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MEMORANDUM

THE WHITE HOUSE
WASHINGTON

SECRET/XGDS

MEMORANDUM OF CONVERSATION

PARTICIPANTS: President Ford
George Shultz
Dr. Henry A. Kissinger, Secretary of State
and Assistant to the President
for National Security Affairs
Charles Robinson, Under Secretary of State
for Economic Affairs
Lt. Gen. Brent Scowcroft, Deputy Assistant
to the President for National Security Affairs

DATE AND TIME: Friday, February 7, 1975
3:35 p.m. - 4:55 p.m.

PLACE: The Oval Office
The White House

President: Fill me in.

Shultz: I had two missions. One with the Shah, whom I met in Switzerland, and one with the small group of Five, which was set up at Schmidt's suggestion.

The Shah was very cordial and anxious to do what he could to be friendly. It was a beautiful setting in San Moritz. We talked for an hour and a half. He is a broad-gauge, secure, and very impressive man.

President: Where was he educated?

Kissinger: In Switzerland. He is very tough-minded.

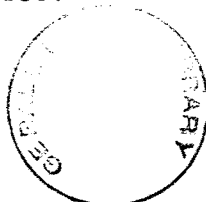
Shultz: He mentioned coming here on May 16. I have three categories of points to convey. First is points the Shah wanted to make to the President. He wanted to know what we thought about the U. S. agreeing to take specific amounts of oil from Iran.

President: At what price?

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AUTHORITY *2AL Rev. en 12/6/04; State visit 10/11/04*
BY *WJ* **NLF, DATE** *4/16/07*

SECRET/XGDS



~~TOP SECRET~~ XGDS (3)
CLASSIFIED BY: HENRY A. KISSINGER

Shultz: That wasn't discussed. But he said to me: "Why are you buying from Saudi Arabia when I haven't used oil as a weapon?"

Separately I raised the Roosa plan. He said it was interesting but he wouldn't have any money to invest because his liftings were down by 16%.

Back in the early days of the Administration we recommended a fee system like you have put in. The Shah told me then he offered to fill our Salt Dome for \$1.00 a barrel.

Kissinger: That's an interesting proposition. A lower price over a long period would be a way of breaking the cartel.

Shultz: That was the first point.

Secondly, he feels the U. S. should regard Iran as her country in the Middle East. It is important to the United States that Iran develops -- Iran is a western country. He places great value on the Joint Commission. He is aiming at putting out 17 million tons of steel.

Third, he wanted to express his personal esteem for you and Secretary Kissinger. He regarded my visit as a symbol of your friendship.

Fourth, he is looking forward to his visit here in May.

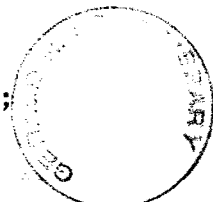
Kissinger: We are looking to put together a \$10 billion program of investment with Iran. We'll have a preliminary agreement by March and have a signature during his visit. I agree: he is profoundly a friend of the United States. He is a cold-blooded realist. He needs the money and there is a level below which he won't cut the price.

Shultz: He wanted to register these general points: First, the era of cheap energy is over. I told him the price could erode. He calls oil a noble resource, because of its many uses. He understood the implications of the fee system but had decided not to comment because it would have made it difficult for you.

Second, he said he hopes to develop nuclear energy for Iran.

Third, he said that inflation in the West is bad for everybody. He is pessimistic -- especially about Britain and Italy. He says the British don't want to work any more; if they did, they wouldn't have inflation. I told him there were different types of inflation. I said your program basically was to fight inflation and you would stick to it.

Fourth, on OPEC. Iran is in the middle he says. Iraq is a hawk; Venezuela is in the middle. No one pays any attention to Yamani.



Indexing is one of his themes. He argued for it. I said there are technical problems with it. What is the base? What is the basket of goods you measure it against? How can you make it work for the variety of basic materials -- some of which had dropped badly?

Fifth, he noted that Iran had given a lot of aid -- about 7% of its GNP. That is a gigantic effort, which he won't be able to sustain.

I told him about the meeting in Germany. He made no comment at all. The British said the Shah had played a role in giving Schmidt the idea for the private group.

I tried to point out how much many of the basic materials had come down.

President: How old is he?

Robinson: 55.

Kissinger: The Shah wouldn't let the Soviets make overflights over Iran during the October war. He is strong, and he is a friend.

President: How did he take over?

Kissinger: His father or grandfather, was a sergeant. He took over as a very young man and was kicked out by the leftist Mossadegh. Then Mossadegh was overthrown with CIA help, and the Shah put back on the throne.

He runs the country himself. He is a total autocrat, but a man with global vision.

He is convinced that we can't fight another Middle East war from our base structures. So he is thinking of buying some 747 tankers to help us.

He is a good friend of the United States except on oil pressures. He can't afford to cut his oil production because he needs the income.

If we shifted some of our imports from Saudi Arabia to Iran, we could increase the pressure on Saudi Arabia.

President: How could we have an exclusive contract with Iran?

Shultz: If you have a fee system, you can discriminate among countries by adjusting the fees.

Kissinger: That is one of the drawbacks of quotas.



Shultz: Let me tell you about the German meeting. It was nicely arranged, in a castle at Kronberg.

There were five people. Wilfrid Goett, head of the Deutsche Bank, Raymond Barre of France. He's very flexible. Caulls of Britain; Komeiti of Japan. He said little, but he understood English and supported the conclusions.

This group -- as individuals -- fairly well agreed and agreed to report to our governments. I have a paper here which sums it up. [Tab A]

We agreed, first, that if the consumer-producer meeting was not carefully prepared, with consumer discipline, it would be a disaster. We thought if there was a preparatory conference in March, it should be on basic house-keeping matters only. Barre agreed completely.

In terms of analysis, we had these conclusions: About the financial flow -- the group thought it was self-limiting. The emergence of new supply in non-OPEC countries, imports into the producer countries, and conservation measures will limit the buildup of funds of a total of about \$200 billion. That still leaves a major problem in the developing world and the weak industrial countries. A key issue is that these funds represent a form of world savings and they must be invested productively. Because OPEC will draw from these reserves, and if they are not invested properly, they will run out soon.

The price of oil is likely to erode. A buyers' market is returning. Bilateral deals now are an indication of price weakness.

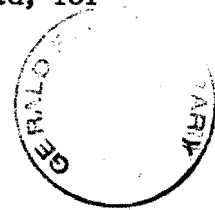
There is still some danger. OPEC can raise prices, or cut off supplies; money can be shifted around.

We had trouble seeing how a constructive consumer-producer meeting can be arranged.

The IEA was endorsed. The Europeans are strong for the IMF. The \$25 billion plan was endorsed (after some discussion) and needed immediate implementation. It couldn't wait for legislative action. The group thought it could be done by a joint guarantee by the industrial countries and the money could be raised, perhaps without resort to legislative action.

All agreed that conservation is essential.

We discussed a floor price. The initial reaction was bad, but at the end, we felt that while the idea of a minimum price for OPEC oil was bad, for



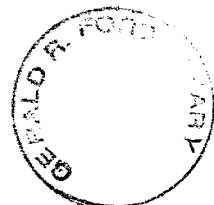
non-OPEC oil it was good -- to insure protection development of non-OPEC sources. We didn't really fill this idea out.

President: You mean like Mexico?

Kissinger: I think it is mostly to protect the alternative sources. I think the consumer-producer meeting will either be a front or a danger. We are trying to tie up as much as possible so we can tie the other consumers as tightly as possible. Only in this way can we control things. That is why the \$10 billion Iranian deal is attractive. Robinson is going to Algeria, too.

Shultz: They are already running a deficit.

Kissinger: If they play it straight, we can relate our bilateral deals to a multilateral arrangement. Otherwise, we would be naked before them.



Report on Private Group of Five Meeting

Shultz
Report

16

February 2-3, 1975
Kronberg, West Germany

The meeting took place in a lovely old castle, where we were served delicious food. The mood was informal, the group talked well with each other and frankness of communication developed. The Japanese delegate said almost nothing, although he speaks good English. He said at the end that he agreed with the points listed below.

We agreed to report to our principals the following points, which seem genuinely to reflect the views of the individuals present:

1. Analysis of the Problem

a. Financial flows

- bound to be large but, with continued responses in terms of OPEC imports, conservation, and supply encouragement, they seem to be self-limiting within manageable range in the overall
- used the Morgan statement, which is similar to other private and government analyses
 - general view: it is somewhat optimistic but peak OPEC reserves on order of \$200-250 b. by turn of decade, give or take a year or two
- still leaves problems of
 - weak industrialized
 - developing
 - huge and continuing transfer of real resources
 - long-term investment in genuine and productive capital formation



b. Price of Oil

- likelihood is for erosion: higgling of the market has now turned from luring up to coming down - a development that will be encouraged by further conservation and by additional and non-OPEC resources
- it was reported that several members of OPEC are forcing the price under the table

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E.O. 12958, SEC. 1.5
NSC MEMO, HAWARD, STATE DEPT. GUIDELINES, State Decreas 3/11/04
BY NARA DATE 5/23/04

c. Still much potential for short term damage by:

- cutoffs
- raising price
- moving money
- difficulty for industrial world

They are all destructive to OPEC in the long run.

2. Necessary steps for Consensus

a. IEA should continue to develop and be strengthened. (Barre agreed to tell Giscard that France should join but said that it could not do more than associate through OECD.)

b. Endorsed IMF facility and noted that it can be developed further if needed

c. Endorsed Kissinger-Simon plan - essential in strategy that it be funded by consumers and that it be a real presence in existence, but:

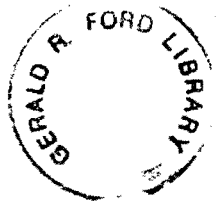
- should be regarded as safety net when other measures fail
- reality and speed mean submission to legislatures is slow and uncertain, bilateral guarantees questionable in case of potential borrowers; therefore joint guarantee most promising approach

d. Conservation is central, though the group could only call attention to importance of:

- price
- ~~goals~~ goals
- regulations and incentives

e. Ensuring long-term security of supply

- minimum price for non-OPEC oil is an idea that deserves exploration but we would rule out guaranteeing a price to OPEC



- guarantees to particular investments
- storage capacity
- surge capacity
- r&d on new sources
- importance of particular countries not setting back development of our resources, especially Britain and U.S.

3. Content and Structure of Consumer-Producer Meeting

- Note that it could be a disaster if not carefully prepared
 - ^{March} ~~much~~ too early for preparatory conference, but if it must be held, confined discussion to housekeeping items
 - better not to have it if impossible to put in constructive view
 - better to take time necessary to properly get ready
- Assume governments can get "2" in place
- Indexation in any form is a trap and we should not agree on this under any circumstances
- This point plus feeling that oil price is going to erode had us to conclude that oil price should not be the center of discussion
- Possible focus on joint development needs and problems
 - feasibility of their plans
 - technical resources of West
 - long-term investment vehicles, including:
 - triangular arrangements, as with Ex-Im
 - Roosa type arrangements, ^{which are} ~~with one~~ being spontaneously developed ^{ins} by the market



- must face up to issues of:
 - coordination with host country
 - coordination with host company
 - plan for withdrawal of funds
 - control of short-term movements of money

4. Role of this Group

- a. Usefulness should be judged by governments on step by step -
or meeting by meeting basis
- b. Possible additional meeting of the "5" after report to governments
to concentrate on plan for private consumer-producer meeting
- c. Possible consumer-producer meeting
 - if
 - it seems worthwhile
 - if
 - ~~its~~ suitable counterparts can be found



P/Schultz (R) Robinson

Check ^{copy} for ^{recon} again

(Small talk)

7 Feb 75

✓

P Fill me in

S I had 2 missions. One was w/ Shultz & w/c small group of 5 (Schultz)

Shultz very cordial & anxious to do what he could for me personally. ~~He~~ (Saw description) we talked for 1 1/2 hrs. He is broad gauge, secure - very impulsive.

P Where & how met

K Schultz He's stamp minded

S He mentioned coming here on May 16. 3 categories -
(1) Points Shultz to P.

How about US agreeing to take specific assets of oil from Iran

P Price?

S Not the issue. But said why you buying from SA when I haven't used oil as yet.

Separately discussed Russia plan. Said interesting but he wouldn't have any money to invest cause by time were done by 16%

⊗ Back in early days of Admin we recommended fee system like you have put in. Shultz told me there ~~was~~ he offered to follow our Salt dome for 1/2 barrel.

K That an interesting proposition. A longer period would be a way of breaking & control.

S That was 1st point.

(2) He says US should regard Iran as key country in M.E. Important to US that Iran drops - Iran is Western country. Places great value on Ft. Crown. He is paying out 17 mil tons of steel.

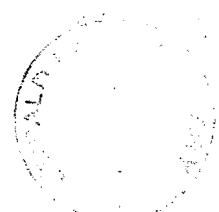
(3) Wanted to 4 press exten for you & K. He regarded my visit as symbol of friendship

(4) looking forward to visit in May.

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AUTHORITY per PAC review 12/6/04, State visit 3/11/04

BY WLB NLF, DATE 11/16/07



* Invite Shultz to dinner for Shah

(2)

K We looking to put together a 10' bit program of investment w/ him. Previews by Frank & Richard during visit. He is personally a friend of us. He is a wild blabber that he needs money & there is level below which he won't exit.

S He wanted to review these points:

(1) Issue of cheap energy is over. I told him price could rise. He calls out a world resource (may use) He understood implications of a fee system but had decided not to comment because it would have made dig for you.

(2) Hopes to drop solar energy program.

(3) Inflation in West is bad for all. He pessimistic - esp about Brit & Italy. He says Brit doesn't want to work any more - if they did they wouldn't have inflation. I told him there were diff types of inflation. I said your prog basically was to fight inflation & you could stick to it.

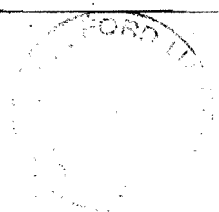
(4) Opec. Iran is in middle. Iraq hawk, Venezuela in middle. No one pays any attention to Yomania. Jeuxing. He argued for it.

I said like puts - what is base, what a basket, how much it work for a variety of basic materials - some of which had dropped badly.

(5) He noted Iran had given a lot of aid - about 7% of GNP. That is gigantic ~~was~~ effort. which he won't be able to sustain.

I told him of meeting in Germany. He made no comment at all. Brits said Shah had played a role in giving Schmidt a idea for private group.

I tried to point out how much many basic materials had come down



P How old is he

Robinson 55.

K (Shook & EU flights during oil war)

P How did he take over?

K Father or Grandfather was a sgt. (Deserted Mossadef's
open)

He runs country himself. A total contract, but
w/ globalisation.

He announced we can't fight another war like
we've seen in base structures. So he thinking of buying
some 247 tankers to help.

He good friend of US except on oil pressures.

He can't afford to cut oil production because he needs
a miracle.

If we moved some 11 from SA & Iran, we could
increase pressure on SA.

P How would we have a behavioral contract w/ Iran?

S If you have a fee system, you can discriminate
among countries by adjusting a fee.

K That is one of drawbacks of quotas.

S The German unity was nicely arranged (Kronhardt)

There were 5 people: Gerd Fischer, Gert Grot - Had
Dauterive Bomb; ^{are} Baker - Fr. Very flexible
Calli Brit; Koike - Japan. He said little, but
understood.

This group - or radicals - finally will agree & agree to
export of own goods.

(1) If c-p entry not completely prepared - w/ economic
discipline. it would be disaster, we that if a
big say in March it should be basic house -
keeping matters only. Base agreed completely.

In terms of analysis: financial flows - a group



That it was self financing. Emergence of supply in non-opec countries, M. with producers, and short limit a buildup of funds to total of about 200 bil. That still leaves major part in developing world & opec industrial countries & key issue is. That short term funds represent a form of world savings - & they must be invested productively - because opec will draw from these savings & if not invested properly, they will run out soon.

Price of oil is likely to make a longer market return. Bilateral deals now and multilateral find weaknesses.

There is danger - opec can raise price, money can be shifted around.

We had trouble seeing how constructive & practical can be arranged.

IEA endorsed, EURO thing for EMU, 25 bil plan endorsed (after some discussion) & would be implemented. Could not wait for legis action.

The key that a joint guarantee by a subset countries & money could be raised, perhaps w/ a view to legis action.

All agreed cooperation essential

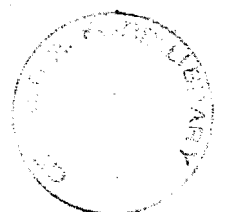
We discussed floor for price. Substant reaction was loud, but at end, with idea of minimum price for opec was loud, but for non-opec was good (to insure protection of non-opec sources). We didn't really fill this out.

P You mean like Mexico

R I think it worthy to protect all sources.

I think a CIP unit is either a feature or a danger.

We are trying to tie up as much as possible as



5:45

(2)

we can tie other consumers as tightly as possible.
Only in this way can we control things. But that
why this is not Iranian deal attractive, Khomeini is
going to Algeria...

S They already running a report.

R If they play it straight, we can relate our relations
back to a multi arrangement. Ochemis and
would be washed paper

