. For example, overflights for ourselves or in support of our friends in the area should not be a matter of contention. Independent diplomacy on the part of our allies that pretends that their access to Middle East oil can be divorced from our ultimate guarantee of Western security should be discouraged. In other words, we must impress upon our fellow industrialized democracies that the burden of protecting the West's oil supplies must be responsibly shared.

The friendly oil producers, particularly in the Persian Gulf, also must be constantly reminded of the mutuality of our interests and our vulnerabilities. As the Secretary of Defense has noted, it is not reasonable to believe that the oil producers could continue to profit from their most precious natural resource if the Soviet Union succeeded in using its massive military power to envelop the Persian Gulf. Given the weakness of the regimes there, they must realize they could not withstand even serious regional threats without our help. Only the United States is equal to the task of providing for their security. No other non-Communist power or combination of powers could provide the sustained support that they would need if seriously threatened. However, we need their cooperation if we are to protect them. We must prepare sufficiently in advance so that our efforts will be quick enough and massive enough to deter, if possible, and defend, if necessary. This means we need access to facilities, prepositioned supplies, assurances of military coordination, including assured local fuel supplies, and a general tolerance of our activities related to providing an effective defense.

As for the LDCs, we want to work with them to minimize the economic damage they are suffering. We wish to join with them and the oil producers in finding new ways to cope with the taxing effects of higher oil bills and the accompanying panoply of economic problems growing out of the energy crunch. The LDCs can help here by more forcefully bringing home their plight to the oil exporting countries. Additionally, the LDCs must realize that a Persian Gulf crisis precipitated by a regional conflict would have devastating effects on them. Oil prices would explode and the LDCs would be the first pushed out of the market. They have a very real and direct stake in our guarantee of the free flow of Persian Gulf oil. Therefore, they should at least show forbearance for our efforts to secure free access to that oil and tolerance of our attempts to maintain the necessary military presence in the area.

280. Telegram From the Department of State to Selected Diplomatic Posts¹

Washington, August 7, 1980, 1335Z.

209320. Subject: Resumption of Oil Acquisition for the Strategic Petroleum Reserve.

1. Confidential—entire text.

2. This cable describes the status of the Strategic Petroleum Reserve (SPR) program. Posts should not repeat not raise this issue with host governments or local press. However, in response to inquiries, information provided here may be used, unless otherwise noted.

3. The USG is committed strongly to the SPR program. The Energy Security Act of 1980 requires the President to “immediately undertake . . . crude oil acquisition, transportation, and injection activities” to fill the SPR at an average rate of at least 100,000 b/d for each year beginning in FY 81.

4. FYI: We may achieve a higher average rate over FY 81, if present market conditions continue. End FYI.

5. Use of Naval Petroleum Reserve Oil. The Federal share of the production of the Naval Petroleum Reserve (NPR) at Elk Hills, California will be a major source of oil for the SPR. This will probably be about 100,000 B/D.

6. Most of the NPR oil cannot be placed directly in the SPR because NPR production areas are on the west coast and SPR storage sites are on the gulf coast. Most NPR oil will therefore have to be exchanged for more accessible oil. This will be accomplished by competitive bids or by regulatory action requiring certain U.S. refiners to take cash or NPR oil in exchange for oil for the SPR. We plan to proceed simultaneously with both the competitive and the regulatory approaches, along with efforts to arrange the direct transport of some relatively minor quantities of NPR oil to the SPR facilities.

7. The competitive exchange will begin with a solicitation of offers from oil companies and traders. A request for proposals (RFP) will be issued in early August by the Defense Fuel Supply Center (DFSC) as

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D800377–1021. Confidential; Immediate. Drafted by J. Geocaris (DOE/IA); cleared by Twinam and in EB/IEP/EPC, E, ARA, EA/IMBS, EUR/RPE, DOE/IA, and DOE/S; and approved by Edward L. Morse (EB/IEP). Sent to Mexico, Port of Spain, Ankara, Athens, Bern, Bonn, Brussels, Canberra, Copenhagen, Dublin, Lisbon, Luxembourg, Madrid, Ottawa, Rome, Stockholm, The Hague, Tokyo, Vienna, Wellington, Lagos, Libreville, Quito, Jidda, Kuwait, Paris for the Embassy and USOECD, Abu Dhabi, Algiers, Doha, Caracas, Jakarta, and London.

purchasing agent for the SPR. Foreign national oil companies can and, in the past, have responded to RFPs for the SPR. The USG is at present neither encouraging nor discouraging them to do so.

8. The regulatory process for NPR/SPR exchanges will begin this August when DOE's Economic Regulatory Administration issues a Notice of Proposed Rulemaking (NPR) to amend DOE's regulations under the Emergency Petroleum Allocation Act.²

9. Potential Additional Sources. The USG has assured producer and consumer countries that we will use discretion in the purchase of foreign crude oil for the SPR. Therefore, we do not plan at this time to solicit offers for direct sole-source (non-competitive) purchases from foreign governments or national oil companies. (FYI: We will consider unsolicited offers of crude oil from such sources on a case-by-case basis. End FYI.) Other domestic crude sources such as the outer continental shelf and Alaska North Slope are being considered, but they present a number of technical and legal difficulties. DOE and other concerned agencies will continue to work on these and other domestic sources. (FYI: USG may also issue solicitations that will remain open for short time periods and seek individual cargoes available on the domestic and international market. End FYI.)

10. Foreign Policy Considerations. Secretary of Energy Duncan conducted consultations on the SPR with our Summit partners, as required by the Tokyo communiqué, and with other European countries at the IEA Ministerial and Venice Summit. The USG believes that current oil market conditions warrant renewal of strategic stockpiling by all governments having stockpile programs. Others with whom we have consulted concur.

11. Most consumer nations seem to understand the considerations underlying resumed SPR oil purchases and most have accepted our assurance that we will control the scale and timing of procurements so as to avoid significant effects on oil prices. Most producers continue to express opposition to the US SPR and to the use of "their" oil in it. But we believe the modest initial procurement rate now contemplated and the NPR/SPR concept will preclude reductions in output. The DFSC and the SPR office are confident that there is sufficient administrative flexibility in the procurement process to avoid cargoes that might give rise to adverse foreign reactions during the first few months of SPR fill when attention will be focused on the program.

Christopher

² The Emergency Petroleum Allocation Act was signed by President Nixon on November 27, 1973, and President Ford extended the provisions of the act on September 25, 1975. (P.L. 93-159 and 94-99)

281. Telegram From the Department of State to the Embassy in Saudi Arabia¹

Washington, September 9, 1980, 0043Z.

238781. Subject: New Presidential Correspondence: IMF/IBRD and Oil.

1. (Secret—entire text)

2. This telegram transmits in para 4 below a letter from the President to Prince Fahd that you should deliver and amplify with respect to our concerns re an early cut in production.

[Omitted here is an instruction unrelated to oil.]

4. *Text of oil letter:*

Your Royal Highness:

I want to share with you recent evidence that the major industrial nations are now firmly committed to sustained efforts to reduce oil consumption and to curb inflation, as you have frequently advocated to all of us. These were our paramount objectives at the recent Economic Summit meeting in Venice. Subsequent reports from each of the seven countries indicate determined follow-up action and impressive progress.

I also wish to express my appreciation for your efforts to restore stability and establish greater predictability in the world oil market. I hope that you will not relax these efforts.

In adopting an ambitious plan to break the link between economic growth and oil consumption, the seven major industrial nations have undertaken to increase the production and use of substitutes for oil by the equivalent of 15 to 20 million barrels per day by 1990. Each country is adopting measures toward this goal. For example, on June 30 I signed legislation establishing the Synthetic Fuels Corporation,² which will be committed to the financing of plants capable of producing an estimated two million barrels per day of substitute fuels by 1992. I have also intensified the campaign to increase U.S. domestic use of coal and to export more coal.

Recent progress in oil conservation by these seven countries has greatly exceeded our predictions. U.S. petroleum imports have dropped by more than two million barrels per day as compared with last summer; our imports through August were 17 percent below the

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P870094–0800. Secret; Nodis. Drafted in the White House; cleared by Owen, Miller, Duncan, Twinam, and Morse; and approved by Cooper. Repeated Immediate to the White House.

² This was part of the Energy Security Act signed on June 30.

same period of 1979. These nations, as a group, now estimate that their total oil imports in 1980 will be eleven percent below 1979.

The major industrial nations have also pledged themselves to effective policies to reverse the spiral of inflation. Recent reports confirm that the seven governments are maintaining both fiscal and monetary restraint; U.S. inflation rates have declined markedly since early this year. By increasing the efficiency of the U.S. economy over the longer term, the economic policy decisions that I announced on August 28 should lower inflation.³

In carrying out the energy policies described above, the industrial countries wish to work closely with Saudi Arabia for an orderly transition away from excessive dependence on petroleum resources, which must be preserved for future generations. We appreciate your government's responsible attitude on oil production and prices.

I recognize that your representatives may face pressures at the forthcoming OPEC meeting in Vienna⁴ to reduce Saudi Arabia's current oil production and that such pressures may occur before achieving dependable assurances of moderation in future oil pricing. I want to share with you my strong belief that action at this time by Saudi Arabia to reduce production or increase prices would be widely misinterpreted in the United States and could have a serious impact on our public opinion and on oil market psychology.

Recent international events give clear warning that the free countries will face growing challenges to their vital security concerns in the years ahead. The industrial powers have expressed determination to strengthen our military and economic capacity in order to defend our common interests. I believe that this will greatly benefit Saudi Arabia, just as your country's growing capacity to meet emergency shortfalls in oil supply will be of great importance to the security of the industrial nations.

One of the lessons of the past year is that the Free World's economic security depends heavily on the availability of a significant margin of oil production capacity to offset sudden disruptions of supply. Your margin of unused production capacity may well prove to be the Free World's margin of safety and order.

Looking back over the last several years, I am pleased to see how the dialogue between our two governments has developed on a wide range of international economic, political, and security matters. In the context of this dialogue, I hope that you will write to me, fully and

³ President Carter announced on August 28 a program of domestic measures to strengthen the economy. For the text of his remarks, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980*, pp. 1585–1591.

⁴ The OPEC Ministers met in Vienna September 15–17.

frankly, about your concerns. I look forward to developing our consultations further and to benefiting from your counsel. Sincerely, Jimmy Carter.

His Royal Highness

Crown Prince Fahd Ibn 'Abd al-'Aziz Al Saud

Riyadh

5. In delivering the foregoing letter you should add to penultimate paragraph the following two verbal points emphasizing that this is on instructions of the President:

—Saudi Arabia's policy of raising sustainable capacity to 12 million barrels per day will thus be a major contribution to world order.

—As the future unfolds, you may find that a further increase in capacity beyond 12 million barrels per day would serve Saudi Arabia's interest in a secure, stable international environment.

6. FYI: In making these points you should be aware that Aramco has confidentially informed the Department that Saudi plans to increase capacity to 12.3 MBPD are on track.⁵ See septel.⁶

Muskie

⁵ On September 14, West replied: "Crown Prince Fahd told me that he would instruct Foreign Minister Saud, Oil Minister Yamani, and Finance Minister Aba al-Khayl to make no rpt no statement or commitment with respect to Saudi Arabia's decreasing production at the forthcoming Vienna meeting; that he would also instruct them to hold firm against any price increase, regardless of the pressure of other Arab OPEC countries. He stated that he would authorize them to negotiate an increase in SAG's price from \$28 to \$30 per barrel provided other OPEC countries would agree to reduce their prices to that figure from the current \$32 per barrel. Fahd stated that Saudi Arabia would not go beyond that concession, which he pointed out would create a unified price system and would result in an overall price decrease from OPEC oil." (Telegram 5545 from Jidda; National Archives, RG 59, Central Foreign Policy Files, P870094-0795) At the OPEC meeting, Saudi Arabia did agree to raise its price to \$30 per barrel and other OPEC members agreed to decrease their price to \$30, achieving a unified price for OPEC oil. Saudi Arabia also agreed unofficially to decrease production to 8.5 million barrels per day beginning in 1981. (*The New York Times*, September 18, 1980, p. A1)

⁶ Telegram 238899 to Jidda, September 9. (National Archives, RG 59, Central Foreign Policy Files, D800428-1040) On October 3, Owen sent the President a memorandum informing him that King Khalid "ordered an increase in Saudi oil production of at least 500,000 b/d" and "asked other Arabian Gulf producers similarly to help offset the curtailment of Iraqi and Iranian exports." A "reliable US source" said the figure was actually 900,000 barrels per day. (Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 17, Saudi Arabia: Crown Prince and First Deputy Prime Minister Fahd ibn Abd al-Aziz Al Saud, 6-10/80) Carter sent a thank you letter to Khalid on October 7. (Telegram 268622 to Jidda; National Archives, RG 59, Central Foreign Policy Files, D800480-0144)

282. Memorandum From the Assistant Secretary of Energy for International Affairs (Goldman) to Secretary of Energy Duncan and the Deputy Secretary of Energy (Sawhill)¹

Washington, September 23, 1980.

SUBJECT

SCC Meeting on Iran–Iraq, September 24, 1980

The agenda for the meeting is attached at Tab A;² the topics to be covered are:

- Intelligence Update
- United Nations Efforts
- Additional Steps (political)
- Strait of Hormuz (military and political)
- Oil (discussed below)
- Public Posture (further statements by President or others)

The “oil” topic is framed as four questions:

- What is the present status of oil flow from the Persian Gulf?
- What are the implications of a partial interruption?
- What should be our public posture?
- What non-public steps should we take?

We have also been advised by the Domestic Policy Staff that Stu Eizenstat plans to participate, and will suggest that the President deliver a statement on the Iraq/Iran situation; Eizenstat will urge that the President strike a reassuring note on the energy side, presumably pointing to the high inventory positions in the U.S. and worldwide.³

¹ Source: Department of Energy, Executive Secretariat Files, Job #8824, Box 3135, International Affairs: 9/80. Secret.

² Attached but not printed. No other record of the SCC meeting has been found. The Iran–Iraq war began when Iraq invaded Iran on September 22. In his diary, Carter wrote about the meeting: “We agreed to do everything we could to terminate the Iran–Iraq conflict as soon as possible, to stay strictly neutral, to call other nations to stay out of the conflict and be neutral, and to keep open the Strait of Hormuz.” (*White House Diary*, p. 467)

³ The President, in remarks to reporters after the September 24 SCC meeting, acknowledged the concern that oil supplies would be reduced because of the conflict, but asserted: “This concern is not justified by the present situation. It is true that oil companies and shipments relating directly to Iran and Iraq have been interrupted or suspended during the outbreak of the hostilities. But even if this suspension of Iran and Iraqi shipments should persist for an extended period of time, the consuming nations can compensate for this shortfall.” For the full text of his statement, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980*, pp. 1921–1922.

*Oil Flow from Persian Gulf/Implications of Interruptions**Interruption of Exports from Iran and Iraq*

Iraqi crude oil production during January–August 1980 is estimated at 3.3–3.5 MMB/D with exports of 3.1–3.3 MMB/D. Iranian production during the same period is estimated at 1.6 MMB/D with crude oil exports of about 0.6 MMB/D and 0.2 MMB/D of refined product exports. Thus, some 4.0 MMB/D of combined exports from Iran and Iraq could be interrupted.

More than half of Iraq's oil exports are sold to industrial countries. The three largest volume purchasers from Iraq are France at 550 MB/D, Italy at 255 MB/D, and Japan at 375 MB/D. Brazil (at 500 MB/D) is highly dependent on Iraqi oil with more than 50 percent of its oil imports from that country. Communist bloc countries import approximately 350 MB/D from Iraq.

Spain and Turkey are the only IEA countries with significant crude oil imports from Iran, at about 0.1 MMB/D each. Most of Iran's crude oil exports go to communist countries (0.1 MMB/D) and LDCs such as India, Brazil and South Korea. Iran exports 0.2 MMB/D of residual fuel oil, mostly to Japan.

The United States imports very little oil directly from Iraq, and none from Iran. During January–June 1980, U.S. imports from Iraq were less than 50 MB/D, accounting for less than one percent of total U.S. imports.

IEA countries as a group import about 1.5 MMB/D of crude oil from Iran and Iraq. Of the total, 1.2 MMB/D comes from Iraq and about 230 MB/D from Iran.

Total Oil Trade through the Strait of Hormuz

Oil exports through the Strait of Hormuz are estimated to be about 17 MMB/D during 1980. More than half of these exports originate in Saudi Arabia. Exports through Hormuz represent nearly 60 percent of the oil in world trade and about one-third of the oil consumed in the Free World. The United States is dependent on Persian Gulf crude oil for about one-fourth of its oil imports, both directly and indirectly through Caribbean refineries, representing about 10 percent of U.S. consumption. Western Europe receives about 60 percent of its oil imports through Hormuz, which represents about one-half of its consumption. Japan has the most at risk, with about 70 percent of its oil supply transitting Hormuz. The table at Tab B⁴ shows the origin and destination of Persian Gulf oil estimated for 1980.

⁴ Attached but not printed.

Availability of Unused Production Capacity

There could be as much as 3.0 MMB/D of unused production capacity in the world in September 1980. Most of this capacity centers in Persian Gulf countries and other OPEC members; the availability of most of this capacity is in question. The largest unused capacity is in Kuwait with nearly 1.0 MMB/D; Kuwait's capacity is 2.5 MMB/D and production is currently restricted to 1.5 MMB/D. Abu Dhabi has an estimated 0.7 MMB/D of unused capacity. Saudi Arabia could have up to 0.5 MMB/D of unused capacity, according to Aramco estimates. [2 lines not declassified]

Outside the Persian Gulf, Libya is the producer with the largest unused capacity—0.4 MMB/D. Other smaller amounts of unused capacity are in Venezuela and Nigeria, 0.2 MMB/D and 0.1 MMB/D respectively. Among the non-OPEC countries, only Canada and the U.K. (North Sea) may have some spare capacity, approximately 0.1 MMB/D each.

The Persian Gulf states may be reluctant to make their unused capacity available while hostilities continue, for fear of retaliation. Kuwait did allow production to rise above its government ceiling in 1979 during the Iranian supply interruption. Abu Dhabi stuck firmly to its ceiling in 1979. Libya probably would not allow production to rise, unless it perceived it to be in its political interest, and could probably be counted on to maximize the price effect of any supply interruption.

Public Posture

Drawing upon the testimony recently submitted by Deputy Secretary Sawhill,⁵ we should emphasize

- Measures already in place to strengthen our ability to respond to disruptions in supply; and
- Specific actions that could be taken to cope with a disruption.

We could also draw attention to the favorable inventory situation in the U.S. In the past several months the supply situation in the United States for crude oil, gasoline and several other petroleum products has improved significantly over what it was during the corresponding period of 1979. At the end of August 1980:

- Crude oil stocks stood at 393 million barrels, a 22 percent increase over last year's level;

⁵ Sawhill testified before a Senate subcommittee on September 22 that U.S. oil inventories were high enough to offset a disruption in oil supply from the Middle East. (*The New York Times*, September 23, 1980, p. D1)

—Gasoline stocks at the primary level were about 259 million barrels, up 27 million barrels or about 12 percent over August 1979 levels;

—Distillate stocks were at 223.2 million barrels or 30 million barrels above last year's level;

—Aggregate primary stocks of crude oil and petroleum products were 1,351 million barrels—near record high levels—and 164 million barrels, or 13 percent, above last year's normal operating level.

These stock levels are not only high in absolute terms, but are particularly high considering that total petroleum consumption for the four weeks ending August 29, 1980, had declined about 12 percent as compared to the corresponding period of a year ago, and imports for the first 8 months of 1980 have decreased by about 20 percent from the same period in 1979.

Measures already in place to cope with disruptions include:

—Establishing the Office of Energy Contingency Planning within ERA, with direct reporting responsibility to the Secretary;

—Streamlined data-gathering systems, national and international, to track crude oil shipments from the source through the refinery to distribution; and

—A program of systematic consultations with the major refiners to determine more accurately, and in a timelier fashion, inventory positions and refiner inventory management plans.

We also have under active review a set of specific actions in the areas of:

—Fuel switching

—Public information

—Inventory management

—Demand restraint

In the area of fuel-switching we would encourage oil-to-gas substitution, and promote electricity generation from non-oil fuels through our authorities under the Fuel Use Act⁶ and other statutory authorities. Considerable cooperative work is now underway with utilities and private industry to develop a detailed implementation program.

In the area of public information, we are developing a comprehensive program to tell the general public:

—What the current foreign situation is to the best of our knowledge;

—What the present domestic supply/demand situation looks like;

—What actions we are taking on a voluntary as well as regulatory basis; and

⁶ The Power Plant and Fuel Use Act (P.L. 95–620) was part of the National Energy Act of 1978.

—What we want each energy use sector to do in response to the dynamics of the situation.

The basis for effective action to influence, and regulate—if necessary—inventory management is in place through the combination of consultations and supporting data systems, which will provide more accurate and timely information.

Finally, there are several demand restraint actions, of the non-price variety, which are on stand-by and could be activated rapidly if needed; among these actions are:

- Stricter enforcement of 55 mph speed limit;
- Extension of building temperature restrictions;
- Other emergency conservation measures such as odd/even and minimum purchase requirements, and even, if necessary, state mandatory consumption targets (Title II of EECA).

Non-Public Steps/IEA

We will have to maintain close consultations with our partners in the IEA, with other affected consuming countries such as France, and possibly with Brazil, given its more than 50 percent dependence on Iraq and Iran for oil supplies.

IEA countries as a group obtained 1.2 MMB/D from Iraq, and 230 MB/D from Iran for the first half of 1980. (These figures are being verified with the Secretariat in Paris.) At a combined total of approximately 1.5 MMB/D of crude supply, this amounts to roughly 4 percent of IEA consumption of 36.5 MMB/D for the year ending March 30, 1980; consequently, there is no immediate reason to invoke the general allocation system.

The Secretariat currently estimates that based on its data, the following countries could be over the individual 7 percent disruption threshold:

<i>Group A</i>	<i>Group B</i>
Greece	Japan
Italy	Netherlands
Spain	Belgium
Portugal	
Turkey	

The Mediterranean countries, in category A, obtain much of their Iraqi oil through the pipeline that goes through Turkey; thus it is possible that if this pipeline is not interdicted, the effect of an interruption in shipments via the Gulf would be attenuated; we are working with the Secretariat to develop the figures.

Preliminarily, it appears that the IEA Secretariat is inclined to work with the affected member countries to determine the precise magnitude of their shortfall, and to see whether informal ways, through voluntary reallocations, can be devised. The IEA Secretariat advises that the first reaction of the Governing Board Chairman, Niels Ersboll (Denmark), is that the IEA should avoid the mistakes of 1979, and find a combination of conservation measures, restraint on the spot market, and coordinated uses of high inventories to deal with what could be a price problem rather than a supply problem, unless events change their course.

Leslie J. Goldman⁷

⁷ Peter Borré signed for Goldman above this typed signature.

283. Memorandum From Henry Owen of the National Security Council Staff to President Carter¹

Washington, September 25, 1980.

SUBJECT

Comments on the Duncan–Yamani Conversation

Although the conflict between Iran and Iraq dominates our immediate concerns about oil supply and prices, I believe the most important development on the international energy front continues to be Saudi Oil Minister Yamani's campaign to institute scheduled OPEC price adjustments indexed to OECD inflation, exchange rate movements, and OECD economic growth rates. As Charles Duncan reported in his September 19 memorandum,² Yamani was confident immediately after the OPEC Vienna meeting that he could win agreement by the time of the OPEC Summit meeting in Baghdad, November 4–5. Now, of course, the Iraq–Iran war may force postponement of that meeting and possi-

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 48, Rutherford Poats File, Chron, 9/17–30/80. Secret. Sent for information.

² Duncan met with Yamani in Geneva on September 19; the memorandum of conversation, September 19, is *ibid.*, Brzezinski Material, Country File, Box 68, Saudi Arabia, 8–9/80. Duncan's memorandum to Carter about the conversation is *ibid.*

bly also prevent holding preparatory sessions, the first of which was to be in London October 14.

Yamani gave Duncan a surprising assurance about the most obvious flaw in the scheme's early draft: it will, he said, contain a supply management component providing for injection of additional supplies of oil (from countries with excess capacity) into the market when a shortage threatens, as well as providing for production cuts when a glut threatens. If this is confirmed by OPEC decision, the one-sided floor price scheme that we feared was in the making could become, instead, a price-regulating system designed to bring OPEC prices gradually up to some notional parity with alternative fuels.

Duncan properly sounds a note of caution on whether a supply assurance actually will be adopted by OPEC and given operational meaning. Undoubtedly any supply assurance will be loose enough to permit use of the oil weapon over Arab-Israeli issues. In addition, the price-indexation formula now proposed needs adjustment to cure its inflationary bias.

Nonetheless, if Yamani is right in his optimism, we may be within hailing distance of an OPEC decision that offers a qualified promise of two years of fairly predictable gradualism in oil prices.

The next step is to work out a common response among the Summit countries to the pending OPEC price-supply strategy—a response designed to produce needed improvements in its terms without exposing us to pressures for extraneous concessions on aid, trade and financial issues in the UN North-South arena. Charles Duncan discussed today with the Italian and French energy ministers the possibility of an October meeting of officials to this end.

**284. Memorandum From the Executive Secretary of the
Department of State (Tarnoff) to the President's Assistant for
National Security Affairs (Brzezinski)¹**

Washington, September 26, 1980.

SUBJECT

The Iran–Iraq Conflict

Described below is the summary outcome of an interagency meeting on the Iranian–Iraqi conflict held today, chaired by Hal Saunders, which aimed at anticipating SCC needs for information or policy suggestions. Participants also reviewed the prospect of new problems and new opportunities emerging from the crisis.

1. Dealing with the energy implications:

Discussion: We must prepare for two contingencies: (a) If the present curtailment of Iranian and Iraqi oil shipments continues for 2–3 months, there will be psychological pressure on prices. Consumers heavily dependent upon Iraq—France, Brazil, and India for instance—might feel strongly inclined to resort to the spot market, adding to price pressures. (b) If exports from a significant number of other Gulf producers are also curtailed, we should have assessed the consequences in advance and readied steps to minimize them.

Decisions:

—to ascertain precisely how much oil the Iraqi pipelines to the Mediterranean through Turkey, Syria, and now Lebanon could handle and, conversely, the consequences of shutdown. (Action: State/EB, State/INR, DOE, Treasury, CIA)

—to estimate how partial or total further curtailment of Gulf oil production and shipments (caused by harassment of shipping, damage to facilities, political actions, etc.) might affect the world energy scene. (Action: DOE, State/EB, State/INR, Treasury, CIA)

—to prepare a paper analyzing in what fashion France and Brazil, among other major consumers of Iraqi oil, might be protected adequately, noting that France has a closer connection with the IEA than Brazil. (Action: DOE, State)

—to *consider* preparing a cable to appropriate posts providing our assessment of the oil situation, and how key consuming countries could best deal with the situation through inventory management and

¹ Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 34, Iran/Iraq, 9/80. Secret; Exdis.

care in entering the spot market. The principal objective would be to avoid driving prices up. (Action: State/EB, with DOE and Treasury)

—to identify countries where we have important military strategic understandings, aside from major states such as France and Brazil, which might be affected by the oil situation. The ultimate purpose might be to provide such countries special help in bridging future supply problems. (Action: State and DOD)

—to *consider* consulting with the major oil companies to assess the market picture and potential problems with the most seriously affected nations. (Action: DOE and State, after consultation with the Justice Department)

—to *consider* contingency discussions with major producing states on accommodating short-term demands and helping to bridge problems. (Action: State/EB, DOE, Treasury)

—to investigate whether the new tanker routing in the Gulf ordered by Iran will prevent or imperil movement of the largest tankers. (Action: State/EB, with Commerce)

—to continue an informal interagency oil group to monitor these problems, which would not cut across the Carswell efforts. (Action: State, DOE, Treasury)

—to consider an early IEA Governing Board meeting to discuss coordinated action. (Action: State and DOE)

[Omitted here are discussion and decisions on “efforts to end the war and mediate the crisis.”]

285. Memorandum From Secretary of Energy Duncan to President Carter¹

Washington, October 10, 1980.

SUBJECT

Trip to Venezuela and Meetings with President Herrera and Minister of Energy and Mines Calderon Berti

At the invitation of Energy Minister Calderon Berti, I visited Venezuela on September 30 and October 1. Because of the need to monitor world oil market developments and develop coordinated stocking policies with our allies, the originally planned three day trip was shortened to a day.

The discussion with President Herrera on the morning of October 1 lasted almost an hour and a half and was frank and cordial. The discussions through the remainder of the day with Energy Minister Calderon Berti covered a broad range of issues, including the world oil market and the expanding technological cooperation between our two countries. A speech I gave to the Venezuelan-American Chamber of Commerce offered the opportunity to stress our own domestic energy achievements and reassure public opinion that the U.S. and Venezuela have a growing and mutually beneficial energy relationship.

Attached you will find detailed memorandums of conversation of these meetings as well as a copy of the joint communiqué we issued.²

Summary of Meetings

President Herrera asked that the U.S. help insure that major oil companies act with restraint in world crude markets. He stressed the importance of the Venezuelan aid program being organized for energy development in the hemisphere, and asked for our technical and financial help. He took note of my observation that countries, like Brazil, heavily dependent on Iraq for oil, will need short-term supply relief and indicated a desire to settle outstanding nationalization tax claims with U.S. majors.

In a confidential meeting, Minister Calderon Berti expressed interest in reviewing funding possibilities for heavy oil development

¹ Source: Carter Library, National Security Affairs, Staff Material, North/South File, Box 47, Pastor Country Files, Venezuela, 1–12/80. Confidential. Carter initialed the memorandum.

² The memoranda of conversation are attached but not printed. The joint communiqué is not attached, but the text was transmitted in telegram 8851 from Caracas, October 6. (National Archives, RG 59, Central Foreign Policy Files, D800479–0428)

through our Energy Security Corporation. He also stated his intention to help Brazil secure additional oil supplies and to urge Mexico to also provide such aid. In a wider meeting he expressed approval of our intention to encourage refinery retrofits to use Venezuelan heavy crude oil, and asked our help in acquiring excess residual fuel oil for the next two years in exchange for future oil supply assurances. He also asked our help in securing Canadian participation in Venezuela's hemispheric energy development program and expressed a desire to settle the nationalization tax claim issue with U.S. majors, although he said it might take some time.

Following is a more detailed review of the most significant aspects of these meetings.

Meetings with President Herrera

- *U.S. Oil Companies*

The President stressed the importance of the U.S. role in insuring that major multinational oil companies did not bid up spot prices in the delicate world oil market brought on by the Iran–Iraq war. The President indicated that Venezuela wanted to be responsible, but if oil company speculation caused major price rises, the OPEC nations would find it difficult not to take such additional profits for themselves. I assured him that we had already been in touch with approximately 30 of the top companies and were working closely with our IEA partners to develop a coordinated stock policy to insure the continuation of calm markets.

- *Western Hemisphere Energy Facility*

The President stressed the importance of Venezuela's efforts through the Organization for Latin American Energy Development (OLADE) to develop a hemispheric aid program designed to support energy development in the smaller nations. He noted that at the appropriate time it would be important for the U.S. to provide technological and financial support. I indicated that the United States was prepared to pursue this important objective on a world-wide basis through an expanded World Bank facility. The President said he would study how this might fit with the Venezuelan effort.

- *Help to Brazil*

I indicated the importance, in view of the potential psychological market difficulties presented by the Iran–Iraq conflict, that hemispheric countries like Brazil, which were heavily dependent on Iraqi oil, be provided some kind of temporary aid so as to avoid inflaming the spot market. I did not press the President for a specific commitment on this

point, but was assured later by Calderon Berti that Venezuela would help Brazil.

- *Nationalization Claims*

I concluded by noting the importance of settling the outstanding oil nationalization tax claims between Venezuela and several U.S. majors in view of the growing importance of our bilateral relations. The President expressed a desire to do so, indicated that they would be moving within the next several weeks on settlements with several smaller companies, and would continue to seek solutions to the multi-million dollar claims against the American majors formerly operating in Venezuela.

Meeting with Calderon Berti

- *Confidential Session*

In a confidential session I indicated to the Minister that the authorizing legislation for the Energy Security Corporation³ provided for two hemispheric projects outside the United States involving a potential of several billion dollars. I indicated that the Corporation would be willing to explore participation in the massive investment that would be needed to develop heavy oil facilities. The Minister expressed an interest in studying a memorandum we promised to provide on this possibility. The Minister also expressed Venezuela's intention to urge other countries, like Mexico, to help Brazil with oil supplies. He also indicated his strong desire to solve the politically difficult nationalization claims question. He offered no other details.

- *Heavy Crude Oil Trade*

He complimented me on my statement before the Chamber of Commerce referring to the U.S. intention to encourage the construction and retrofit of refineries to handle Venezuela's increasing heavy crude production. He stressed that the greatest quantities of heavy crude would go to those countries which offered the most in return to Venezuela. While noting that negotiations for guarantees of heavy crude supplies to some U.S. companies were underway, the Minister said that Venezuela was very close to closing deals with France and Germany for specific heavy crude quantities in exchange for broad-ranging assistance programs.

³ The Energy Security Corporation was renamed the Synthetic Fuels Corporation in the Energy Security Act of 1980.

- *Residual Fuel Oil Problem*

The Minister noted a special refinery problem Venezuela will have over the next several years and asked for our help. When Venezuela's major refinery upgrading program is complete in two years, they will have maximum flexibility to produce a broad range of crude oil products. Until then they must refine a minimum amount of residual fuel oil to meet domestic gasoline demand. This includes a need to sell approximately 400,000 barrels per day of residual fuel oil to the United States. In part because of our efforts to back out of oil, residual sales to the U.S. have sunk to as low as 260,000 barrels per day. The Minister suggested that if the U.S. could guarantee enough fuel oil sales to solve this Venezuelan surplus problem over the next two years, Venezuela in turn would be willing to give some specified level of supply assurance to the U.S. for the future. In the alternative, the need to sell this residual fuel oil in European markets would mean less future supplies to the United States. I promised the Minister to study this matter and get back to him. We are currently developing options, including the possibility of using such fuel oil for a regional SPR, to take advantage of this offer.

- *Hemispheric Energy Program*

The Minister elaborated on Venezuela's plans for a hemispheric energy development program. He noted there would be a meeting this week in Rio de Janeiro of the OLADE countries to continue to develop their proposal and another meeting at the end of November to finalize the package. After the first of the year, he expected that the OLADE countries would be in a position to seek possible technical and financial participation from the United States and Canada. He specifically asked my help in convincing the Canadians that this would be a worthwhile undertaking. While making no long-term commitments concerning our financial participation, I continued to endorse the general concept and indicated I would speak to the Canadians.

- *Oil Facility Agreement*

The Minister also asked if we would help facilitate implementation of the Venezuelan-Mexican oil facility designed to assist nine small Caribbean countries with their oil purchases. He noted that implementation of this agreement would require cooperation from the major oil companies, an area where we could prove helpful. I observed we had already responded to such a request from Mexico with regard to Nicaragua and stood prepared to help if Venezuela would provide us with the appropriate specifics.

- *OPEC Meeting*

The Minister observed that he doubted the November 3 OPEC heads of state meeting in Baghdad would take place, although he indi-

cated that the October 14 meeting of OPEC oil ministers in London would now take on new significance in view of the Iran–Iraq conflict.⁴

In the afternoon I received a briefing from the Chairman of the Board of Petroleos de Venezuela concerning Venezuelan heavy oil development plans and the massive investment that will be needed to meet the goal of one million barrels per day of heavy oil production by the year 2000. In this regard, the Umbrella Agreement on technical cooperation I initialed with Calderon Berti when he visited here last March⁵ was expanded during this visit by the addition of three more projects specifically directed at perfecting heavy oil technologies.

The continuing expansion of our technology exchange and the frank expression of our views concerning the complementary roles of Venezuela, OPEC, the United States and its consuming allies in acting responsibly to stabilize world oil markets, served to further develop the expanding relationship with Venezuela and Energy Minister Calderon Berti.⁶

⁴ Both meetings were postponed. The Oil Ministers of Saudi Arabia, the UAE, Qatar, and Kuwait met in Taif on October 10 and agreed to increase production by a million barrels jointly. (*The New York Times*, October 14, 1980, p. D1)

⁵ The agreement was signed on March 6 during Calderon Berti's visit to Washington.

⁶ On October 11, Owen sent a memorandum to the President commenting on Duncan's memoranda: "Charles Duncan's visit to Venezuela appears to have advanced two of our major energy security purposes: to cement the kind of US-Venezuelan energy relationship that will help to accelerate the development of Venezuela's huge heavy crude oil resources, and to secure reliable access for hard-hit countries to additional Venezuelan oil supply in an emergency." (Carter Library, National Security Affairs, Staff Material, North/South File, Box 47, Pastor Country Files, Venezuela, 1–12/80)

286. Briefing Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Hinton) and the Assistant Secretary of State for European Affairs (Vest) to Secretary of State Muskie¹

Washington, November 11, 1980.

SUBJECT

The Impending Oil Crisis: Policy Options

I. Summary

There is a serious risk the world will face an oil supply shortfall of 1 million barrels per day (mb/d) or more through the first half of 1981. Unless the U.S. and other major oil importing nations take immediate and strong actions, we risk a repeat of 1979 when market panic turned a small shortfall into a more than doubling of oil prices. The world economy can ill afford another such shock. The present International Energy Agency (IEA) policy of encouraging stock drawdowns and avoiding abnormal spot market purchases can be successful only as long as market participants believe that a resumption of oil supplies from Iran and Iraq will occur during the first quarter of 1981 or before. As that belief fades, many companies and governments suffering shortfalls will enter the spot market and drive up prices; this is already beginning. The IEA nations need to act before the end of this year to restrain oil import demand and to ensure that oil will be available to countries and companies experiencing serious shortfalls if we are to avoid a sharp increase in oil prices. There are four major options for an internationally coordinated response—reinforce present voluntary policies, impose politically binding national oil import ceilings, trigger the IEA emergency oil sharing system, or combine ceilings with a selective triggering of the IEA system. Under all four options, but particularly the last three, the U.S. would be required to adopt strong, politically difficult domestic energy policy measures. State, DOE, and the NSC (Henry Owen) are consulting with other IEA members and with the White House and OMB and will have a recommendation for you and Secretary Duncan to send to the President early next week.

II. The Problem

The war between Iraq and Iran has taken 3.8 mb/d of oil imports off the world market, over 8% of non-communist production. Since

¹ Source: National Archives, RG 59, Central Foreign Policy Files, P870012–0201. Confidential; Exdis. Drafted by Hecklinger and Bullen and cleared in E, EUR/RPE, S/P, NEA/RA, and EA.

world consumption has declined, we can simply do without some of this oil—about 1 mb/d. Another 1–1.5 mb/d is apparently being made up through increased production from the Saudis and other OPEC nations. This leaves a shortfall of over 1 mb/d, which is now being met by above normal stock draw-downs and some belt-tightening by nations without adequate stocks. Depending on a number of factors—how much additional supply is made available by OPEC nations, whether companies and individuals begin to hoard oil, and whether the war expands or interferes with Gulf shipping, the shortfall could become much larger.

The current shortfall is not distributed evenly among countries and companies. The US lost a very small percentage of its oil. France lost 30%, Italy 15%, Japan 8%, Turkey 70%, Brazil 43%, and India 45%. (Turkey and Portugal are in especially difficult straits; supplies probably can be found for Portugal, but it is proving much more difficult to meet Turkey's needs.) Also many small nations depended on Iraq for most of their oil needs and at concessional terms. Even in countries which have lost little overall, certain companies have suffered substantial losses. This means that even though world stocks are high, some nations and companies are experiencing serious difficulties now and others will soon. If they are unable to secure adequate supplies from other producers, they will turn to the spot market to make up their shortfall. India and others have done so already.

Spot market prices have already increased, in some cases over \$5 per barrel. As the war and the shortfall continue, prices will rise much faster; they will soon surpass the \$40+ levels reached in 1979 and will likely break the \$50 per barrel level by early 1981. Eventually, as in 1979, official OPEC prices will be raised in response. OPEC ministers meeting in Bali on December 15 to set new prices will be very attentive to price trends on the spot market. Also in December, long term contracts for 1981 between producer countries and companies will be negotiated. Some producers, in response to rising spot prices, will impose surcharges of probably \$5–\$7/bbl on their official prices (more than 15% above current prevailing prices).

The consequences of oil price rises are significant. The CIA has estimated that each \$10 per barrel rise in the price of oil results in a .7% increase in inflation in the first year in OECD countries (plus another .7% in the second year) and a .5% decrease in economic growth in the first year (.3% and .2% in the second and third years). The effects on developing countries are even more severe.

IEA nations agreed on October 1 to take steps to avoid abnormal purchases on the spot market and to meet any shortfall through stock draws. This has had some effect, but cracks in the IEA facade are appearing. Stocks are largely in private hands and companies will be re-

luctant to draw them down even at normal rates if they think that the shortfall will continue into 1981. The current IEA policy is based on jawboning and persuasion; it cannot force companies to draw down stocks, nor can it reallocate oil to IEA or non-IEA nations or companies facing the most serious shortfalls to prevent them from resorting to the spot market. Producer allocation of additional production will help some, but far from all, of those in need.

The IEA Governing Board meets November 20–21 and IEA ministers on December 8–9. We believe that strong action must be taken if we are to avoid another economic disaster on the order of 1979. The IEA can reduce pressure on prices in two ways: 1) reducing demand for imported oil, thereby making extra oil available generally to nations and companies which need it, and 2) reallocating oil to those countries and companies in need. The former is necessary to cover a shortfall, but taken alone may not be sufficiently rapid or direct to stem rising pressure on the spot market; the latter would better meet the spot market problem, though there is no formal IEA mechanism to redirect oil to non-IEA countries.

Procedural and Political Factors:

The actions we propose will depend on what emerges from our consultations with other IEA nations, especially Japan, the UK, and FRG, and France and the domestic measures the U.S. is willing to adopt to support our efforts in the IEA. The IEA Secretariat appears to be advocating a triggering of the sharing system. We will discuss this with IEA Executive Director Lantzke in Washington next Sunday. We do not yet have a full readout of the positions of the other major countries, though at the October Governing Board meeting² the Germans appeared more amenable to setting ceilings than we expected. We foresee difficulties in persuading the UK to agree to ceilings or triggering. Since the UK is almost a net exporter, it is shielded from many of the direct effects of a shortfall; also it fears that a system of ceilings would indirectly give other countries some control over its production levels. After we are more certain of what measures we can implement domestically, we will be able to deal with the British, Germans, Japanese and others more effectively.

The Options

Option 1: Reinforce Present Policies

IEA nations would continue to persuade their companies not to resort to the spot market and to draw down stocks to meet shortfalls. To

² The October 21 meeting is summarized in telegram 33213 from Paris, October 22. (Ibid., D800505–0165)

strengthen our efforts we could use more forceful jawboning and adopt voluntary stock targets. While this would be the path of least political resistance in the IEA and would require the least sacrifice by the U.S. in the short-term, it would not be adequate to prevent a substantial price increase if the shortfall continues.

Option 2: Adopt National Oil Import Ceilings

IEA nations (and France) could adopt ceilings to reduce oil import demand by an amount sufficient to cover the entire world shortfall or the IEA share of that shortfall (over 75%). The reduction could be allocated among IEA nations as a proportion of imports or consumption; though the former would be more advantageous to the US, it would more politically feasible and equitable to base ceilings on consumption. Thus, if the shortfall were 1 mb/d, the US would have to absorb an import cut of 470,000 b/d resulting in an import ceiling of about 6.6 mb/d (including territories). While some believe we can achieve this through present policies and mandatory fuel switching by utilities, (assuming no abnormal stock building), additional measures might be needed.

Advantages: IEA nations will probably accept ceilings, although negotiations will be difficult. Ceilings could be set to cover the entire world shortfall, not just the IEA share as would be the case with the oil sharing system (Option 3). Ceilings can be flexible enough to take into account factors such as economic growth prospects, recent changes in consumption levels, etc., that are not fully taken into account in the oil sharing system.

Disadvantages: There is no guarantee that IEA nations will take the domestic demand restraint measures necessary to achieve their ceilings. Even if they try to do so, they may not succeed since few if any would adopt a fail-safe measure like a quota. Also nations might not act with the speed necessary to take pressure off the spot market. Monitoring is difficult; success can only be determined after some months. Ceilings do not provide for directing supplies to oil short IEA and non-IEA nations; this would have to be done indirectly through consultation with oil companies. A ceiling system would not automatically provide legal authority for IEA governments to implement strong domestic measures.

Option 3: Trigger the Oil Sharing System

A “general trigger” is possible when the IEA as a whole has a shortfall greater than 7% of a base period (the previous four quarters with a quarter lag). Any member with a 7% shortfall can pull the “selective trigger” and the other nations will make up any shortfall above that 7%. Since IEA oil consumption has been declining, the IEA’s oil supplies were almost 7% below the base period even before the Iran/

Iraq war. The shortfall may cross the 7% general trigger threshold if lost Iranian/Iraqi oil is not substantially made up. If it does not, the general trigger threshold could possibly be reduced to less than 7% by unanimous vote.

Advantages: This system could be implemented quickly, making use of a previously agreed mechanism and formula. It would give the U.S. and other IEA governments legal authority to implement strong domestic measures such as enhanced demand restraint, domestic oil allocation, and stock controls. It would make oil available to hard-hit IEA countries and companies reducing the tendency to resort to the spot market. Its operation is based on monthly estimated data, ensuring prompt monitoring and response to changing conditions.

Disadvantages: The system limits each country to its formula share of available oil; this could hold Turkey, Portugal, Greece and Italy, for example, below needed import levels. The U.S. would be required to supply oil to other countries, amounting to 200,000–300,000 b/d for a group shortfall of 1–1.5 mbd (however, this will probably be less than under ceilings). The need to compensate U.S. companies which gave up oil could eventually force the U.S. to implement domestic oil allocation—which poses political and practical problems. The system allocates oil according to a base period (July 1979–June 1980) which does not reflect current oil requirements. It does little for non-IEA countries. The margin of error of data used makes it difficult to trigger for a small shortfall. Further, the system, though tested, is yet untried. Finally, triggering could cause market nervousness.

Option 4: Selective Trigger with Ceilings

Oil import ceilings could be combined with a selective triggering for hard-hit IEA countries such as Austria, Greece, Ireland, Italy, Portugal, Spain, and Turkey.

The advantages and disadvantages of an import ceiling system are applicable to this option. In addition, while this option would provide some direct assistance to hard-hit countries, relief would be limited to 93% of the base period. These countries might be better off with only a ceiling system if additional supplies could be assured informally. Also countries in a technical trigger situation but not really short of oil (Germany, the U.K., Belgium, Switzerland, and probably the U.S.) might be tempted to trigger to avoid incurring an obligation to supply oil to other countries; this would make the system unworkable.

287. Memorandum From Secretary of Energy Duncan and Secretary of State Muskie to President Carter¹

Washington, November 19, 1980.

SUBJECT

IEA Measures for Dealing with the Continuing Oil Supply Crisis

Summary

The increasing possibility of a longer Iran–Iraq war and a longer repair period for damaged oil facilities once the war ceases lead to the conclusion that stronger measures by consuming countries will be needed if we are to avoid a sharp increase in oil prices such as occurred during the 1979 Iran crisis. We seek your approval of a two stage strategy, involving a U.S. lead effort to secure informal oil allocations by relatively crude-rich multi-national oil companies for those IEA countries most immediately hurt by the supply disruption, and rapid negotiation within the IEA of realistic national oil import ceilings for 1981.

Background

The continuation of hostilities, as well as increasing damage in recent weeks to Iraqi oil facilities, leads to the conclusion that a normal oil market is unlikely for the next several months. Both sides seem capable of several more months of war and while the intensity of the fighting should decline due to the advent of winter, our judgment is that hostilities are unlikely to end soon. At present, we estimate a 3- to 6-month period will be needed to repair facilities before Iraq can begin to export more than 1 million barrels per day (MMB/D) (prewar exports were 3.1 MMB/D). Even with the increased production from other OPEC countries, we expect that the shortage in the first quarter of 1981 will be some 2.5 MMB/D. Cumulative losses to the world oil market are, therefore, expected to reach at least 300 MMB, and could exceed 500 MMB or 750 MMB. This can be compared to the 200 MMB shortfall experienced during the Iran crisis of 1979, which resulted in a doubling of world oil prices. We are indeed fortunate that inventories are substantially higher today, but the potential for price increases is real.

While the United States imported no oil from Iran and very little from Iraq (35,000 B/D from Iraq), IEA countries such as Turkey and Portugal lost 70 percent and 50 percent of their consumption needs re-

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 49, Rutherford Poats File, Chron, 11/12–30/80. Secret. Carter initialed the memorandum.

spectively, while Spain, Italy, and Japan also lost large volumes. Allowing for production increases and stock drawdowns, these IEA countries will be left with an aggregate shortage in the range of 500 MB/D, moving into the first quarter of 1981. Several non-IEA countries, such as France, Brazil, and India were also hurt.

Spot market prices began increasing in October as an initial response to the fighting. They have been rising slowly but steadily since then, and are now about 30 percent above pre-war levels though volume has been thin thus far. In the coming months one can expect further and perhaps accelerated increases to levels well above \$40, and perhaps approaching \$50 if a way other than the spot market is not found to meet the shortfall of the most affected countries. As happened in 1979, this could give OPEC Oil Ministers a rationale to increase official prices substantially, and press reports indicate this possibility.

The first IEA response to the crisis was appropriate; on October 1, the IEA members agreed to encourage companies to avoid abnormal spot purchases and to draw stocks in the fourth quarter to meet shortfalls.² However, with the worsening situation of the West European and Mediterranean countries and the date for resumption of full production receding, these measures will have to be augmented if we are to avoid the potential of significant price pressures in early 1981.

Approach

As the first step in our preferred strategy, the United States and other principal IEA members would launch a vigorous, informal effort to have multinational companies (predominantly the ARAMCO partners) redistribute supplies to those IEA countries most in need. Initially this means Turkey and Portugal, perhaps to be followed by others as we move into the first quarter of 1981.

Simultaneously, we would push for the negotiation and adoption of realistic national oil import ceilings, to be set for 1981 and reviewed quarterly, by the IEA countries and France. Earlier this year the IEA agreed to adopt such a system for converting national oil import yardsticks into binding ceilings if market conditions warranted. Our objective at the December Ministerial would be to adopt the ceilings for 1981; if this proves too difficult, we would at least aim to have completed the difficult ceiling negotiation and put in place a system for immediate adoption by the IEA Secretariat and/or Ministers of binding ceilings if they believe rising spot prices early next year so require.

² The IEA members, noting lowered oil consumption, high levels of oil stocks, and spare production capacity, were convinced that "overall supply of IEA Countries and other countries can be managed so as to meet demand over the next few months." (Scott, *The History of the International Energy Agency*, vol. III, pp. 121–123)

The United States is in a strong position to initiate this action. The supply shortfall to us is minimal, while our stocks are at historic levels and our consumption is declining. In the IEA negotiations, we would make it clear that we are prepared to urge our companies, particularly the ARAMCO partners, to redistribute supplies to the five troubled IEA countries, in exchange for assurances that all members were prepared to abide by the ceiling levels once established. We have already contacted the four ARAMCO partners (Texaco, Exxon, Mobil, Socal); they have indicated a willingness to discuss an effort to avoid the formal triggering of the IEA allocation system.

Implementation

If you concur in the proposed action, we will need to move quickly with our IEA partners to begin the yardstick/ceilings negotiations with other consuming nations. The IEA Governing Board meets November 20–21, and IEA Ministers meet December 8–9. The Europeans and Japanese are reviewing options and the time to propose a U.S. initiative is now. High-level EC meetings, at which the Europeans will firm up their positions, are scheduled for November 27 with Energy Ministers, and December 1–2, at the Heads of Government level. Our initial soundings with EC officials indicate that if we are able to assist the most severely affected countries in their short run allocation problems via the ARAMCO partners, then the EC may be forthcoming on the ceiling negotiations.

The character of the U.S. domestic response will be a crucial tool in persuading our partners to follow our lead. A separate memorandum concerning recommended domestic initiatives is being prepared for you.³

Recommendation

That you authorize us to seek in the IEA an informal allocation agreement to distribute supplies to those IEA countries most seriously affected and to undertake the process of establishing national oil import ceilings. This approach is also supported by Bill Miller, Charlie Schultze, Stu Eizenstat and Henry Owen.⁴

³ Not found.

⁴ Carter checked the Approve option and initialed.

288. Memorandum From Secretary of Energy Duncan to the President's Assistant for National Security Affairs (Brzezinski)¹

Washington, November 20, 1980.

SUBJECT

DOE Response to Persian Gulf Security Framework Memorandum²

Our response is limited to the two sections dealing with DOE related oil issues:

(A) Current Status of Goals: Economic Component, Oil

We believe the oil outlook is less favorable than suggested in the memorandum. If Persian Gulf military hostilities continue through the winter, as now seems likely, oil exports from the Gulf will not approach pre-war levels until after mid-1981. Spot prices are rising steadily, although thus far most buyers have remained publicly calm and refrained from large-scale purchases. However, with heavier demands for winter heating supplies, recent warnings by Saudi officials that the world may be on the verge of a new round of panic oil buying and a world-wide reluctance to deplete existing stocks, the situation could easily deteriorate. If buyers panic, producers may seek to impose higher contract prices and premiums on their long-term customers.

(B) Goals for the Future: Economic Component, Oil

We agree that continued progress on oil pricing, availability and conservation is critical. We also feel that prices might soon rise as much as \$8, \$10 or even by much larger increments per barrel if a more widely destructive war, a harsh winter, or other unforeseeable risks occur. We should seek IEA agreement on oil import ceilings for 1981 to reduce pressure on the world oil market. We could also take the lead by adopting a variety of moderately stimulating energy supply enhancement, fuel switching, and oil demand-restraint measures. These actions

¹ Source: Department of Energy, Executive Secretariat Files, Job #8824, International Affairs, 10/80–12/80. Secret.

² Brzezinski's November 5 memorandum to Muskie, Brown, Miller, Duncan, McIntyre, Jones, and Turner on the Persian Gulf Security Framework noted that the loss of Iraqi oil due to the Iran–Iraq war was “yet to be felt” because Saudi Arabia and others helped make up for the shortfall. Brzezinski added: “Prices are stable and consumption in the West is down. We have begun to fill the strategic petroleum reserve. The Venice Summit and actions by the IEA have helped convince oil producers that we are serious about our energy policies and have helped stabilize the oil market.” (Ibid.) Brzezinski sent an earlier memorandum on the subject to the same recipients on June 3. It included a summary of the status report that was sent to Carter based on the 12 SCC meetings on the security framework for the Persian Gulf. (Carter Library, Brzezinski Donated Material, Box 5)

could provide the basis for a multilateral effort to impose import fees or other measures that would pre-empt producer price increases and minimize economic damage to consumer economies.

289. Memorandum From Secretary of Energy Duncan to President Carter¹

Washington, December 4, 1980.

SUBJECT

Further IEA Measures for Dealing with the Continuing Oil Supply Crisis

Summary

On November 19, you approved a two stage U.S. strategy for the upcoming IEA Ministerial in Paris on December 8 and 9.² This involved a U.S.-led effort to secure informal oil allocations by relatively crude-rich multinational oil companies for those IEA countries most immediately hurt by the Iraq–Iran war, and rapid negotiation within the IEA of politically-binding national oil import ceilings for 1981.

At the November 21 IEA Governing Board meeting,³ the willingness of the U.S. to help correct supply imbalances was well received, but most member countries indicated reluctance to adopt national oil import ceilings at this time. Another meeting was set for December 5, however, to review the country-specific numbers that would be required to establish binding import ceilings for 1981 to bring supply and demand into balance.

In addition, the Reagan transition organization⁴ has advised me today that it is opposed to the concept of import ceilings, thus implying that efforts by me to persuade the IEA to adopt binding ceilings now would be disavowed by the new administration when it takes office.

My judgment is that market conditions still warrant the adoption of import ceilings now. The spot market has been calmed somewhat by the reopening of the Turkish and Syrian pipelines from Iraq, but the

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 49, Rutherford Poats File, Chron, 12/1–8/80. Confidential.

² See Document 287.

³ Telegram 36747 from Paris, November 24, summarizes the meeting. (National Archives, RG 59, Central Foreign Policy Files, D800563–0317)

⁴ Republican nominee Ronald Reagan won the November 4 Presidential election.

potential for significant supply problems in 1981 if member countries do not take measures to reduce import levels still remains very high. However, given the clear reluctance of other member countries to adopt binding import ceilings now and the views of the Reagan organization on ceilings, it is not realistic to expect that the upcoming Ministerial meeting will adopt import ceilings.

In these circumstances, I request your approval of a strategy that would have the U.S. delegation state at the IEA meeting that:

- It is our view that ceilings should be adopted now;
- If adoption of ceilings is not a realistic alternative at this time, the ministers should agree to a standby mechanism that could be immediately implemented by a Secretariat decision that would result in a Ministerial convocation on 48 hours notice for purposes of quick implementation.

In addition, we would continue to offer U.S. assistance in correcting informally the supply imbalances that currently exist.

The annual IEA import reduction level I would propose for the standby program would be in the range of 1.5 MMB/D. Based on our share of IEA oil consumption, this would imply a U.S. import ceiling no lower than 6.5 MMB/D. (U.S. oil imports will average about 6.6 MMB/D in 1980, but less than that in recent weeks.)

Background

The U.S. delegation at the November 21 meeting of the International Energy Agency made some progress in moving the member countries towards serious consideration of realistic national oil import ceilings for 1981, although several members still have a wait-and-see attitude. The resumption of Iraqi crude exports via pipelines to Turkey and Syria, and the continuing exports of modest quantities of Iranian oil, combined with higher production from Saudi Arabia, Kuwait, Nigeria and a few others, have had a temporary calming effect on the spot market, where prices have recently declined slightly for the first time in ten weeks. This temporary market reaction, however, belies the serious risks which lie ahead. Even with the improved supply picture, world oil production will fall some 2 MMB/D short of projected demand in the first quarter of 1981. Even with a gradual restoration of Iranian and Iraqi export facilities, the shortfall could average 1 MMB/D for the year.

Approach

Under the agreement reached last May in the IEA,⁵ members have tentatively agreed upon likely levels of pre-war imports for 1981. These

⁵ See Document 273.

yardsticks amount to about 22.5 MMB/D. They have also agreed to convert these yardsticks into binding levels of imports, called ceilings, if market conditions so warrant. Our objective in the upcoming December 5 meeting and the Ministerial on December 8 and 9 will be to agree upon an appropriate aggregate reduction in the yardsticks that will bring supply and demand into balance and secure a commitment from all countries to reduce their yardsticks proportionately to accommodate this shortfall and turn them into binding ceilings. The ceilings would be implemented on a quarterly basis to allow for market tracking and timely review.

The IEA Secretariat, which essentially agrees with our analysis of the situation, assumes that the reduction in imports which each country undertakes should be proportional to that country's oil consumption, not its level of imports. The Secretariat, backed by most member countries, argues that a consumption-based cutback is most equitable since a nation's potential for conserving oil is related to its total oil consumption, not just imports. It is argued that countries with a high level of imports would be penalized with a greater conservation requirement by an import-based sharing of the shortfall. It will be most difficult for us to convince either the Secretariat or other countries to allocate the shortfall pursuant to imports.

The table below gives the import ceilings for the U.S. and other IEA countries plus France under varying levels of worldwide shortfall. The figures in parentheses show what the respective import ceilings would be if they were based on imports rather than consumption.

U.S. and IEA Import Levels

Estimate of Shortfall	Import Ceilings Based on Consumption and (Imports)			
	Total IEA	U.S.*		Other IEA Countries Plus France
0	22.5	7.18	(7.18)	17.47 (17.47)
1.0 MMB/D	21.5	6.7	(6.86)	16.89 (16.7)
1.5 MMB/D	21.0	6.5	(6.7)	16.57 (16.32)
2.0 MMB/D	20.5	6.27	(6.54)	16.45 (15.94)

*Includes U.S. Territories and 100,000 B/D for SPR.

With the recently-reported resumption of Iraqi exports to the Mediterranean via Turkey and Syria and periodic reports of Iranian exports from Kharg Island and the lower Gulf, we could prudently seek to have IEA import demand reduced by 1.0 to 1.5 MMB/D in the first quarter. If the situation does not deteriorate, and if key non-IEA members such as France participate in the reduction of import needs, an effort of this magnitude gives us the prospect of heading off significant price increases.

On a consumption basis, the U.S. would have an import level for 1981 in the range of 6.5–6.7 MMB/D under a 1.0 to 1.5 MMB/D worldwide shortfall. This compares to a projected 1980 import level of 6.6 MMB/D. Without any further price increases, this estimate is at the low end of the range of U.S. oil import requirements for 1981 presented in the latest forecast by DOE's Energy Information Administration, and could well require additional pricing, demand restraint, or fuel switching measures to fulfill. If new initiatives should prove necessary, either you, or more likely the Reagan Administration, could decontrol gasoline, accelerate the decontrol of crude, impose an import fee or implement mandatory demand restraint or fuel switching measures. In any event, the implementation and full effects of additional measures, should they be needed, would come well after the imposition of ceilings at these recommended levels.

Implementation

In the upcoming meeting leading to the Ministerial, other countries will continue to press us to exert ourselves with those U.S. companies with large inventories to correct short-term imbalances. This, as well as growing concern about the oil market, will give us an opportunity to press for a serious effort to cut back oil import demand in 1981 through negotiation and adoption of binding national oil import ceilings. While we will express our view of the need for adoption of 1981 ceilings now consistent with the 1.0 to 1.5 MMB/D worldwide shortfall we realistically will be in a position only to seek the placement of the appropriate ceilings in a standby status that could be triggered quickly following the December 8 and 9 meeting in the face of rapidly rising spot market prices.

Recommendation

That you authorize us to seek a 1.0 to 1.5 MMB/D reduction in the projected IEA oil import demand of 22.5 MMB/D and seek a procedure to transform this cutback into country-specific, politically-binding national oil import ceilings (6.5 to 6.7 MMB/D for the U.S.) for 1981 at the December 9 meeting or at the earliest required time thereafter.⁶

⁶ Carter checked the Approve option and wrote: "Make our case publicly as much as possible. J"

290. Telegram From the Department of State to the Embassy in Saudi Arabia¹

Washington, December 4, 1980, 0302Z.

320369. Subject: Ambassador West's Meeting with Yamani. Ref: State 302502, State 283573.²

1. Confidential—entire text.

2. There are several points which we would like you to include in your discussion with Yamani December 4, as discussed below. These cover five general areas: exchange of views on oil market situation; discussion of consumer country (IEA) actions; Saudi efforts to assist Iraq's customers; expression of concern for supply to Portugal and Turkey; and the OPEC meeting in Bali.

3. Oil Market Situation. We are grateful for incremental production provided by Saudi Arabia and (to extent it has occurred) some other Gulf states. Resumption of Iraqi pipeline exports through Turkey and possibly Syria, and small Iranian exports, are positive developments but these supplies remain vulnerable. Spot prices appear to have turned around, showing again how meaningless the spot market is in terms of long-term prices. However, the oil market will continue to call for the best efforts by all of us until the Iraq-Iran war ends and normalcy returns.

4. IEA Measures. The consuming countries grouped in the IEA, have, as you know, been taking measures to help cope with the situation. At the beginning of October, the IEA countries agreed to encourage their companies to refrain from abnormal spot market purchases, and to draw on stocks as needed to balance the market.³ Total U.S. oil stocks have been drawn down by more than 300,000 B/D since late September. We also agreed to encourage further conservation efforts. Similar decisions on stock management, spot market restraint, conservation, and maximizing domestic production have been taken by the

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D800577–1002. Confidential; Niact; Immediate. Drafted by Bullen; cleared by Morse and Twinam and in EUR/RPE, EUR/WE, EUR/SE, E, DOE/IA, and DOE/IE; and approved by Hinton. Repeated Immediate to Lisbon, Ankara, and Paris, and Exdis to USOECD Paris.

² The reference to telegram 302502 to Kingston, November 13, which concerns an unrelated matter, is apparently an error. (Ibid., D800543–0500) Telegram 283573 to Jidda, October 24, instructed West to take the opportunity, if he felt it "appropriate," to seek Yamani's "assessment of the progress of efforts to assist countries most seriously affected by the cut-off of Iranian and Iraqi exports." (Ibid., D800507–0486)

³ See footnote 2, Document 287.

EEC countries at the EEC Energy Ministers' meeting and Heads of Government meeting during the past week.⁴

5. We are now looking forward to further strengthening the IEA measures at the IEA Ministerial meeting scheduled for December 8–9 in Paris. The Ministers will discuss the full range of options for strengthening consumer country efforts in the light of rapidly changing market conditions, including the possibility of instituting import ceilings if needed in accord with the decision of the previous IEA Ministerial last May, or of meeting again on short notice to do so. Secretary Duncan would be more than willing to come to see Yamani in Saudi Arabia on the 10th or the 11th to give him a full briefing of the results of the Ministerial and our current view of the market situation.

6. Iraq's Customers. We are grateful to Saudi Arabia for undertaking to fulfill partially Iraq's commitments to its customers through incremental production. We hope Saudi Arabia will monitor the needs of these customers as they secure alternative supplies and allocate its incremental production to help assure that country imbalances are corrected and not exacerbated.

7. Turkey and Portugal. We continue to be concerned about supplies to these two countries. Turkey is in a very tight situation because of its lack of stocks. We understand that the Saudis are planning to supply increased amounts of oil to Turkey in 1981, and that will be a great help. The Turks are, however, so close to being out of stocks that anything which can be done to ensure a prompt start-up of 1981 deliveries in January, or pre-delivery of some volumes in December, would be of real benefit to the Turks.

8. Portugal, a strategically important country, is able to handle its oil needs through December by using stocks, but has been unable to line up adequate supplies for 1981. We understand the Portuguese are approaching the Saudis about 1981 purchases, and hope that it will be possible to be responsive.

9. We would also like you to check with Yamani our impression that the OPEC conference at Bali is now likely to go ahead as planned, and if this reading is correct, to explore his thinking on what decisions may be reached. In this connection, you might note with appreciation the indications we have seen of Saudi opposition to a price increase at this time, a position that we believe has had a constructive impact on the market.

10. (FYI. Ed Deagle of Rockefeller Foundation reports on basis of recent conversations with Yamani and Petromin officials Saudi concern

⁴ The leaders of the European Economic Community nations met in Luxembourg December 1–2.

about publicity on high SPR fill rates. If appropriate, use following points to correct their misapprehensions. End FYI) SPR. Saudis may be under mistaken impression that US Strategic Petroleum Reserve is being filled at rate of 300,000 B/D. Such is not the case. Recent legislation does mention the 300,000 B/D rate as a target, but that legislative language is not mandatory, and administration is not filling at that rate. Current fill rate on an annualized basis is 100,000 B/D; however, pre-deliveries have raised the fill rate temporarily to about 140,000 B/D. An average of 100,000 B/D for the full year FY-81 is the minimum possible under existing law without reducing Elk Hills production. (The stock drawdown given in para. 4 above takes into account these additions to the SPR).⁵

Muskie

⁵ West met with Yamani on December 5 and reported: "Yamani had met earlier that day with Oil Ministers of Kuwait and Indonesia, and he hoped that he had been able to persuade them that a price increase was not necessary. Although he expected a fight from the price hawks at Bali, he was guardedly optimistic that the price line could be held. Yamani mentioned SAG efforts to help Portugal to meet its oil needs. He considered that the oil requirements of Turkey and the Philippines would be met by the resumption of Iraqi oil exports via the pipeline through Turkey (soon to be operating at capacity) and the limited resumption of Iranian oil exports as evidenced by the loading of two 500,000 ton vessels at Kharg Island this week." (Telegram 7341 from Jidda, December 5; National Archives, RG 59, Central Foreign Policy Files, D800579–1056)

291. Telegram From the Department of State to the Embassy in Saudi Arabia¹

Washington, December 10, 1980, 1713Z.

327156. For the Chargé. Subject: Presidential Letter on Oil Market Situation.

1. (Confidential—entire text).

2. The following message from the President to Prince Fahd should be delivered as soon as possible, preferably by Secretary Duncan. Suggest you work out how best to deliver and advise us when and to

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D800588–1002. Confidential; Niact; Immediate; Exdis. Drafted by Poats; cleared by Twinam and in EB/IEP/EPC, E, and the Energy Department; and approved by Johnston.

whom delivery was made. Similar Presidential letters are being sent to Indonesia, Nigeria, and Venezuela.²

3. *Begin text:*

Your Royal Highness:

I believe that all nations should be gratified by the recent parallel actions of oil exporting nations and industrial nations to avert an oil crisis during the war between Iraq and Iran. We can take justifiable pride in our success, thus far, in preventing further inflationary blows to the economies of all countries.

As you know, a more severe test will come during the winter months of normally higher oil demand if the curtailment of oil exports from Iraq and Iran persists without a clear prospect of peace. In this situation it is important that all parties cooperate in coping with the shortages created by the war. For their part, the industrial nations agreed in Paris yesterday to reduce by about 10 percent (2.2 million barrels per day) their demand for oil on the world market in the first quarter of 1981, to discourage purchases at high prices, and to work with oil companies to correct imbalances of supply among countries.³ These measures to balance the market complement the helpful actions of Saudi Arabia and other oil producing nations in providing increased supplies to countries formerly dependent on Iraq and Iran. Saudi Arabia's substantial increase in production has been particularly appreciated throughout the world. Energy Secretary Duncan will brief Minister Yamani on details of the measures agreed to in Paris.

Together we can assure a balanced oil market and relieve pressures on oil prices until Iraq and Iran resume normal exports. By stabilizing the oil market we will help many developing nations avert external payments crises and enable the industrial nations to avoid simultaneous recessions and aggravation of inflation.

If you agree that these must be our common objectives at this time, I hope you will reflect this conviction in your national oil production and pricing policies and in Saudi Arabia's position at the OPEC conference in Bali next week. I assure you that the United States and other in-

² Brzezinski recommended in a December 9 memorandum that Carter send the letters. He wrote: "Pursuant to your exchange of letters with President Giscard, the energy ministers of the US, Britain, France and Germany agreed on a common approach to OPEC countries designed to encourage them to adopt a price freeze at the OPEC meeting in Bali next week. The main feature of these joint approaches will be letters to heads of government with whom one or more of these four governments has potential influence." Carter checked the Approve option on the memorandum and initialed it on December 10. (Carter Library, National Security Affairs, Staff Material, Middle East File, Box 84, Subject File, Saudi Arabia, 11–12/80) Copies of all four letters are attached to a December 9 memorandum from Poats to Brzezinski. (Ibid.)

³ See Document 292 and footnote 2 thereto.

dustrial nations are determined to do our part to maintain stability in the oil market and thus to contribute to the world's economic health.

Sincerely,

Jimmy Carter

His Royal Highness

Prince Fahd Ibn Abd Al-Aziz Al Saud

First Deputy Prime Minister of Saudi Arabia

Riyadh

End text.

Christopher

292. Memorandum From Secretary of Energy Duncan to President Carter¹

Washington, December 12, 1980.

SUBJECT

Trip Report (December 6–11, 1980)

IEA Meeting

Visit to Saudi Arabia

Producer Bilaterals in Paris

Summit Energy Ministers' Dinner

IEA Meeting²

It was necessary to do considerable preparatory work with other delegations in advance of the meeting. On Sunday and Monday³ we had bilateral or multilateral discussions with the United Kingdom, Germany, Canada, Japan, Holland, New Zealand, Australia, Turkey, Greece, Spain, Austria, and Sweden. In addition, I had dinner Sunday evening with Minister Giraud of France and attended a dinner of Summit energy ministers that he hosted Tuesday evening.

¹ Source: Carter Library, National Security Affairs, Staff Material, Special Projects File, Box 19, Henry Owen, Chron, 12/10–31/80. Confidential.

² The IEA Governing Board met at the Ministerial level in Paris December 8–9. The meeting is summarized in telegram 38287 from Paris, December 9. (National Archives, RG 59, Central Foreign Policy Files, D800587–0490)

³ December 7 and 8.

Though there remains considerable variance in Ministers' attitudes respecting the severity of the current situation and appropriate actions to take now, it was apparent that the range of differences had narrowed substantially since the May meeting and that there was a greater sense of urgency and the need for discipline and cohesion than I have observed at any prior IEA meeting. It was apparent that the Ministers were not ready to adopt country specific import ceilings, particularly the Germans, but opposition was less vociferous than heretofore and U.S. efforts to at least quantify a group goal for lessening market demand in the first quarter were successful.

Ministers concluded in the meeting that the current situation is manageable in the short-term, and agreed on a series of actions designed to remove market pressure which could lead to higher prices. The actions taken are essentially embraced in the following five-point program:

- Drawing on stocks as necessary to maintain a balance between supply and demand in the world market for the first quarter.

- Taking further action to pursue and implement policies to encourage the rational use of oil (demand restraint) and its replacement by other energy sources.

- Discouraging undesirable purchases of oil at price levels that serve to increase market pressures.

- Working together to correct serious imbalances in oil supplies among countries and companies.

- Encouraging high levels of indigenous oil and gas production in member countries.

The group's aggregate quantitative commitment is contained in the Secretariat's statement that the successful implementation of this program will result in an oil demand reduction by member countries of about 10% in the first quarter of 1981, with demand reduced from a previously anticipated 264 million tons to a new estimate of 238 million tons (a savings of approximately 2.2 million barrels per day). The EC has separately committed to meet their entire share of this cutback with a stockdraw through the first quarter, although the U.S. remains free to use a mix of options like stockdraw and demand restraint to meet our share. For this program to work, the Secretariat and the U.S. will have to monitor the efforts of each country and be prepared to jawbone our companies and other countries on import levels and prices paid.

There was considerable discussion about the need to price petroleum products in member countries at levels indicated by international oil prices. This is repetitious of the discussion on energy pricing in the Venice Summit. The Canadians dissented vigorously from language proposed by the United Kingdom, which was acceptable to all other

major delegations. We did include a paragraph on energy pricing which tracks language used at the Summit meeting and in the European Community meetings.

There is also language in the communiqué which addresses the need to review continuously the situation and to consider further action if necessary, “including the possible use of oil import ceilings.” This language was objected to by several delegations, but primarily through our persistence it remained in the communiqué.⁴

There was also considerable discussion respecting the appropriate mechanism to discourage “undesirable purchases.” (The Japanese objected strongly to use of the word “undesirable.”) Only after significant pressure from us and others did Japan realize that it was isolated on the issue, and that payment of high prices for spot purchases or high premiums on conventional purchases was an undesirable practice.

I have attached hereto a copy of the communiqué of the meeting which provides further detail.⁵

Visit to Saudi Arabia

1. IEA Meeting

Minister Yamani seemed well informed as to the conclusions of the meeting and the content of the communiqué. He asked several questions about the stockdraw plan, the system for correction of stock imbalances, and the plan to discourage “undesirable” purchases. (On the latter item he seemed interested in the attitudes of individual country delegations.) It is my impression that he thought the actions taken were appropriate ones, though he did not make a categorical statement to this effect.

He was particularly interested in the stockdraw plan and related that to expected OPEC production and pricing, and linked it to the forthcoming Bali meeting.

2. OPEC Production and Supply Levels

Yamani felt that OPEC production levels would be maintained at a rate approaching 25 million barrels/day (mb/d) provided there are no further “political interruptions.” He said this was approximately the

⁴ The text of the communiqué was transmitted in telegram 38286 from Paris, December 9. (National Archives, RG 59, Central Foreign Policy Files, D800587–0318) Telegram 327578, December 11, instructed the Embassies in Libreville, Quito, Jidda, Kuwait, Abu Dhabi, Algiers, Lagos, Doha, Caracas, and Mexico to deliver the communiqué to their respective Energy Ministers and OPEC Ministers before they left for the Bali meeting beginning on December 15. (Ibid., D800589–1048)

⁵ The communiqué is printed in Scott, *The History of the International Energy Agency*, vol. III, pp. 377–384. The statement on Ministerial Measures on Draw of Stocks, Undesirable Purchases of Oil, and Correcting Imbalances, which includes an annex entitled “Decision by the Governing Board for Correcting Imbalances” is *ibid.*, pp. 123–129.

present level. He assumes that Iraq exports will soon approach 1.5 mb/d, primarily through the pipelines, and noted that Iran is now beginning to export again, mentioning two supertankers having loaded at Kharg Island last week. His expectation is that the current production levels, in combination with a successful IEA drawdown of stocks as envisioned in the Paris meeting, will permit 1981 to “go smoothly.” Other IEA actions, such as correction of stock imbalances and avoidance of “undesirable purchases,” are also important. He assumes that economic recovery will not contribute much to demand in 1981 as he feels economies will remain flat.

Yamani is optimistic concerning 1982 supply. He feels we can assume that the war will have been terminated by that time, and that Iran and Iraq “will have to resume exports at high levels.” He said it was entirely reasonable to assume that the combined exports of the two countries would be 5.0 mb/d. Iraq was exporting 3.5–4.0 mb/d just prior to the conflict and Iran would only have to add 1.0–1.5 mb/d to those numbers to accommodate a 5.0 mb/d combined total. He feels their revenue needs will require exports at these levels.

The combination of Iran’s and Iraq’s resumption of exports, continued demand reduction in the consuming countries, and increased production in non-OPEC countries “amounting to about 1.0 mb/d,” indicate to him that there will be substantial supplies of crude oil on the world market in 1982. This would permit, he said, certain OPEC countries, “like Saudi Arabia and perhaps Kuwait,” to reduce their export levels to quantities more compatible with their long-term interests. He stated, for example, that Saudi Arabia might then reduce its export level to a number more like “7.0 mb/d” because world demand and production levels would accommodate a reduction of that magnitude without precipitating undesirable market impact.

3. *Pricing and the Bali OPEC Meeting*

The above scenario, in combination with current world economic conditions, causes him to feel that there should *not* be any agreement on a price increase at the Bali meeting.⁶ The prospective supply picture

⁶ The meeting in Bali, held December 15–16, concluded with OPEC’s decision to raise “allowable official prices” by up to \$4 per barrel. The price of Saudi marker crude was fixed at \$32 per barrel, while the price of OPEC crudes could be “set on the basis of an oil price ceiling for a demand marker crude” of up to \$36 per barrel. The maximum price of OPEC crude was set at \$41 per barrel. While the Iran–Iraq conflict “figured prominently throughout the conference” it did not “disrupt its basic business,” and the meeting ended without “an open confrontation” between the two countries. (Telegram 19269 from Jakarta, December 16; National Archives, RG 59, Central Foreign Policy Files, D800597–0887) Summaries of the conference’s first day are in telegrams 19196 and 19200 from Jakarta, December 15, and a “wrap-up” is in telegram 19323 from Jakarta, December 17. Telegram 19268 from Jakarta, December 16, contains the final communiqué. (All *ibid.*, D800597–0241, D800596–0481, D800599–0861, D800598–1167)

outlined above indicates the probability of downward price pressure in the 1982 time frame, and he felt “OPEC should avoid a situation such as followed 1973 when real prices of oil declined for several years.” He said that while he opposed price *increases* now, he also opposed future price *decreases*, noting that the price decreases in real terms following 1973 contributed to energy waste, the lack of alternative energy development, and the deferral of conservation investments.

He said that Algeria, “joined by others,” had been advocating “substantial” increases and that he had been working with other OPEC oil ministers to argue against this. (He likened this to our twenty percent prime rate earlier this year, which declined temporarily and has now climbed back to twenty percent.) I believe his expectation is that the meeting in Bali will be brief, that there will be little or no price increase, and that the primary effort will be to re-establish OPEC cohesion.

Notwithstanding all of the above, Yamani did indicate that at some point Saudi Arabia would be raising its price to \$32.⁷ I understood this comment to be unrelated to the Bali meeting. He said that maybe other members “would be satisfied if we came to the agreed OPEC minimum.” I told him that this had never worked before, and any time the Saudi price was raised, it invariably caused instantaneous similar action on the part of others.

4. *Iran/Iraq War*

Yamani indicated that he saw no evidence that the parties were any closer to a political settlement; therefore, it was impossible to predict the duration of the conflict. He observed once again the importance of strict U.S. neutrality. He noted that the Soviets are actively supporting Iran now with petroleum product supply and seem anxious to get closer to Iran. He said the Soviets are also sending a “small quantity” of spare parts to Iraq.

5. *Algeria*

During lunch I mentioned that I had seen Minister Nabi of Algeria⁸ while in Paris. (Yamani invariably finds out who I talk to and I felt it

⁷ Yamani personally announced the Saudi price increase at the OPEC meeting in Bali. The \$2 per barrel price increase would be retroactive to November 1, and the new base price of \$32 per barrel “would hold for only the 9.5 million barrels per day,” meaning that oil produced beyond that level would be sold at \$34 per barrel. West commented: “Decisions on oil production beyond 9.5 MB/D are made on monthly basis and statement that 10.3 MB/D production level would continue through January has no implication for later months. Oil sales agreements have clause allowing retroactive price rise for previous month, if notification is received by 15th of the subsequent month. Notification of price increase was received on 15th of December.” (Telegram 7663 from Jidda, December 17; *ibid.*, D800599–1091)

⁸ Algerian Oil Minister Belkacem Nabi.

better not to disguise the fact that I had seen Nabi since we were discussing Algeria at some length.) He was interested in our discussions on liquified natural gas and I gave him a quick brief on the difference between Algeria and the United States on LNG pricing. Yamani's attitude was that gas competes with fuels other than oil and its price does not move identically, in absolute terms, with increases in oil prices. Gas prices move in proportion to oil price increases which is, of course, the U.S. position with Algeria.

I gained the impression through subtle, but not direct, comments by Yamani, that the fact that we did not close a gas deal with Algeria prior to the Bali meeting was beneficial to his efforts to achieve either no increase or extreme moderation in any price increase at that meeting.

6. *ARAMCO Tax Issue*

Yamani mentioned the Aramco tax issue and asked me if I had seen the letter Secretary Miller had sent him.⁹ I told him I had seen it and I had some familiarity with the conversation he and Ambassador West had about the letter. Yamani said that he would personally appreciate my getting into this issue, that he was very anxious that it be resolved during this Administration, that while he expected a "clarification from Secretary Miller" he felt the issues were very important. He talked to me in a very low-key, very friendly way about the matter, but it was apparent that he feels very strongly that we should resolve this issue immediately. He noted Saudi Arabia's repeated actions respecting price moderation and oil production levels to accommodate U.S. interests and requests. He directly linked those actions to this request, and urged that this matter be handled in a very expeditious and positive way. I told him I would discuss the matter with Secretary Miller.

7. *Breakfast Meeting with Calderon-Berti, Minister of Venezuela*

Yamani knew that I had seen Calderon-Berti in Paris and invited me to comment on this meeting by saying that the Venezuelans "surprisingly" supported the Algerians in seeking a price increase in Bali but he did not believe that to be "the Minister's attitude." I told him I had had a lengthy discussion with Calderon-Berti at breakfast Monday morning and that he had focused with unusual intent on what I was

⁹ In the letter, transmitted in telegram 320362 to Jidda, December 4, Miller informed Yamani that on November 12, the Internal Revenue Service issued a revised proposal on the issue of which foreign taxes were creditable against U.S. taxes. Miller wrote: "The revised proposals make clear that a country may impose a tax only on non-nationals and still have a creditable income tax for U.S. purposes. It is my understanding that in April 1980 Saudi Arabia restructured its relationship with Aramco and that it is likely that there will be new Saudi tax arrangements because of the new relationship." (National Archives, RG 59, Central Foreign Policy Files, D800577-0744)

saying when I discussed the economic havoc that would be precipitated by another round of price increases at this time, noting its inflationary impact, its impact on a fragile economic recovery, and the shrinkage in world gross national product which would result. I told him I felt I had made an impression on Calderon-Berti but only time would tell.

8. U.S. Political Scene

Yamani inquired as to whether the Department of Energy would continue and who the next Secretary of Energy might be. I told him I was the wrong person to ask about either question but mentioned to him “press reports” of President-elect Reagan’s substantial retreat from campaign rhetoric on energy and those mentioned as possible candidates for Secretary. He indicated that everyone would have to go through a learning curve once again.

I also told him about statements made by Senator McClure¹⁰ which tended to indicate more consistency in energy policy than had the campaign rhetoric.

He asked about oil and gas decontrol. After I mentioned a “press report” on the issue, he stated that oil decontrol in September seemed “sensible” to him since it avoided inflationary shock, September was close anyway, and firms considering exploration expenditures would not be impeded considering the short time frame. I told him in quantitative terms about the substantial increase in drilling in the United States. We discussed gas decontrol and I told him of developing attitudes in the Congress and elsewhere to accelerate the decontrol of gas, but warned that this was an intensely political issue where Congressional sentiment ran high.

He said he had heard that Reagan tends to surround himself with capable people and I responded I certainly hoped that would be the case because it would be in our National interest.

In conclusion, we spent some time discussing my personal plans. He seemed interested, as a friend, in knowing what I would be doing. He said he would be in the United States in March and would call me before coming so that we could arrange to meet.

Producer Bilaterals in Paris

1. Algeria—Minister Nabi

I had two meetings with Minister Nabi on Sunday involving more than three hours in total. Nabi seemed anxious to conclude an interim agreement on Algerian LNG prior to the next Administration’s assum-

¹⁰ Senator James A. McClure (R-ID) had recently been elected chairman of the Senate Republican Conference.

ing office. (It is my impression that he fears the political clout of our domestic gas producers which might discourage the importation of gas.) I believe we could reach agreement on the basis of a \$3.25/MMBTU f.o.b. Algeria price which would reconstitute in U.S. markets at a price only a few cents above the current Canadian and Mexican import prices. However, the Algerians were also insisting that we accept an escalation formula which would move gas prices upward in the full btu equivalent amount of oil price increases. We explained that gas competes with fuels other than oil and that while its price moves in a proportionate way to oil price increases, it does not move in identical btu equivalence to oil price increases. We also explained our regulatory mechanism respecting the approval of prices for imported gas.

At our second meeting with Nabi we advised him that we could not agree to an escalation formula such as envisioned above, and he would, therefore, have to recommence negotiations with the next Administration. We stated that we regretted this since we felt starting over would involve substantial delay, perhaps many months, and that we felt it was in the interest of both countries that gas begin flowing again.

After hearing these statements, Nabi said perhaps we could agree to their formula, but also agree to a provision that the price would not exceed that of other gas imports into the U.S. This might avoid the regulatory problem for a short-term (up to one year) agreement and would insure competitive pricing. This means, in effect, that they might be willing to put a "cap" on their prices at the Mexican/Canadian level. We agreed we should analyze this new proposition, and representatives of Algeria will be coming to Washington for this purpose December 22nd.

I also discussed with Nabi the disastrous economic consequences of further oil price increases at this time, and expressed our view that price action at Bali was not appropriate for these reasons.

2. *Venezuela—Minister Calderon-Berti*

I had breakfast Monday morning with Calderon-Berti and we discussed a variety of subjects. (He told the press Sunday morning, before our appointment was arranged, that he would be seeing me.) We spent considerable time discussing the world economic situation and I mentioned the report of the Economic Policy Committee of the OECD which projected the severely adverse consequences of another round of oil price increases. I urged that there not be any increases in Bali. Calderon-Berti followed this discussion carefully.

He concluded the meeting by saying to me that "price was not the priority in Bali" and that his objective would be to help reestablish OPEC cohesion and not to seek price increases.

He said that his information was that the hostages would be released soon.

We discussed the Venezuela/Mexico program to help Central American and Caribbean governments finance their oil purchases and diversify their energy sources. He said they had received good cooperation from all American oil companies except Texaco in Guatemala. He said that Texaco wanted to charge a \$4/barrel refining fee which he regarded as excessive.

He mentioned Jamaica and the fact that Mexico and Venezuela had each granted a \$60 million credit under this new program. He felt it important that we support the new Jamaican government and stated that there was “disappointment” that a \$45 million U.S. assistance package has not yet been approved. (I have no knowledge of this issue.)

Calderon-Berti expressed satisfaction at the progress being made between the two countries in our technical cooperation. He urged that I communicate to the Reagan transition team the fact that Venezuela regards this program as a key part of our bilateral relations, that Venezuela would “respect its commitments,” and that he hoped the program would continue.

Summit Energy Ministers' Dinner

Minister Giraud of France hosted a dinner Tuesday evening for Summit energy ministers. The principal subject discussed was medium- and long-term energy strategy. It centered around progress being made on the energy objectives of the Venice Summit, the need for an energy affiliate of the World Bank, the forthcoming U.N. Conference, and the importance of our having a coordinated reaction to the OPEC long-term strategy plan when it surfaces in an official way. There was general agreement that these issues need to be addressed but I, of course, disqualified myself respecting any actions of the next Administration.

Both Giraud and I urged the others to become more realistic as they approached the future, particularly concerning the need for stronger collective action. It is my judgment, and I expressed it rather positively, that all member countries of the Summit continue to lack the political will to do what is really necessary to manage effectively our inevitable transition from excessive oil dependency to a more diversified energy resource base.

As discussion progressed, a consensus seemed to emerge that an overriding issue of the 1980s would be the ability of the industrialized world to deal with intermittent supply interruptions, not only from an energy supply standpoint, but also from the standpoint of associated economic and security questions.

293. Paper Prepared by the Deputy Assistant Secretary of Energy for International Affairs (Treat) and Rutherford Poats of the National Security Council Staff¹

Washington, undated.

Contingency Planning for Energy Emergencies: Agenda for International Action

Background

Through the IEA, we have improved our capability to deal with oil supply emergencies. As a result of the 1979 experience, the IEA has begun to develop a graduated response capacity, which offers three levels of policy options:

(1) *Stock Management*—Use of stocks is the first line of defense. The October 1 IEA decision,² as amplified by the December 9 Ministerial decision, exercises this option, which is most appropriate for an interruption of 100–200 million barrels.

(2) *Import Ceilings*—The transformation of oil import “yardsticks” into binding oil import ceilings is the second level of response, most appropriate for a somewhat larger and/or longer interruption in the range of 200–400 million barrels. In such a situation, stocks would be increasingly difficult to draw down; demand restraint measures should be initiated as early as the limitations of stock management can be foreseen and intensified as may be required, using prepared authorities and procedures. An informal reallocation/balancing of world supplies by oil companies would be an important supporting action, if anti-trust concerns could be appropriately handled.

(3) *Emergency Sharing System*—Triggering the formal IEA sharing system at the 7% or higher shortfall level would be the third level of response. It would probably require parallel national allocation measures, as well as tax measures to balance demand with supply. This response probably will be appropriate only for shortfalls of 400 million barrels or more. The system has now been tested three times, but the lack of agreement on pricing could prove to be extremely contentious.

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 49, Rutherford Poats File, Chron, 12/9–23/80. Confidential. Sent to Hinton and Goldman under a December 19 covering note by Poats, in which he wrote: “I would like to offer the successors to Zbig and Henry an agenda for action to improve our energy security in the near term. John Treat and I have drafted the attached skeletal outline of an objectives paper with this in mind. Please let me have your thoughts on this set of ideas by January 5 or 6.”

² See footnote 2, Document 287.

Discussion

The IEA response capacity has been improved in the past year by the partial development of stock management and import ceiling options to deal with supply interruptions which fall short of the 7% level necessary to trigger the IEA agreement. However, additional measures to improve each of these options is essential. In addition, the growing dependence of Western Europe on gas imports, particularly from the Soviet Union, constitutes a political/security vulnerability which should be addressed by the EC and NATO. Finally, the US Government itself should organize better its own response capabilities.

In support of these objectives, the following actions should be initiated:

- *International Energy Agency*—The IEA should remain the focus of our international response efforts. Additional pressure should be brought to bear on the French, after the spring 1981 French Presidential elections, to bring the French into IEA.

Within the IEA, we should concentrate on two issues:

- (1) *Increase IEA national stocks susceptible of government control, so as to strengthen their reliability in both minor and major shortages and develop an emergency stock-sharing system* (see Tab A for further discussion).

- (2) *Elaborate the IEA import ceiling option* (2 above) to provide for oil company participation through international allocation.

- *NATO and EC:*

- (1) Continue to push for development of Western European natural gas contingency plans, including serious analysis of a strategic gas reserve using spare capacity in the Netherlands and/or North Sea and enhanced readiness for fuel-switching.

- (2) Try to overcome European resistance to joint contingency planning for military action in the Middle East, including heightened readiness to deter/respond to attacks on major oil facilities.

- *USG*—Two areas deserve increased attention:

- (1) *Better coordination of energy security policy* through the establishment of an NSC energy security committee.

- (2) *Development of “snap back” plans* to restore major oil facilities in the event of attack, with the cooperation of host governments and private companies. Evaluate need for USG stockpiling of critical equipment.

Timetable

US initiatives on the IEA actions should be prepared for presentation early in the new Administration. An EC study of an enhanced Western European gas reserve system should be urged now; a NATO staff study already has been proposed by the USG. The USG actions

should be pursued in the light of the new Administration's organizational decisions. International objectives requiring additional political impetus may be pursued in preparations for the Ottawa Economic Summit.

Tab A³

Coordinated Stock Policy Issues

Background

If a coordinated stock policy is to become a more effective option for dealing with supply interruptions, a number of crucial issues should be resolved. Some of these issues must be decided to implement the IEA Ministerial decision of December 9; others should be decided in 1981 to improve IEA response capability to future supply crises. Broadly speaking, the issues are:

- *Optimum level of stock requirements*, including at least three subsidiary issues:
 - Should IEA mandatory stock levels be increased above 90 days? By how much?
 - Should IEA stocks be defined in terms of consumption versus imports?
 - Should minimum IEA stock requirements be adjusted to reflect actual availability, i.e., excluding pipeline fill, tank bottoms, etc.?
- *Coordinated stock drawdowns*—How/when should stocks be drawn down and how should imbalances be corrected, e.g., Giraud plan.
- *Government control over private stocks*—should the US expand its control over private stocks.

Discussion

The principal objective of US policy in this area should be to encourage other countries to follow our lead to build up stocks, under government control, which can be used to offset the loss of supplies. Specific issues are discussed below:

- *Level of Reserves*. The United States is building a Strategic Reserve which, depending on its eventual size, will increase aggregate US stocks to well over twice the 90 day minimum agreed by the IEA. Increasing the IEA minimum level of stocks would exert pressure on our allies to match our efforts. While more analysis needs to be done on the optimum level, an increase of minimum levels in annual increments of

³ No classification marking.

5–10 days to at least 120 days of imports seems highly desirable. This would increase IEA minimum stocks by more than 600 million barrels. Planned increases in the US SPR would more than account for our configuration. Scheduled increases in the Japanese and German reserves would also make a contribution, but other IEA countries would have to take new action. Some consideration could be given to considering surge production capacity and gas reserves as substitutes for oil stocks.

- *Definition of Reserves.* Since disruptions are most likely to affect imports, we should continue to define reserve levels in terms of imports, not consumption. An import basis also serves US national interests by multiplying the size of our reserves. Since a somewhat larger percentage of US commercial stocks are not usable in an emergency (i.e., pipeline fill, tank bottoms, working inventories), we should also resist efforts to redefine stocks.

- *Coordinated Stock Drawdown.* Stock drawdowns offer an appropriate policy response to supply disruptions which are of longer and/or deeper duration, stock drawdowns also offer an initial response measure to “buy time” for demand restraint action. Since supply disruptions will not necessarily hit all countries equally, however, there needs to be an agreed formula/procedure for ensuring that countries which have to draw down their national stocks more rapidly will be compensated by the less affected countries.

The IEA should develop urgently such a procedure. Several options are available:

- (1) Coordination of national stock draws by an agreed formula, similar to the IEP formula; or

- (2) Establishment of a stock “pool” with drawing rights and obligations on a dedicated volume of oil held separately from national reserves.

Option 1—Coordination of National Stocks

This approach would parallel the allocation formula of IEA Emergency Sharing system, assigning stock rights and obligations to individual countries on the basis of consumption shares. This difference between such an approach and the full-scale allocation program would be:

- (1) lower trigger level—perhaps 1–2%, and
- (2) periodic reallocations (perhaps every 60–90 days) would be required, rather than attempting a daily reallocation effort, as attempted [called for?] by the IEP.

Option 2—Stock Pool

A more formal approach to the issue would be a stock “pool” as proposed by French Energy Minister Giraud, to provide an “intermediate” response option short of full-scale international allocation

through the IEA and EC. His proposal remains ill-defined, but seems to include the following elements:

—*Size*: About 160 million barrels, although could range from 140–200 million barrels (20–50 million tons). Pool would not be counted as part of “national” stocks.

—*Contribution*: Each country would contribute stocks equivalent to 4 days’ consumption, implying that the US would provide about 45%, Europe about 30% and Japan, 15%.

—*Drawing Rights*: Each country could draw in excess of its own contribution, up to 50% of the total. If two countries simultaneously drew, the limit would be 67% (2/3 of the total). If three countries drew, the limit would be 75%. Drawing on the stock pool beyond the national contribution would be approved by a “qualified majority” of the participating countries.

—*Stock Ownership*: Giraud is flexible on who owns the stocks, as long as government retains effective control.

The Giraud proposal has conceptual merit but would have to be modified considerably to gain our support. The limitation of drawing rights to 50% of the total pool would severely limit the attractiveness of the proposal to the U.S., which would be contributing about 45% of the entire pool. It would be more appropriate to define drawing rights in terms of multiples of national contributions.

Both these options should be further developed with the participation of the IEA Secretariat, which should be asked to prepare a recommendation for further action within 90 days. In particular, the IEA should be asked to address:

- (1) The appropriate size of the pool;
- (2) The appropriate “trigger” for its activation;
- (3) The size/distribution of national drawing rights;
- (4) The mechanism by which such rights could be exercised;
- (5) Period and method for payback;
- (6) Legal authorities necessary to establish such a pool; and
- (7) Proposed timetable for establishing such a pool.

Government Control Over Private Stocks

An important implementation issue, particularly in the United States, is how government can induce private stockholders to act in support of an IEA decision, particularly if U.S. stocks must be drawn down to offset a shortfall which has little or no direct impact on the U.S. market. DOE should urgently address the US issue, including regulatory authorities and possible anti-trust implications. A number of options are available:

(1) *Mandatory Private Stock Levels*—as required in many European countries, large consumers can be required to hold a certain level of stocks; this is the concept of the Industrial Strategic Reserve (ISR).

(2) *Public Private Corporation* either to hold mandatory stocks or, on a voluntary basis, to reduce costs of stocks through economies of scale. The corporation could be financed either by the companies or privately (through bonds) or publicly.

(3) *Tax Incentives* to encourage appropriate stock management consistent with USG policy goals.

(4) *Voluntary Targets (Jawboning)*, backed up by the threat of mandatory allocations, as used in 1979 to build up distillate stocks.

Concurrently the IEA should review the issue in all IEA countries.

294. Memorandum From Rutherford Poats of the National Security Council Staff to the Deputy Assistant Secretary of State for International Energy Policy (Morse)¹

Washington, December 23, 1980.

SUBJECT

Approach Paper on OPEC Long Term Strategy

Your planning paper on an Ottawa Summit approach to a deal with oil producers on long-term supply and pricing principles² would be most useful if it forced us to recognize, and at least start the process of reconciling, conflicting US ambitions. As you know, much of the talk within the USG and among the IEA countries about a producer-consumer deal derived from the OPEC Long Term Strategy has fallen short of resolving the hard choices among alternative consumer goals. Your paper might helpfully delineate our price, supply, and political objectives.

For example, do the industrial nations want to minimize OPEC price increases and rely on means other than international oil prices to keep demand and supply balanced and to allocate supply among nations? Or do we want steady, predictable real OPEC price increases to assure market allocation of supply and guide decisions in oil-importing nations on energy-related investments and conservation?

¹ Source: Carter Library, National Security Affairs, Staff Material, International Economics File, Box 49, Rutherford Poats File, Chron, 12/9–23/80. Confidential.

² Not found. The seventh G–7 Summit was held in Ottawa in July 1981.

Do the industrial nations want rising OPEC production, including higher Persian Gulf production, so as to permit rising or at least stable oil consumption by the industrial countries, with consequent faster depletion of reserves and narrower margins of stand-by production capacity than otherwise? Or do we want a stable and predictable supply, implying a slowly declining availability of OPEC oil to the industrial nations but prolongation of reserves and greater surge capacity for emergencies?

Are we ready to accept, much less rely on, intergovernmental assurances of oil supply containing an express exception for politically determined oil export embargoes, thus implicitly condoning Arab use of the oil weapon? Or do we prefer to leave the OPEC supply assurances loose and unspecific rather than encourage injection of Middle East political issues into the producer-consumer negotiation?

These questions simply illustrate the point. We need to deal with objectives in addition to terms and conditions of a deal.

295. Telegram From the Department of State to the Embassy in the United Kingdom¹

Washington, January 8, 1981, 2313Z.

5142. Subject: North Sea Oil Prices. Ref: (A) London 119, (B) Kuwait 48.²

1. Embassy is requested to advise HMG at an appropriate level of our continuing concern over oil prices, including those for the North Sea.³ While we appreciate BNOC's relative moderation, we regret that it apparently feels constrained to match Algeria's and Nigeria's \$3 increases. We understand that commercial considerations require BNOC and other North Sea producers to relate their prices to those for African crudes, but believe that an increase somewhat below \$3 would still meet these considerations while strengthening consumer country efforts vis-à-vis OPEC to slow the oil price spiral. We trust that in any case, the new forties field marker price will not exceed the \$39.25 level mentioned in ref A. Many analysts believe the more extreme increases (e.g. Libya) may prove to be excessive if current market conditions prevail.

2. FYI: Our concern over price movements is a general one, and we appreciate the fact that BNOC has not taken the lead in price increases

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D810011–0674. Confidential; Immediate. Drafted by R. Knickmeyer (EB/IEP/EPC); cleared by Bullen and in EUR/NE, EUR/RPE, EB/IEP/ECC, E, and the Department of Energy; and approved by Morse. Repeated Priority to Oslo, Kuwait, and Jidda.

² In telegram 119 from London, January 5, the Embassy reported that the British National Oil Company made its quarterly adjustment in the price of North Sea crude oil, which, effective retroactively to January 1, was "likely to settle at \$39.25 per barrel," a \$3 increase. The Embassy added that the British Government and the BNOC "waited to move until the post-Bali price conduct of West African light crude producers became apparent," including Libya's \$4 increase to \$41 per barrel, Nigeria's \$3 increase to \$40 per barrel, and Algeria's \$3 increase to \$40 per barrel. (Ibid., D810007–0113) In telegram 48 from Kuwait, January 6, the Ambassador commented: "If British National Oil Corporation makes quarterly upward adjustment in price as indicated in ref tel, I hope Department will express same public and private criticism that price increase is not justified as it has to OPEC governments for price decisions taken at OPEC meetings." (Ibid., D810007–0077)

³ The Embassy in Oslo was instructed to take the same approach with the Norwegian Government. (Telegram 6139 to Oslo, January 9; *ibid.*, D810012–1137) Embassy officers met with Johan Nic Vold, Deputy Director General of the Energy Policy Department of the Ministry of Petroleum and Energy, who promised to bring the views of the U.S. Government to the Minister of Petroleum and Energy. Vold stressed that Norway's overall interests placed it in the ranks of "nations which favor oil price moderation," but added: "At the same time, given present private nature of Norwegian oil trade, GON had little ability to restrict private firms from acting with a maximum of freedom in a market whose terms of reference are heavily influenced by the African producers." (Telegram 274 from Oslo, January 19; *ibid.*, D810027–0875)

recently. However, we believe that it is valuable to give the British an expression of our continuing concern. It may also be useful in our contacts with certain OPEC countries (e.g. Kuwait) to be able to say that we have expressed concern to the UK about North Sea prices.⁴

Muskie

⁴ The Embassy in London replied that it had previously “urged HMG to use as much price moderation as possible,” and did so again using the arguments provided by the Department. It concluded: “To review, the ability of HMG and BNOC to maneuver is limited by the existing mandatory participation agreements. These are a legacy of the former Labor government, but they are continued under the current government and will also be a feature of contractual obligations for oil discovered under current exploration licensing rounds. They enable BNOC to pre-empt up to 51 percent of all oil produced; in return, BNOC is obligated to pay the companies market prices for the oil. If BNOC does not, the companies can go to arbitration.” (Telegram 609 from London, January 12; *ibid.*, D810016–0197)

296. Telegram From the Department of State to the Embassy in Kuwait¹

Washington, January 13, 1981, 2250Z.

9129. For Ambassador fm Under Secty Cooper. Subject: North Sea Oil Prices. Ref: Kuwait 48.²

1. Confidential entire text.

2. I agree that our criticism of oil price increases should not be reserved solely for OPEC or Arab producers. We have criticized other producers, including BNOC for increases in the past and are again approaching the British and Norwegians now re North Sea prices. At the same time, there are a number of differences between OPEC’s December 16 announcement³ (and previous OPEC price announcements) and the impending actions of North Sea producers which account for the milder tone and private nature of our representations to the British and Norwegian Governments. Most significantly, the OPEC announce-

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D810018–1028. Confidential; Immediate. Drafted by Knickmeyer, cleared by Patterson, Twinam, Morse, Johnston, Conway (E), and Hecklinger (DOE/IA), and approved by Cooper. Repeated Immediate to Jidda, London, Oslo, Abu Dhabi, Doha, Paris, Jakarta, Caracas, Algiers, Lagos, Cairo, Mexico, and USOECD Paris.

² See footnote 2, Document 295.

³ See footnote 6, Document 292.

ments generally lead the way and establish the floor for official prices of all producers, OPEC and non-OPEC. Also, as London 119⁴ points out, announcement of BNOC's (and Statoil's) new prices will follow those of the African producers and are likely to be maintained slightly below the official prices (much less the prices with surcharges) of comparable African crudes. Finally, we have generally not spoken out publicly against price rises by individual producers, except in some cases where these have been clearly out of line with prevailing price levels, e.g. Iran in 1979. In our public statements on OPEC decisions, we have generally noted our appreciation to those OPEC countries, e.g. Saudi Arabia, which have shown restraint.

3. You may draw on the above, including the fact that we are making representations to the North Sea producers in your conversations with Kuwait officials as you deem appropriate.

4. Septel⁵ follows providing talking points requested Kuwait 104.⁶

Muskie

⁴ See footnote 2, Document 295.

⁵ Document 297.

⁶ In telegram 104 from Kuwait, January 10, the Embassy informed the Department that a Kuwaiti Ministry of Oil source had confirmed a Reuters report that Kuwait had "imposed a \$4 per barrel increase in its official selling price to \$35.50 per barrel retroactive to January 1." With premiums, the weighted average contract sales price "would probably be a bit over \$39/barrel." The Ambassador had requested an appointment with Oil Minister and Kuwait Petroleum Company Chairman Ali Khalifa to inform him that the \$4 per barrel increase was "distinctly unhelpful." The telegram concluded: "If Department has any particular points that should be made at that meeting, these should be cabled as soon as possible." (National Archives, RG 59, Central Foreign Policy Files, D810014-0304)

297. Telegram From the Department of State to the Embassies in Kuwait, Qatar, the United Arab Emirates, and Oman¹

Washington, January 14, 1981, 0024Z.

9189. Subject: Crude Price Increases. Ref: Kuwait 104.²

1. Confidential—entire text.

2. For Ambassador Dickman: This message responds to reftel request for additional points to make in your forthcoming démarche to Ali Khalifa. Septel and other traffic³ copied to you give background for you to respond to Ali Khalifa on issue of the North Sea prices should it arise in your discussion.

3. You may also draw on the following points, as appropriate:

—The reported increase of \$4 per barrel for Kuwaiti crude is excessive. With this increase Kuwait appears to have become a price leader for medium crudes. Driving prices higher does not help to limit disruptive effects of the Iraq–Iran war on oil markets and on the economies of developed and developing nations. This increase in prices of course will contribute to inflation in major consuming countries and payments problems of LDCs, both of which we believe are matters of proper concern to Kuwait and other oil producers with stake in welfare of international economy.

—The damage caused by this increase will be made worse if Kuwait continues its past practice of applying large price premia to a portion of its sales, and we urge that this practice be eliminated. If current premia are maintained, a substantial volume of Kuwaiti crude will be priced up to \$2 above higher quality and better located African and North Sea crudes and above spot market levels.

—Kuwait's prices are also far out of line with spot product prices. It is estimated that the net back value of Kuwaiti crude is now \$34.50 to \$35.00 on the Rotterdam spot market. The net back value of this crude has in fact fallen over the past few months. Kuwaiti crude may prove to be even more overpriced when full production of similar heavy Persian Gulf crude is resumed.

—We believe oil prices are now well above the levels necessary to stimulate the development of alternative sources of energy. The main

¹ Source: National Archives, RG 59, Central Foreign Policy Files, D810019–0043. Confidential; Immediate. Drafted by Patterson; cleared by Knickmeyer, Twinam, and Hecklinger and in NEA/ARP and E; and approved by Morse. Repeated Immediate to Baghdad, Caracas, Dhahran, Jidda, Jakarta, Lagos, London, Manama, Tokyo, Cairo, and USOECD Paris.

² See footnote 6, Document 296.

³ See Documents 295 and 296.

problem now is capital and lead times. The major industrial economies are capital short and time is needed to redirect capital and human resources into alternative energy industries and to construct new facilities.

In addition, you should as appropriate point out contradictions between reported price increase and Ali Khalifa's statements to you before and after Bali meeting.

4. For Doha and Abu Dhabi: We believe it important that Embassies convey to host governments our concern about increased official prices in Gulf, drawing as you feel appropriate on points above in making this presentation. Abu Dhabi will of course note that Abu Dhabi's price increase is more restrained than those of Kuwait, Qatar and perhaps Iraq—but that even this lesser increase is harmful to world economy.

5. For Muscat: While we realize Oman considers itself a price follower, we are concerned that its prices are well above Gulf market. Request you clarify with Government of Oman rationale for present price and express our concern about psychological impact of high Omani price on other Persian Gulf producers.

Muskie

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