Scowcroft file

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

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MEMORANDUM OF CONVERSATION

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

DATE AND TIME: Monday, June 16, 1975
10:25 - 10:50 a.m.

PLACE: The White House
Secretary's Office

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, 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] 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.

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CLASSIFIED BY Henry A. Kissinger
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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.

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 Treausry 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.

[The meeting ended]

K/Greenspan/Robinson
16 June 75

R President wanted me to discuss something we have been discussing w/ Iran for years only
When I saw Shah in March he complained his liftings were falling & he had 500,000 exp. I said under spec. conditions we might take it off their hands. Church has discussed w/ them & they want $700,000. They would sell to us for Treasury notes w/ preferential period. Notes to be redeemed for purchase of US goods.
I am interested because US it breaks OPEC price front because it shifts the surplus.
G It would have to be at Saudi expense & they wouldn't like it. How long?
K Up to us. (2) It would make it harder to raise prices (3) insurance against embargo. (4) Puts pressure on supplies.
There are 2 schemes. First one, we pay the market price for oil. Other is set at current price cut plus a wholesale index.
G That breaks the OPEC price structure
K If they give us a preferential price, over years gains us $1 dollar.
G If we could keep Iran at full production it puts severe pressure on Saudis. We would want to ensure that Iran would not cut back elsewhere.
R They would but that obviously is not their scheme. They want to keep their money.
The basic scheme is a barter. If they contract way out for oil they need assurance that

price will go up of in line w/ other goods they would buy. Either scheme – Opec price, or current price plus WPI (so long as doesn't go above Opec). We would give them Treas note ~~bonds~~ w/o interest for 1st year & non-negot for 1st yr. So for 1st yr we would have 2 bil in our hands.

This will take imagination & changes in how we operate.

G. So in effect you have 2 bil in escrow. So if they broke a deal or entered an embargo, we have 2 bil.

R. We get a discount. We will have estab a spec arrangement which can go far to break ~~off~~ Opec.

G. When this gets out.... The only real issue is price. It would be crucial that price not escalate beyond Opec price.

R. I think I get that, but I haven't nailed that down yet.

G. It seems obvious that if you look at 1978 at these prices, Saudis are only ones who will not be a net borrower. The others are commodity financed at such a rate.

The 700000 by itself won't do it. But as a symbol – Saudi reaction will be important.

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R. There are 2 alts. Grant purchase option 1/3 or buy for Navy reserves, etc.

G. We can ~~don't~~ buy it for stockpile. We're talking about stockpile, but we don't have a Salt dome capacity. Maybe you can solve a company prob. by having them take crude.

The notes would have to be non-negot. Have you looked at dif interest rates?

R. It about $1/bbl at current int. rates. I thinking of 5 yr maturity - w/ no interest if they don't use it for buying.

K. Another option is lower the int. rate & have no forgiveness. How will it look to our IEA partners. It really helps them

R. But we must be careful how we do it.

G. Will have devastating impact on Opec. So you want > max apparent price concession

R. Iran insists that non-negot aspect be covered by side letter, as well as price not going above Opec.

K. I know we would like greatest apparent price differential... The side letters will leak... the Saudis will be very upset.

G. If you then have a same deal w/ Saudis I would not favor it. Because then Opec becomes Saudi

K. That a separate issue - but the Saudi's worry about that.

R. It would be pol. diff to say we do it w/ Iran but wait for Saudis.

G. Let us think it thru. Critical thing is what happens

1980, w/ Iran + w/or w/o Sandis. We may <u>need a</u> total strategy before we resume

K. I think we should pick up what we can & develop total strategy after Iran resolved up.