The original documents are located in Box C25, folder "Presidential Handwriting, 8/7/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE PRESIDENT HAS SEEN.....

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

August 7, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: Alan Greenspan
Frank Zarb

SUBJECT: Iranian Oil Negotiations

We have looked at an issue paper drafted by Henry Kissinger concerning the Iranian transaction.

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. We have several technical suggestions concerning the terms of the deal and ask that they be made part of our official negotiating position.

If you agree to go forward, we propose the following next steps:

1. A meeting with the Secretary and Under Secretary Robinson to finalize the terms which the U.S. will establish as acceptable.

2. We recommend that you discuss the transaction with Bill Simon, Jim Lynn and Arthur Burns separately before Mr. Robinson meets again with Iranian officials to complete details. Robinson leaves on Sunday, August 10th.

3. We also recommend that Mr. Robinson be instructed to make clear to the Iranians that we will need to go to the Congress with specific authorities both with respect to appropriations and for authority to resell the purchased oil to the American economy. Iran should be informed that this could provoke public hearings which will have to be completed before we could sign a final agreement and begin taking delivery.

4. Finally we would recommend that private consultations with key Congressional Chairmen begin as soon as possible after Mr. Robinson returns.

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Brent
Scowcroft

THE WHITE HOUSE

WASHINGTON

August 11, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: BRENT SCOWCROFT

FROM: JIM CONNOR

SUBJECT: Iranian Oil Negotiations

The attached were received in the President's outbox with the request they be forwarded to you.

Brent: You might want to get Jack Marsh involved early on in this

Jim Connor

cc: Don Rumsfeld

Attachments:
Original Memo of 8/7/75 from Greenspan & Zarb on above subject.
Copy of Memo from HAK to the President 8/6/75 on above subject.

It is impossible to judge what kind of reaction we will get from Congress. If they choose to make it a political issue they could try to demonstrate that this deal is a "cave" on a world floor price, or the indexing position of OPEC. Early consultations with key Chairmen could smoke out their views and possibly minimize subsequent demagoguery.

THE PRESIDENT HAS SEEN.....

THE WHITE HOUSE

WASHINGTON

[redacted]/NODIS

August 6, 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: HENRY A. KISSINGER

SUBJECT: Iran - Special Oil Purchase Agreement

Under Secretary Robinson and I have been negotiating over the past several months with the Shah of Iran and Minister of Economy and Finance Ansary to conclude a bilateral swap arrangement involving Iranian oil and U.S. products. We now need a decision to proceed with final steps necessary to conclude this agreement.

Key features are:

1. Period - 5 years.

2. Quantity - Iranian oil shipments to commence during September 1975 with deliveries at an average rate of 500,000 barrels a day from contract date.

3. Oil Purchase Price - Based on the current official OPEC price for Iranian oil ($10.46/bbl) the base price to be adjusted in line with changes in the U.S. wholesale price index. The price need never exceed the prevailing OPEC price as the U.S. would have an option to cancel in that event.

[redacted]/NODIS

GDS

KR 4-12-89

(In addition, the U.S. would have a discount against this base price through an interest free deferred payment arrangement--4 below.

4. Payment - In special 5-year U.S. Treasury Notes bearing interest at market rates after a moratorium period of 4 to 6 months--yet to be agreed. After the moratorium period, the Treasury Notes may be used for purchase of U.S. products or held by Iran until retired in cash with accumulated interest at the end of 5 years.

5. Special Condition - As a protection against price increase for U.S. products greater than increases in the U.S. wholesale price index, Iran would have an option in this event to cancel after two years.

To implement this oil purchase program the U.S. Government could purchase directly for a national stockpile or auction off import entitlements to private companies, which would purchase at the bid price. Payments would be made to the Treasury which would issue 5-year Notes to Iran gaining for the Treasury the margin of profit between contract and bid price.

From a preliminary review the Justice Department advises that the Executive Branch has the authority to conclude this agreement; however, we must seek congressional appropriation to cover Treasury's financial exposure.

Such an arrangement offers the U.S. the following advantages:

1. Insurance against an OPEC price increase on October 1, 1975 for this portion (almost 10%) of our oil imports. This could provide a substantial gain initially to be gradually reduced with increases in the U.S. wholesale price index.

2. A further discount of 30-40 cents/bbl in the interest moratorium period on the U.S. Treasury Notes.

3. Reduced vulnerability to an Arab oil boycott.

4. Safeguards against an Iranian oil embargo in the form of an "escrow" account of $650 million to $1 billion in Treasury Notes held for the moratorium period.

5. Recycling of oil purchase payments through purchase of U.S. goods.

6. A crack in OPEC's price solidarity.

Possible disadvantages include:

1. A first step in more direct government involvement in oil imports which might encourage Congress to go further in reducing the role of the private sector in this field.

2. Potential congressional opposition which could block the appropriation and frustrate the deal.

3. Other problems in implementing this program not yet revealed by our restricted and confidential exploration to date.

RECOMMENDATION:

On balance, I feel that the advantages warrant concluding final arrangements with Iran within the basic guidelines outlined above subject to congressional approval.

Approve________ Disapprove________

Concurrences:
Alan Greenspan
Frank Zarb