The original documents are located in Box 13, folder "Energy (4)" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

Iran Occidental

Speak To Zarb

Energy

The Honorable
to: James M. Cannon

room: ________ date: ________

Department of the Treasury
Assistant Secretary
(International Affairs)

File

Attached is for a meeting on Monday at 5 o'clock.

Jerry

Gerald L. Parsky
room 3432
ext. 5164

THE WHITE HOUSE

WASHINGTON

August 2, 1976

MEMORANDUM FOR THE VICE PRESIDENT

FROM: JIM CANNON Jim

SUBJECT: Iran Buying into Occidental

It seems to me that Ford Administration approval of this proposal for Iran to buy $125 million in Occidental preferred stock could be a significant political issue.

I would like to talk with you about this on Tuesday, August 3, if I may.

Many thanks.

attachment

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

July 30, 1976

MEMORANDUM FOR: THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY

THE HONORABLE ELLIOT L. RICHARDSON
SECRETARY OF COMMERCE

THE HONORABLE CHARLES W. ROBINSON
DEPUTY SECRETARY OF STATE

THE HONORABLE ROBERT F. ELLSWORTH
DEPUTY SECRETARY OF DEFENSE

THE HONORABLE BRENT SCOWCROFT, ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS

THE HONORABLE L. WILLIAM SEIDMAN, ASSISTANT TO THE PRESIDENT FOR ECONOMIC AFFAIRS

THE HONORABLE ALAN GREENSPAN
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS

THE HONORABLE JAMES M. CANNON, ASSISTANT TO THE PRESIDENT FOR DOMESTIC AFFAIRS

THE HONORABLE FRANK G. ZARB, ADMINISTRATOR
FEDERAL ENERGY ADMINISTRATION

THE HONORABLE CLEMENT B. MALIN, ASSISTANT ADMINISTRATOR FOR INTERNATIONAL AFFAIRS, FEDERAL ENERGY ADMINISTRATION

Subject: August 2, 1976 Meeting on Proposed Iran/Occidental Investment

Attached is a revised draft Memorandum for the President on the Iran/Occidental transaction for discussion at our meeting on Monday, August 2, at 5:00 p.m. in Secretary Simon's Conference Room in the Main Treasury Building.

We would like to send the memo forward to the President on Tuesday. Therefore, it would be appreciated if you could come to the meeting prepared to give a final vote on the two options set forth in the memo.

Gerald L. Parsky

Attachment

cc: Richard Darman, Commerce
Joseph Greenwald, State

DRAFT July 31, 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Proposed Iranian Investment in Occidental Petroleum

On June 20, 1976, the Government of Iran and the Occidental Petroleum Corporation signed a Letter of Intent concerning a proposal involving (1) an initial $125 million Iranian equity investment in Occidental and (2) various joint ventures to be undertaken by the two parties. Iran is also discussing certain "oil for arms" arrangements involving the Ashland Oil Company and the New England Petroleum Company which could result in a maximum 25% equity investment by Iran in one or both of these companies.

The purpose of this memorandum is to (1) seek your decision as to whether or not we should inform Iran that we have no objection to the Occidental investment and (2) address the broader question of how we react to OPEC investment in the energy sector.

Outline of Proposed Investment in Occidental

The details of the proposed arrangement are set forth in the Letter of Intent which is at Tab A. The key aspects of the proposed transaction are summarized as follows:

-- Iran will purchase from Occidental 6.25 million shares of voting preferred stock at a cost of $125 million.

-- Iran will also obtain warrants which will allow them to purchase an equal number of shares of voting common stock for $125 million, but may only exercise the warrants during the period from 5-10 years after the date of the final agreement. The initial preferred stock purchase would give Iran a 9 percent voting interest and the right to appoint one member to the fourteen man Occidental Board. Exercise of the warrants would boost its voting share to between 13 and 17 percent, depending on the total amount of Occidental stock outstanding at the time the warrants are exercised, and permit Iran to appoint a second member to the Board.

-- The Letter of Intent requires that joint ventures be undertaken for (1) a 5-year arrangement for the processing of Iranian heavy crude oil in Occidental's refinery in Antwerp, Belgium and (2) Iranian participation as a 50% partner in Occidental real estate and cattle operations in the US. In addition, the parties are negotiating joint ventures involving (a) Iranian participation in the development of Occidental's Canvey refinery in England and (b) development of Caspian Sea oil, possibly in conjunction with the Soviet Union which is already a partner with Occidental in several joint ventures. While other Iranian/ Occidental joint ventures are possible, the parties have indicated that no other specific ventures are presently being contemplated.

U.S. Government officials met with Iranian Ambassador Zahedi (Memcon at Tab B) and with Armand Hammer, Occidental's Chairman and Chief Executive Officer (Memcon at Tab C) to discuss the details of the proposed investment and explore the motives of each party for entering into the transaction.

The main Iranian interests in the transaction appear to be to obtain (1) an attractive investment opportunity in a US corporation; (2) a five year contract for the sale of 50,000 bd of heavy crude oil; (2) Occidental's expertise and assistance in developing the agricultural (primarily cattle) and petrochemical sectors of its economy and (4) a partner acceptable to the Soviet Union for developing off-shore oil deposits in the Caspian Sea area. The Iranians have made it clear that they have no interest in obtaining management control of Occidental.

Occidental's main interests in the transaction appear to be to obtain a partner to (1) provide crude to, and help share in current losses at, its refinery at Antwerp; (2) share ownership and development costs of its US real estate and cattle operations; and (3) share in the costs of developing the Canvey refinery. Occidental has taken special precautions to insure that Iran would not control the company and a key part of these arrangements is that Iranians could not obtain additional Occidental stock without the firm's approval.

Agency Review of the Issues Raised by the Iran/Occidental Transaction

The proposed Iranian investment in Occidental raises a number of issues which are similar to those which you considered last year in connection with the proposed Iranian investment in Pan American Airlines and the Administration's 1975 policy review of OPEC investment. It involves a major investment by a key OPEC country in an important US company and raises questions as to (1) the nature and extent of foreign government (as opposed to private) influence in a US firm and (2) the potential effect of an OPEC investment in the US energy sector on our overall energy objectives.

As a result of the Executive Order creating the Committee on Foreign Investment in the US which you issued in May of last year, we are now much better prepared to deal with OPEC investments than we were in early 1975. We have made it clear to foreign governments like Iran that we expect them to consult with us in advance on proposed investments. Moreover, contrary to the fears of many, the volume of OPEC direct investments over the past year has been negligible as most OPEC investment has been of a portfolio nature where the issue of "control" is not involved. The Congressional and public concern over potential OPEC investment has also subsided during the past year and such investments can now be treated with somewhat less concern over the political reaction to them. There has been virtually no Congressional or public reaction to the Occidental transaction even though it has been public knowledge for over a month.

The Committee on Foreign Investment in the United States (CFIUS) met on July 7 to review the case. It was subsequently discussed at a joint meeting of the Economic Policy Board (EPB) and the Energy Resources Council (ERC). The CFIUS and the ERC/EPB reviewed the nature of Occidental's diversified operations in the petroleum, coal, petrochemical and real estate sectors and considered the effect that OPEC government participation in these operations might have on our national interest.

Concerns were raised with respect to Iranian influence on the size and location of Occidental investments (e.g., would Iran's role as 9% equity holder, Board member and potential source of joint venture capital induce Occidental to make investment outside the US possibly in conflict with our national energy objectives). The Committee noted that Iran will not exercise control over the management of Occidental and that the Occidental management has indicated it would not proceed with the transaction unless Iran agrees to accept provisions preventing any substantial Iranian influence over the operations of the company. These facts, coupled with the basic adequacy of our existing laws to protect against any potential Iranian abuse, led the CFIUS and the EPB/ERC to conclude that no fundamental objections should be raised to the investment.

Broader Issue: OPEC Investments in U.S. Energy Sector

In addition to the Occidental investment, the Government of Iran is also considering an agreement whereby Iran would "barter" its oil for defense equipment from General Dynamics Corporation and Litton Industries. In this process, Iran would purchase securities of New England Petroleum Corporation and Ashland Oil Company. The transaction is still in the early stages of discussion and no action is required by the USG at this time. However it, together with the Occidental proposal, does raise the broader question of how we react to OPEC investment in our energy sector.

Current Policy: U.S. policy with respect to foreign investment in the United States has traditionally been one of neutrality. That is, we allow capital to flow freely into this country and treat foreign investors equally with their domestic counterparts once they are established here. As you will recall, this approach was most recently reaffirmed in March 1975 following a major review of our policy which focused specifically on the potential problems of OPEC government investment in the U.S.

This policy is based not only on theoretical economic considerations but also on the practical judgment that existing laws and regulations provide adequate authority to be able to deal with potential problems that might arise with respect to particular investments here.

In policy review undertaken last year, we looked at the major threats a foreign investor (government as well as private) could conceivably pose to our national interests and then matched them against the authority in existing laws and regulations to deal with such actions. In each case, existing authority was sufficient to be able to protect our essential national interests.

Reexamination of Policy as it Relates to the Energy Sector

During the CFIUS, EPB/ERC review of the Iran/Occidental transaction, the question was raised as to whether the broad policy approved last year is still appropriate for the energy sector, particularly with regard to investment by OPEC countries. For example, is the energy industry sufficiently different from other sectors to merit special treatment with respect to foreign investment? Are there special concerns with respect to energy which existing laws do not adequately cover? Is there a possible conflict between the political interests of the OPEC investors and US energy policy interests? Should our policy in the energy sector be based on reciprocity? In short, do we need special criteria within the framework of the general investment policy against which OPEC investment in the energy sector would be tested?

One of the responsibilities given to the CFIUS under the 1975 Executive Order is to consider proposals for any new regulations or procedures relating to foreign investment that might be necessary and to submit recommendations and analyses to the EPB and the NSC. Accordingly, the CFIUS will undertake a review of our current policy as it realtes to the energy sector.

Immeidate Question: Occidental Investment

While the CFIUS and the EPB/ERC concluded that there was no basis on which the USG should object to the proposed transaction, the question has been raised as to whether we should delay informing the Iranians pending completion of the CFIUS review of foreign investment in the energy sector.

The options are:

Option 1. Defer communicating "no objection" at this time pending outcome of policy review.

PRO

-- It would permit us to examine the general policy concerns with respect to OPEC investment in the energy sector before deciding on the Occidental transaction.

-- It would show Congress and the public that we are proceeding cautiously with regard to foreign investments in the energy sector.

CON

-- It is public knowledge that the USG has been reviewing this case for over a month so the longer we delay a decision the more we risk giving the impression that we are having second thoughts with respect to our traditional, open door investment policy.

-- At the recent meetings of the Conference on International Economic Cooperation (CIEC) in Paris, we have been emphasizing our open door policy with respect to OPEC investment and a refusal to approve the Iranian investment would add to our problem with the OPEC in CIEC.

-- It could result in unnecessary and undesirable diplomatic difficulties with Iran and other OPEC nations.

Option 2. Communicate "no objections" based on the facts presented to us at this time, but make it clear that any substantive changes in terms (either in the final definitive agreement or subsequent to it) would require further consultation.

PRO

-- The CFIUS and the EPB/ERC have reviewed the specifics of the Iran/Occidental proposal and have concluded that there is no present reason to object to the transaction.

-- This would be consistent with our traditional policy and recently established procedures which are that we do not intervene in foreign investment transactions except where there are major identifiable, adverse implications for the national interest.

-- It would avoid raising prematurely questions about the US commitment to the free flow of capital.

CON

-- It would make objection to future similar agreements more difficult.

-- It could cause public embarrassment and diplomatic difficulties if the general review of our policy toward foreign investment in the energy sector resulted in an adverse finding on the Iran/Occidental proposal.

Agency Views:

Treasury

State

Commerce

Defense

CIEP

Seidman

Scowcroft

FEA

CEA

Domestic Council

Approve Option 1 ____________

Approve Option 2 ____________

TAB A

June 20, 1976

His Excellency Hushang Ansary
Minister of Economic Affairs & Finance
Teheran

Your Excellency:

The purpose of this letter is to describe for your consideration a proposed transaction between Occidental Petroleum Corporation ("Occidental") and the Imperial Government of Iran ("Government") which we have discussed with your representatives, as follows:

1. The capital stock of Occidental consists of 15,000,000 authorized shares of preferred stock and 100,000,000 authorized shares of common stock, of which 7,899,000 shares of preferred stock and 56,823,000 shares of common stock were issued and outstanding on December 31, 1975. The authorized preferred stock is issuable in series and the Board of Directors of Occidental may from time to time create and issue new series from authorized but unissued preferred stock including shares having the terms and rights contemplated herein.

2. Occidental offers to sell to the Government 6,250,000 units, each unit consisting of one share of a new series of preferred stock to be designated as "$1.40 Cumulative Preferred Stock" and one warrant exercisable to purchase one share of common stock at $20 per share. Except as otherwise agreed upon, the new series of preferred stock shall have the same voting, liquidation, and dividend rights as shares of the presently outstanding series of cumulative preferred stock. The new shares, however, shall not be redeemable or callable, nor subject to retirement through a sinking fund. Notwithstanding the provisions for cumulative voting which apply in the election of the directors of Occidental, the new series of preferred stock shall entitle the Government to elect one director out of fourteen. The warrants to be issued to the Government shall be exercisable over a period commencing five years from the date of Closing and ending five years thereafter. It is understood that the Government would purchase all said securities for investment and not with a view to the resale or other distribution thereof.

3. The consideration to be paid by the Government for said securities shall be $125 million, payable in cash in currency of the United States of America at Closing.

../..

4. At present the Board of Directors of Occidental consists of thirteen persons. Occidental agrees that immediately after the Closing the number of directors comprising the Board shall be expanded to fourteen, and one representative of the Government shall be named as the new director.

5. It is understood that one of the objectives of the parties in considering this relationship is to lay the groundwork for fruitful joint ventures in Iran, the United States, and elsewhere. The parties expect to explore such ventures, making use on the one hand of Iran's extensive natural resources and the opportunities presented by its rapidly expanding economic development programs, and on the other hand of Occidental's know-how, expertise, marketing and distribution facilities, and other resources relating primarily to the petroleum and chemical industries. In this respect, the parties agree that Closing hereunder shall be made specifically contingent upon the preparation and signing of definitive agreements relating to the following undertakings:

(a) As the Government has an interest in the marketing of heavy crude, and as Occidental has excess refining capacity, two VLCC's, and marketing capability, we propose a five-year joint venture for the processing, transportation, and marketing of 50,000 barrels per day of Iranian heavy crude at Occidental's cost. It is understood that the joint venture shall purchase such heavy crude from the Government at its normal FOB Kharg Island selling price, and that VLCC's will charge the joint venture the going rate. Any profits above costs would be shared equally. In the event of losses having been incurred by the Government during such five-year period, then Occidental shall compensate the Government for all such losses by the transfer to the Government, for no additional consideration, an equity interest not to exceed 50% in the Antwerp refinery. The fair market value of the refinery shall be determined as of such time as the parties may agree prior to Closing.

(b) We propose that the Government participate in Occidental's real estate holdings, which include ranch properties, at cost or appraisal, whichever is lower, and pay for such participation in cash or by the delivery of heavy Iranian crude on a timetable to be mutually agreed upon; it being contemplated that the parties shall develop cattle herds on the ranch properties with the aim of increased meat production and breeding cattle for sale in the United States, export to Iran and other markets, and that Occidental shall participate in cattle breeding ventures in Iran.

6. It is the intent of the parties that the following joint ventures shall be studied with a view to the development of such proposed projects:

(a) The exploration for oil and development of the properties of the Government in the Caspian Sea in accordance with prevailing Iranian laws.

(b) Participation by the Government in a joint venture with Occidental in Canvey Island refinery on an equal basis.

7. The Government shall grant to Occidental a right of first refusal on all its holdings of preferred stock and warrants, so that said securities shall not be sold to third parties without the Government having first transmitted an offer in writing to sell the same to Occidental at a specified price and on specified terms. In the event Occidental does not accept such offer of sale from the Government within the time specified therein, then the Government shall have the right to the registration of said securities by Occidental. The Government may notify Occidental in writing and Occidental shall, as soon as practicable upon receipt of such notice, file with the United States Securities and Exchange Commission an appropriate registration statement covering the shares of stock or warrants proposed to be sold. The terms and conditions applicable to such right of first refusal and registration right shall be more fully set forth in the definitive agreement.

8. It is understood that the Government does not intend to acquire any Occidental securities in addition to those provided for herein, unless offered by the company itself or as part of an agreement with the company.

9. If the foregoing proposal is acceptable to you and is approved by Occidental's Board of Directors, and any necessary or appropriate governmental authorities in Iran or the United States, it would as soon as practicable but in no event later than August 31, 1976 be incorporated into a definitive agreement, signed by Occidental and the Government, which would include appropriate language providing for arbitration in the event of any dispute arising under the definitive agreement by the International Chamber of Commerce in London, and for anti-dilution provisions protecting the Government's holdings of Occidental securities, and representations and warranties by Occidental as to the valid title free and clear of liens and encumbrances of the stock and warrants to be sold to the Government, the accuracy of the latest financial statements, and other customary warranties, representations, covenants, and conditions, including

../..

the absence of any need for approvals by Occidental's shareholders, creditors, or other persons (except for the normal New York Stock Exchange listing requirements). The execution of the definitive agreement shall be subject to the completion of legal, tax, financial, and operational investigations satisfactory to the Government.

If the terms of this proposal are acceptable to you, we would appreciate your signing a copy of this letter in the place indicated below. It is recognized that this letter, when signed, will not constitute a legal obligation of either party but rather an indication of intent on the part of both parties to proceed with this transaction. Neither party will have any legal obligation with respect to the proposal made herein unless and until a definitive agreement shall have been executed and delivered.

Very truly yours,

OCCIDENTAL PETROLEUM CORPORATION

By: ____________________
Its Chairman

ACCEPTED:

THE IMPERIAL GOVERNMENT OF IRAN

By: ____________________
Minister of Economic
Affairs and Finance

TAB B

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

June 29, 1976

MEMORANDUM FOR THE RECORD

Subject: Iranian/Occidental Transaction -- Memorandum of Conversation

On June 29, I had lunch with Ambassador Zahedi at the Ambassador's residence. Economic Counsellor Akbar and Deputy Assistant Secretary Niehuss were also present. The purpose of the lunch was to discuss the proposed Iranian investment in Occidental Petroleum.

Explanation of Consultation Procedures. During the course of the luncheon I explained generally the operation of the consultation procedures for foreign government investment and the reasons which prompted the USG to institute such procedures. Ambassador Zahedi indicated that he was aware of the intense interest in foreign investment in the U.S. in this country (especially in Congress) and of the necessity to cooperate fully with the U.S. Government. The Ambassador said that he had instructions from His Majesty The Shah to provide the USG with any information about the proposed investment. To aid in the consultation process, Minister Ansary delayed his departure from New York to be available to provide further details if necessary.

Iranian Intentions re Future Operations of Occidental. One of the major questions we explored was whether the Iranians intended to place any conditions on the future operations of Occidental and how they saw the Iranian presence in Occidental evolving --

especially if they exercised their warrants. The Ambassador pointed out that the Shah had made it clear that Iran had no intention of controlling Occidental or any other foreign companies and that the main interest of Iran in this transaction was to obtain technology and expertise. However, he did admit that it wasn't possible at this stage to say precisely how the company would be operated in the future or precisely how the Iranian/Occidental relationship might evolve. He said there were no supplementary arrangements for the purchase of additional Occidental stock by Iran.

Reasons for Iranian Interest in Occidental. I also raised the question of why Iran would be interested in an association with Occidental. Ambassador Zahedi indicated that their two main reasons were to (1) assist Iranian agricultural development and (2) provide technology and expertise for petrochemical development in Iran. He pointed out the need for a domestic cattle industry and the need for fertilizer for agri-business development. He particularly emphasized the desire of Iran to enter the petrochemical industry and felt that Occidental would be of assistance in this regard. He also pointed out that Occidental would be of great assistance in the exploration for, and development of, oil and gas in the Caspian Sea. He minimized Iranian interests in the coal operations of Occidental -- arguing that he did not feel that technical assistance was necessary to develop the Iranian coal industry.

Caspian Sea. With respect to the Caspian Sea, the Ambassador noted the obvious benefits of having a partner with an established relationship with the Soviet Union. Occidental's participation with exploration in the Caspian Sea would take some of the pressure off any move towards a joint Iranian/Soviet venture to develop oil and gas in the USSR.

Formal Notification. In response to my request, the Ambassador indicated that he would formally transmit the letter of intent to me and that he would be glad to supply any additional information that was necessary.

Gerald L. Parsky

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

July 2, 1976

MEMORANDUM FOR THE RECORD

Subject: Iran/Occidental Transaction -- Memorandum of Meeting with Armand Hammer

On June 30 I met with Armand Hammer in my office. Also present were William McSweeny, Senior Executive Vice President of Occidental and Deputy Assistant Secretary of Treasury, John Niehuss. The purpose of the meeting was to discuss the proposed Iranian investment in Occidental Petroleum.

U.S. Policy and Consultation Procedures. I outlined the evolution of U.S. policy towards foreign investment in the United States and explained the reasons for the consultation procedures with respect to government investment which had major implications for U.S. interests. I emphasized that the procedures were not intended to restrict or screen foreign investment but merely to provide some advance notice of major direct investments by foreign governments.

Origin of the Transaction, Early Negotiations and Occidental's Interest. Dr. Hammer noted that the transaction was initiated by Iran. He had received a cable from Prime Minister Hovedya indicating that Cyrus Ansary (the brother of Minister Ansary) would be coming to see him. Ansary indicated that Iran had been looking for investments and had selected Occidental. Ansary emphasized that Iran did not intend to take over the company but would be a minority participant interested primarily in obtaining technology, expertise for its internal development and a potential joint venture partner. Ansary indicated that they were thinking of a 10-20% share interest under terms similar to the arrangement with Krupp and suggested that Hammer get in touch with Krupp to see how that transaction was working out.

In reply, Dr. Hammer indicated that Occidental did not need cash as it had $700 million in unused credit and was reducing its long-term debt and its debt/equity ratio. Therefore, he indicated that, if there was no good business reason for Occidental to be involved, Occidental would not be interested. Hammer went on to indicate that Occidental's main business interests in the transaction were (1) to obtain crude for its Antwerp refinery, (2) to obtain crude supplies for its Canvey refinery, and (3) the opportunity to help develop the Caspian Sea -- recognizing that Iran could not develop that area without USSR cooperation.

Dr. Hammer indicated he consulted with key directors and discussed it with his investment bankers (Kidder, Peabody) who indicated the transaction would be in the company's interest if it did not involve a take over. Accordingly, Hammer indicated to Ansary that Occidental was interested in proceeding and an invitation to Occidental to come to Iran followed.

Discussion with the Shah. Dr. Hammer and a small group of Occidental officials went to Iran and met with the Shah who was well briefed and enthusiastic about the transaction. The Shah indicated that he was interested in having Occidental help in developing various projects in Iran. His prime interest appeared to be in the development of the chemical sector and his second interest in the development of agriculture and fertilizer. The Shah was particularly interested in the fact that Dr. Hammer and Occidental were active in cattle breeding and he felt that Occidental's expertise might help develop a domestic livestock industry and reduce the need for meat imports.

Dr. Hammer implied that Occidental was more interested than Iran in an opportunity to explore and develop the Caspian Sea reserves. He indicated to the Shah that his staff had studied the Caspian geology which they thought was favorable. Dr. Hammer indicated that Occidental's success as an oil finder, the fact that it was an independent producer, and the fact that it had Soviet connections, all impressed the Shah.

In short, Dr. Hammer gave the impression that much of the negotiation of the broad outlines of the letter of intent was done by the Shah or persons very close to him (e.g. Cyrus Ansary) and that the Shah's personal interest in the transaction was the main reason it had moved ahead so quickly.

Iranian Share Interest. Dr. Hammer indicated that the maximum voting control that Iran would have in Occidental would be 12.8% on the theory that if Iran exercised its warrants (at $20) most of the convertible securities would also be converted. I raised the issue of future purchases of Occidental stock and asked whether there was an agreement or understanding about the purchase by Iran of his stock or any other stock. Dr. Hammer indicated that, from the Occidental standpoint, one of the key aspects of the deal was that no additional stock could be acquired unless Occidental agreed. In other words, Iran would be prohibited from buying stock in the market or from any other source. Dr. Hammer indicated that a special series of preferred would be created and Iran would be limited to the election of one director. These, Dr. Hammer indicated, are the procedures that Occidental would depend upon to prevent Iranian control. He also indicated that there were no side arrangements of any sort for additional purchases of stock by Iran from him or anyone else.

International Energy Agency Problem. I then pointed out that Occidental was a member of the IEA Industry Advisory Board and that this might present potential problems. Dr. Hammer indicated that Occidental was not an active member of the organization, was lumped together with all of the independents and was not a member of any key committees. We discussed the question of access to classified information, and Dr. Hammer commented that he felt most of the information would become public. Nevertheless, he said he was agreeable to adopting measures, similar to those used for defense contracts, that would seek to preserve the confidentiality of the information. With respect to any future embargo, he commented that he believed Iran's ownership of stock of Occidental would help ensure that Iran would not participate in any such action.

Joint Ventures. I asked what joint ventures Dr. Hammer expected to materialize from the arrangement and whether Oxy was looking to substantial capital contributions from Iran. Dr. Hammer pointed out that the main joint venture of interest to Occidental was to obtain oil for its Antwerp refinery and indicated that the Shah had agreed to supply

50 M b/d which should help mitigate the losses Occidental was incurring on the refinery. In addition, Occidental had two large tankers which were losing money and if they could be kept occupied transporting the Iranian crude to Antwerp this would be beneficial. Dr. Hammer also referred to the Canvey refinery under construction and noted that the UK Government wants the refinery upgraded. He expects that the venture would be a three party deal with Elf (French), Occidental and Iran all contributing one-third (approximately $100 million each). There would also be the possibility of using Iranian crude to supplement oil from Occidental's North Sea fields. Lastly, Oxy was interested in Iran as a real estate partner.

Role in Marketing Crude. I inquired about the precise role Occidental would play in marketing Iranian crude. Dr. Hammer's reply indicated that Occidental could provide some assistance. He referred to the Permian Corporation which was one of the largest procurers of crude oil in the US as evidence of Occidental's experience.

USG Concerns and Next Steps. I indicated the major US Government concerns in reviewing a transaction of this nature were: (1) national security and national defense, (2) the existence of measures to insure against operational control of the company, and (3) any side arrangements for additional stock purchases. I indicated that I would like to use this transaction as an illustration of the way consultation procedures should be handled by foreign governments. In this regard, I asked if I should talk to Cyrus Ansary to obtain further details of the transaction. Dr. Hammer indicated that there would be no harm in this as Ansary has the Shah's confidence and handles the Shah's investments. Mr. Ansary sits on the board of Krupp and would be the Iranian Director in Occidental.

I inquired whether the approval of other government agencies was required -- the SEC for example. Dr. Hammer indicated that their lawyers had reported that no specific SEC approval would be required but that the stock issued to Iran would be lettered stock and could not be sold without registration pursuant to SEC requirements. Lastly, Dr. Hammer implied they had consulted with the Justice Department who suggested that the transaction "might even add to competition."

Gerald L. Parsky

Energy
Iran Occidental

THE WHITE HOUSE

WASHINGTON

August 2, 1976

MEMORANDUM FOR THE VICE PRESIDENT

FROM: JIM CANNON Jim

SUBJECT: Iran Buying into Occidental

It seems to me that Ford Administration approval of this proposal for Iran to buy $125 million in Occidental preferred stock could be a significant political issue.

I would like to talk with you about this on Tuesday, August 3, if I may.

Many thanks.

attachment

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

July 30, 1976

MEMORANDUM FOR: THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY

THE HONORABLE ELLIOT L. RICHARDSON
SECRETARY OF COMMERCE

THE HONORABLE CHARLES W. ROBINSON
DEPUTY SECRETARY OF STATE

THE HONORABLE ROBERT F. ELLSWORTH
DEPUTY SECRETARY OF DEFENSE

THE HONORABLE BRENT SCOWCROFT, ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS

THE HONORABLE L. WILLIAM SEIDMAN, ASSISTANT TO THE PRESIDENT FOR ECONOMIC AFFAIRS

THE HONORABLE ALAN GREENSPAN
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS

THE HONORABLE JAMES M. CANNON, ASSISTANT TO THE PRESIDENT FOR DOMESTIC AFFAIRS

THE HONORABLE FRANK G. ZARB, ADMINISTRATOR
FEDERAL ENERGY ADMINISTRATION

THE HONORABLE CLEMENT B. MALIN, ASSISTANT ADMINISTRATOR FOR INTERNATIONAL AFFAIRS, FEDERAL ENERGY ADMINISTRATION

Subject: August 2, 1976 Meeting on Proposed Iran/Occidental Investment

Attached is a revised draft Memorandum for the President on the Iran/Occidental transaction for discussion at our meeting on Monday, August 2, at 5:00 p.m. in Secretary Simon's Conference Room in the Main Treasury Building.

We would like to send the memo forward to the President on Tuesday. Therefore, it would be appreciated if you could come to the meeting prepared to give a final vote on the two options set forth in the memo.

Gerald L. Parsky

Attachment

cc: Richard Darman, Commerce

DRAFT July 31, 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Proposed Iranian Investment in Occidental Petroleum

On June 20, 1976, the Government of Iran and the Occidental Petroleum Corporation signed a Letter of Intent concerning a proposal involving (1) an initial $125 million Iranian equity investment in Occidental and (2) various joint ventures to be undertaken by the two parties. Iran is also discussing certain "oil for arms" arrangements involving the Ashland Oil Company and the New England Petroleum Company which could result in a maximum 25% equity investment by Iran in one or both of these companies.

The purpose of this memorandum is to (1) seek your decision as to whether or not we should inform Iran that we have no objection to the Occidental investment and (2) address the broader question of how we react to OPEC investment in the energy sector.

Outline of Proposed Investment in Occidental

The details of the proposed arrangement are set forth in the Letter of Intent which is at Tab A. The key aspects of the proposed transaction are summarized as follows:

-- Iran will purchase from Occidental 6.25 million shares of voting preferred stock at a cost of $125 million.

-- Iran will also obtain warrants which will allow them to purchase an equal number of shares of voting common stock for $125 million, but may only exercise the warrants during the period from 5-10 years after the date of the final agreement. The initial preferred stock purchase would give Iran a 9 percent voting interest and the right to appoint one member to the fourteen man Occidental Board. Exercise of the warrants would boost its voting share to between 13 and 17 percent, depending on the total amount of Occidental stock outstanding at the time the warrants are exercised, and permit Iran to appoint a second member to the Board.

-- The Letter of Intent requires that joint ventures be undertaken for (1) a 5-year arrangement for the processing of Iranian heavy crude oil in Occidental's refinery in Antwerp, Belgium and (2) Iranian participation as a 50% partner in Occidental real estate and cattle operations in the US. In addition, the parties are negotiating joint ventures involving (a) Iranian participation in the development of Occidental's Canvey refinery in England and (b) development of Caspian Sea oil, possibly in conjunction with the Soviet Union which is already a partner with Occidental in several joint ventures. While other Iranian/ Occidental joint ventures are possible, the parties have indicated that no other specific ventures are presently being contemplated.

U.S. Government officials met with Iranian Ambassador Zahedi (Memcon at Tab B) and with Armand Hammer, Occidental's Chairman and Chief Executive Officer (Memcon at Tab C) to discuss the details of the proposed investment and explore the motives of each party for entering into the transaction.

The main Iranian interests in the transaction appear to be to obtain (1) an attractive investment opportunity in a US corporation; (2) a five year contract for the sale of 50,000 bd of heavy crude oil; (2) Occidental's expertise and assistance in developing the agricultural (primarily cattle) and petrochemical sectors of its economy and (4) a partner acceptable to the Soviet Union for developing off-shore oil deposits in the Caspian Sea area. The Iranians have made it clear that they have no interest in obtaining management control of Occidental.

Occidental's main interests in the transaction appear to be to obtain a partner to (1) provide crude to, and help share in current losses at, its refinery at Antwerp; (2) share ownership and development costs of its US real estate and cattle operations; and (3) share in the costs of developing the Canvey refinery. Occidental has taken special precautions to insure that Iran would not control the company and a key part of these arrangements is that Iranians could not obtain additional Occidental stock without the firm's approval.

Agency Review of the Issues Raised by the Iran/Occidental Transaction

The proposed Iranian investment in Occidental raises a number of issues which are similar to those which you considered last year in connection with the proposed Iranian investment in Pan American Airlines and the Administration's 1975 policy review of OPEC investment. It involves a major investment by a key OPEC country in an important US company and raises questions as to (1) the nature and extent of foreign government (as opposed to private) influence in a US firm and (2) the potential effect of an OPEC investment in the US energy sector on our overall energy objectives.

As a result of the Executive Order creating the Committee on Foreign Investment in the US which you issued in May of last year, we are now much better prepared to deal with OPEC investments than we were in early 1975. We have made it clear to foreign governments like Iran that we expect them to consult with us in advance on proposed investments. Moreover, contrary to the fears of many, the volume of OPEC direct investments over the past year has been negligible as most OPEC investment has been of a portfolio nature where the issue of "control" is not involved. The Congressional and public concern over potential OPEC investment has also subsided during the past year and such investments can now be treated with somewhat less concern over the political reaction to them. There has been virtually no Congressional or public reaction to the Occidental transaction even though it has been public knowledge for over a month.

The Committee on Foreign Investment in the United States (CFIUS) met on July 7 to review the case. It was subsequently discussed at a joint meeting of the Economic Policy Board (EPB) and the Energy Resources Council (ERC). The CFIUS and the ERC/EPB reviewed the nature of Occidental's diversified operations in the petroleum, coal, petrochemical and real estate sectors and considered the effect that OPEC government participation in these operations might have on our national interest.

Concerns were raised with respect to Iranian influence on the size and location of Occidental investments (e.g., would Iran's role as 9% equity holder, Board member and potential source of joint venture capital induce Occidental to make investment outside the US possibly in conflict with our national energy objectives). The Committee noted that Iran will not exercise control over the management of Occidental and that the Occidental management has indicated it would not proceed with the transaction unless Iran agrees to accept provisions preventing any substantial Iranian influence over the operations of the company. These facts, coupled with the basic adequacy of our existing laws to protect against any potential Iranian abuse, led the CFIUS and the EPB/ERC to conclude that no fundamental objections should be raised to the investment.

Broader Issue: OPEC Investments in U.S. Energy Sector

In addition to the Occidental investment, the Government of Iran is also considering an agreement whereby Iran would "barter" its oil for defense equipment from General Dynamics Corporation and Litton Industries. In this process, Iran would purchase securities of New England Petroleum Corporation and Ashland Oil Company. The transaction is still in the early stages of discussion and no action is required by the USG at this time. However it, together with the Occidental proposal, does raise the broader question of how we react to OPEC investment in our energy sector.

Current Policy: U.S. policy with respect to foreign investment in the United States has traditionally been one of neutrality. That is, we allow capital to flow freely into this country and treat foreign investors equally with their domestic counterparts once they are established here. As you will recall, this approach was most recently reaffirmed in March 1975 following a major review of our policy which focused specifically on the potential problems of OPEC government investment in the U.S.

This policy is based not only on theoretical economic considerations but also on the practical judgment that existing laws and regulations provide adequate authority to be able to deal with potential problems that might arise with respect to particular investments here.

In policy review undertaken last year, we looked at the major threats a foreign investor (government as well as private) could conceivably pose to our national interests and then matched them against the authority in existing laws and regulations to deal with such actions. In each case, existing authority was sufficient to be able to protect our essential national interests.

Reexamination of Policy as it Relates to the Energy Sector

During the CFIUS, EPB/ERC review of the Iran/Occidental transaction, the question was raised as to whether the broad policy approved last year is still appropriate for the energy sector, particularly with regard to investment by OPEC countries. For example, is the energy industry sufficiently different from other sectors to merit special treatment with respect to foreign investment? Are there special concerns with respect to energy which existing laws do not adequately cover? Is there a possible conflict between the political interests of the OPEC investors and US energy policy interests? Should our policy in the energy sector be based on reciprocity? In short, do we need special criteria within the framework of the general investment policy against which OPEC investment in the energy sector would be tested?

One of the responsibilities given to the CFIUS under the 1975 Executive Order is to consider proposals for any new regulations or procedures relating to foreign investment that might be necessary and to submit recommendations and analyses to the EPB and the NSC. Accordingly, the CFIUS will undertake a review of our current policy as it realtes to the energy sector.

Immeidate Question: Occidental Investment

While the CFIUS and the EPB/ERC concluded that there was no basis on which the USG should object to the proposed transaction, the question has been raised as to whether we should delay informing the Iranians pending completion of the CFIUS review of foreign investment in the energy sector.

The options are:

Option 1. Defer communicating "no objection" at this time pending outcome of policy review.

PRO

-- It would permit us to examine the general policy concerns with respect to OPEC investment in the energy sector before deciding on the Occidental transaction.

-- It would show Congress and the public that we are proceeding cautiously with regard to foreign investments in the energy sector.

CON

-- It is public knowledge that the USG has been reviewing this case for over a month so the longer we delay a decision the more we risk giving the impression that we are having second thoughts with respect to our traditional, open door investment policy.

-- At the recent meetings of the Conference on International Economic Cooperation (CIEC) in Paris, we have been emphasizing our open door policy with respect to OPEC investment and a refusal to approve the Iranian investment would add to our problem with the OPEC in CIEC.

-- It could result in unnecessary and undesirable diplomatic difficulties with Iran and other OPEC nations.

Option 2. Communicate "no objections" based on the facts presented to us at this time, but make it clear that any substantive changes in terms (either in the final definitive agreement or subsequent to it) would require further consultation.

PRO

-- The CFIUS and the EPB/ERC have reviewed the specifics of the Iran/Occidental proposal and have concluded that there is no present reason to object to the transaction.

-- This would be consistent with our traditional policy and recently established procedures which are that we do not intervene in foreign investment transactions except where there are major identifiable, adverse implications for the national interest.

-- It would avoid raising prematurely questions about the US commitment to the free flow of capital.

CON

-- It would make objection to future similar agreements more difficult.

-- It could cause public embarrassment and diplomatic difficulties if the general review of our policy toward foreign investment in the energy sector resulted in an adverse finding on the Iran/Occidental proposal.

Agency Views:

Treasury

State

Commerce

Defense

CIEP

Seidman

Scowcroft

FEA

CEA

Domestic Council

Approve Option 1 ____________

Approve Option 2 ____________

TAB A

June 20, 1976

His Excellency Hushang Ansary
Minister of Economic Affairs & Finance
Teheran

Your Excellency:

The purpose of this letter is to describe for your consideration a proposed transaction between Occidental Petroleum Corporation ("Occidental") and the Imperial Government of Iran ("Government") which we have discussed with your representatives, as follows:

1. The capital stock of Occidental consists of 15,000,000 authorized shares of preferred stock and 100,000,000 authorized shares of common stock, of which 7,899,000 shares of preferred stock and 56,823,000 shares of common stock were issued and outstanding on December 31, 1975. The authorized preferred stock is issuable in series and the Board of Directors of Occidental may from time to time create and issue new series from authorized but unissued preferred stock including shares having the terms and rights contemplated herein.

2. Occidental offers to sell to the Government 6,250,000 units, each unit consisting of one share of a new series of preferred stock to be designated as "$1.40 Cumulative Preferred Stock" and one warrant exercisable to purchase one share of common stock at $20 per share. Except as otherwise agreed upon, the new series of preferred stock shall have the same voting, liquidation, and dividend rights as shares of the presently outstanding series of cumulative preferred stock. The new shares, however, shall not be redeemable or callable, nor subject to retirement through a sinking fund. Notwithstanding the provisions for cumulative voting which apply in the election of the directors of Occidental, the new series of preferred stock shall entitle the Government to elect one director out of fourteen. The warrants to be issued to the Government shall be exercisable over a period commencing five years from the date of Closing and ending five years thereafter. It is understood that the Government would purchase all said securities for investment and not with a view to the resale or other distribution thereof.

3. The consideration to be paid by the Government for said securities shall be $125 million, payable in cash in currency of the United States of America at Closing.

../..

4. At present the Board of Directors of Occidental consists of thirteen persons. Occidental agrees that immediately after the Closing the number of directors comprising the Board shall be expanded to fourteen, and one representative of the Government shall be named as the new director.

5. It is understood that one of the objectives of the parties in considering this relationship is to lay the groundwork for fruitful joint ventures in Iran, the United States, and elsewhere. The parties expect to explore such ventures, making use on the one hand of Iran's extensive natural resources and the opportunities presented by its rapidly expanding economic development programs, and on the other hand of Occidental's know-how, expertise, marketing and distribution facilities, and other resources relating primarily to the petroleum and chemical industries. In this respect, the parties agree that Closing hereunder shall be made specifically contingent upon the preparation and signing of definitive agreements relating to the following undertakings:

(a) As the Government has an interest in the marketing of heavy crude, and as Occidental has excess refining capacity, two VLCC's, and marketing capability, we propose a five-year joint venture for the processing, transportation, and marketing of 50,000 barrels per day of Iranian heavy crude at Occidental's cost. It is understood that the joint venture shall purchase such heavy crude from the Government at its normal FOB Kharg Island selling price, and that VLCC's will charge the joint venture the going rate. Any profits above costs would be shared equally. In the event of losses having been incurred by the Government during such five-year period, then Occidental shall compensate the Government for all such losses by the transfer to the Government, for no additional consideration, an equity interest not to exceed 50% in the Antwerp refinery. The fair market value of the refinery shall be determined as of such time as the parties may agree prior to Closing.

(b) We propose that the Government participate in Occidental's real estate holdings, which include ranch properties, at cost or appraisal, whichever is lower, and pay for such participation in cash or by the delivery of heavy Iranian crude on a timetable to be mutually agreed upon; it being contemplated that the parties shall develop cattle herds on the ranch properties with the aim of increased meat production and breeding cattle for sale in the United States, export to Iran and other markets, and that Occidental shall participate in cattle breeding ventures in Iran.

6. It is the intent of the parties that the following joint ventures shall be studied with a view to the development of such proposed projects:

(a) The exploration for oil and development of the properties of the Government in the Caspian Sea in accordance with prevailing Iranian laws.

(b) Participation by the Government in a joint venture with Occidental in Canvey Island refinery on an equal basis.

7. The Government shall grant to Occidental a right of first refusal on all its holdings of preferred stock and warrants, so that said securities shall not be sold to third parties without the Government having first transmitted an offer in writing to sell the same to Occidental at a specified price and on specified terms. In the event Occidental does not accept such offer of sale from the Government within the time specified therein, then the Government shall have the right to the registration of said securities by Occidental. The Government may notify Occidental in writing and Occidental shall, as soon as practicable upon receipt of such notice, file with the United States Securities and Exchange Commission an appropriate registration statement covering the shares of stock or warrants proposed to be sold. The terms and conditions applicable to such right of first refusal and registration right shall be more fully set forth in the definitive agreement.

8. It is understood that the Government does not intend to acquire any Occidental securities in addition to those provided for herein, unless offered by the company itself or as part of an agreement with the company.

9. If the foregoing proposal is acceptable to you and is approved by Occidental's Board of Directors, and any necessary or appropriate governmental authorities in Iran or the United States, it would as soon as practicable but in no event later than August 31, 1976 be incorporated into a definitive agreement, signed by Occidental and the Government, which would include appropriate language providing for arbitration in the event of any dispute arising under the definitive agreement by the International Chamber of Commerce in London, and for anti-dilution provisions protecting the Government's holdings of Occidental securities, and representations and warranties by Occidental as to the valid title free and clear of liens and encumbrances of the stock and warrants to be sold to the Government, the accuracy of the latest financial statements, and other customary warranties, representations, covenants, and conditions, including --

../..

the absence of any need for approvals by Occidental's shareholders, creditors, or other persons (except for the normal New York Stock Exchange listing requirements). The execution of the definitive agreement shall be subject to the completion of legal, tax, financial, and operational investigations satisfactory to the Government.

If the terms of this proposal are acceptable to you, we would appreciate your signing a copy of this letter in the place indicated below. It is recognized that this letter, when signed, will not constitute a legal obligation of either party but rather an indication of intent on the part of both parties to proceed with this transaction. Neither party will have any legal obligation with respect to the proposal made herein unless and until a definitive agreement shall have been executed and delivered.

Very truly yours,

OCCIDENTAL PETROLEUM CORPORATION

By: ______________________
Its Chairman

ACCEPTED:

THE IMPERIAL GOVERNMENT OF IRAN

By: ______________________
Minister of Economic
Affairs and Finance

TAB B

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

June 29, 1976

MEMORANDUM FOR THE RECORD

Subject: Iranian/Occidental Transaction -- Memorandum of Conversation

On June 29, I had lunch with Ambassador Zahedi at the Ambassador's residence. Economic Counsellor Akbar and Deputy Assistant Secretary Niehuss were also present. The purpose of the lunch was to discuss the proposed Iranian investment in Occidental Petroleum.

Explanation of Consultation Procedures. During the course of the luncheon I explained generally the operation of the consultation procedures for foreign government investment and the reasons which prompted the USG to institute such procedures. Ambassador Zahedi indicated that he was aware of the intense interest in foreign investment in the U.S. in this country (especially in Congress) and of the necessity to cooperate fully with the U.S. Government. The Ambassador said that he had instructions from His Majesty The Shah to provide the USG with any information about the proposed investment. To aid in the consultation process, Minister Ansary delayed his departure from New York to be available to provide further details if necessary.

Iranian Intentions re Future Operations of Occidental. One of the major questions we explored was whether the Iranians intended to place any conditions on the future operations of Occidental and how they saw the Iranian presence in Occidental evolving --

especially if they exercised their warrants. The Ambassador pointed out that the Shah had made it clear that Iran had no intention of controlling Occidental or any other foreign companies and that the main interest of Iran in this transaction was to obtain technology and expertise. However, he did admit that it wasn't possible at this stage to say precisely how the company would be operated in the future or precisely how the Iranian/Occidental relationship might evolve. He said there were no supplementary arrangements for the purchase of additional Occidental stock by Iran.

Reasons for Iranian Interest in Occidental. I also raised the question of why Iran would be interested in an association with Occidental. Ambassador Zahedi indicated that their two main reasons were to (1) assist Iranian agricultural development and (2) provide technology and expertise for petrochemical development in Iran. He pointed out the need for a domestic cattle industry and the need for fertilizer for agri-business development. He particularly emphasized the desire of Iran to enter the petrochemical industry and felt that Occidental would be of assistance in this regard. He also pointed out that Occidental would be of great assistance in the exploration for, and development of, oil and gas in the Caspian Sea. He minimized Iranian interests in the coal operations of Occidental -- arguing that he did not feel that technical assistance was necessary to develop the Iranian coal industry.

Caspian Sea. With respect to the Caspian Sea, the Ambassador noted the obvious benefits of having a partner with an established relationship with the Soviet Union. Occidental's participation with exploration in the Caspian Sea would take some of the pressure off any move towards a joint Iranian/Soviet venture to develop oil and gas in the USSR.

Formal Notification. In response to my request, the Ambassador indicated that he would formally transmit the letter of intent to me and that he would be glad to supply any additional information that was necessary.

Gerald L. Parsky

TAB C

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

July 2, 1976

MEMORANDUM FOR THE RECORD

Subject: Iran/Occidental Transaction -- Memorandum of Meeting with Armand Hammer

On June 30 I met with Armand Hammer in my office. Also present were William McSweeny, Senior Executive Vice President of Occidental and Deputy Assistant Secretary of Treasury, John Niehuss. The purpose of the meeting was to discuss the proposed Iranian investment in Occidental Petroleum.

U.S. Policy and Consultation Procedures. I outlined the evolution of U.S. policy towards foreign investment in the United States and explained the reasons for the consultation procedures with respect to government investment which had major implications for U.S. interests. I emphasized that the procedures were not intended to restrict or screen foreign investment but merely to provide some advance notice of major direct investments by foreign governments.

Origin of the Transaction, Early Negotiations and Occidental's Interest. Dr. Hammer noted that the transaction was initiated by Iran. He had received a cable from Prime Minister Hovedya indicating that Cyrus Ansary (the brother of Minister Ansary) would be coming to see him. Ansary indicated that Iran had been looking for investments and had selected Occidental. Ansary emphasized that Iran did not intend to take over the company but would be a minority participant interested primarily in obtaining technology, expertise for its internal development and a potential joint venture partner. Ansary indicated that they were thinking of a 10-20% share interest under terms similar to the arrangement with Krupp and suggested that Hammer get in touch with Krupp to see how that transaction was working out.

In reply, Dr. Hammer indicated that Occidental did not need cash as it had $700 million in unused credit and was reducing its long-term debt and its debt/equity ratio. Therefore, he indicated that, if there was no good business reason for Occidental to be involved, Occidental would not be interested. Hammer went on to indicate that Occidental's main business interests in the transaction were (1) to obtain crude for its Antwerp refinery, (2) to obtain crude supplies for its Canvey refinery, and (3) the opportunity to help develop the Caspian Sea -- recognizing that Iran could not develop that area without USSR cooperation.

Dr. Hammer indicated he consulted with key directors and discussed it with his investment bankers (Kidder, Peabody) who indicated the transaction would be in the company's interest if it did not involve a take over. Accordingly, Hammer indicated to Ansary that Occidental was interested in proceeding and an invitation to Occidental to come to Iran followed.

Discussion with the Shah. Dr. Hammer and a small group of Occidental officials went to Iran and met with the Shah who was well briefed and enthusiastic about the transaction. The Shah indicated that he was interested in having Occidental help in developing various projects in Iran. His prime interest appeared to be in the development of the chemical sector and his second interest in the development of agriculture and fertilizer. The Shah was particularly interested in the fact that Dr. Hammer and Occidental were active in cattle breeding and he felt that Occidental's expertise might help develop a domestic livestock industry and reduce the need for meat imports.

Dr. Hammer implied that Occidental was more interested than Iran in an opportunity to explore and develop the Caspian Sea reserves. He indicated to the Shah that his staff had studied the Caspian geology which they thought was favorable. Dr. Hammer indicated that Occidental's success as an oil finder, the fact that it was an independent producer, and the fact that it had Soviet connections, all impressed the Shah.

In short, Dr. Hammer gave the impression that much of the negotiation of the broad outlines of the letter of intent was done by the Shah or persons very close to him (e.g. Cyrus Ansary) and that the Shah's personal interest in the transaction was the main reason it had moved ahead so quickly.

Iranian Share Interest. Dr. Hammer indicated that the maximum voting control that Iran would have in Occidental would be 12.8% on the theory that if Iran exercised its warrants (at $20) most of the convertible securities would also be converted. I raised the issue of future purchases of Occidental stock and asked whether there was an agreement or understanding about the purchase by Iran of his stock or any other stock. Dr. Hammer indicated that, from the Occidental standpoint, one of the key aspects of the deal was that no additional stock could be acquired unless Occidental agreed. In other words, Iran would be prohibited from buying stock in the market or from any other source. Dr. Hammer indicated that a special series of preferred would be created and Iran would be limited to the election of one director. These, Dr. Hammer indicated, are the procedures that Occidental would depend upon to prevent Iranian control. He also indicated that there were no side arrangements of any sort for additional purchases of stock by Iran from him or anyone else.

International Energy Agency Problem. I then pointed out that Occidental was a member of the IEA Industry Advisory Board and that this might present potential problems. Dr. Hammer indicated that Occidental was not an active member of the organization, was lumped together with all of the independents and was not a member of any key committees. We discussed the question of access to classified information, and Dr. Hammer commented that he felt most of the information would become public. Nevertheless, he said he was agreeable to adopting measures, similar to those used for defense contracts, that would seek to preserve the confidentiality of the information. With respect to any future embargo, he commented that he believed Iran's ownership of stock of Occidental would help ensure that Iran would not participate in any such action.

Joint Ventures. I asked what joint ventures Dr. Hammer expected to materialize from the arrangement and whether Oxy was looking to substantial capital contributions from Iran. Dr. Hammer pointed out that the main joint venture of interest to Occidental was to obtain oil for its Antwerp refinery and indicated that the Shah had agreed to supply

50 M b/d which should help mitigate the losses Occidental was incurring on the refinery. In addition, Occidental had two large tankers which were losing money and if they could be kept occupied transporting the Iranian crude to Antwerp this would be beneficial. Dr. Hammer also referred to the Canvey refinery under construction and noted that the UK Government wants the refinery upgraded. He expects that the venture would be a three party deal with Elf (French), Occidental and Iran all contributing one-third (approximately $100 million each). There would also be the possibility of using Iranian crude to supplement oil from Occidental's North Sea fields. Lastly, Oxy was interested in Iran as a real estate partner.

Role in Marketing Crude. I inquired about the precise role Occidental would play in marketing Iranian crude. Dr. Hammer's reply indicated that Occidental could provide some assistance. He referred to the Permian Corporation which was one of the largest procurers of crude oil in the US as evidence of Occidental's experience.

USG Concerns and Next Steps. I indicated the major US Government concerns in reviewing a transaction of this nature were: (1) national security and national defense, (2) the existence of measures to insure against operational control of the company, and (3) any side arrangements for additional stock purchases. I indicated that I would like to use this transaction as an illustration of the way consultation procedures should be handled by foreign governments. In this regard, I asked if I should talk to Cyrus Ansary to obtain further details of the transaction. Dr. Hammer indicated that there would be no harm in this as Ansary has the Shah's confidence and handles the Shah's investments. Mr. Ansary sits on the board of Krupp and would be the Iranian Director in Occidental.

I inquired whether the approval of other government agencies was required -- the SEC for example. Dr. Hammer indicated that their lawyers had reported that no specific SEC approval would be required but that the stock issued to Iran would be lettered stock and could not be sold without registration pursuant to SEC requirements. Lastly, Dr. Hammer implied they had consulted with the Justice Department who suggested that the transaction "might even add to competition."

Gerald L. Parsky

THE WHITE HOUSE

WASHINGTON

INFORMATION

August 24, 1976

MEMORANDUM FOR: JIM CANNON Glenn

FROM: GLENN SCHLEEDE

SUBJECT: CEQ REPORT EVALUATING ERDA'S ENERGY R&D PROGRAM

A couple of weeks ago, I sent you a note alerting you to potential problems with a report CEQ has drafted on the Council's evaluation of ERDA's energy R&D program.

CEQ is required by law to evaluate the adequacy of attention to energy conservation, environmental protection, and the environmental consequences of the application of energy technologies. CEQ has the option of submitting a report to the President, the Congress, or others as may be necessary. CEQ has opted to submit a report simultaneously to the Congress and to the President. A draft of the report has already leaked to the press (alledgedly by ERDA) and has been the subject of two Jack Anderson columns.

My last note pointed out that OMB has some serious problems with the report. I am not yet clear as to what action Jim Mitchell and Jim Lynn will take.

Steve Jellinek asked me to review the most serious problem chapter -- energy conservation R&D -- and mark it up to indicate changes that I believe are necessary. I started doing this but after completing the first 2-1/2 pages concluded that changes that would be necessary to bring the report in line with Administration position are very extensive. I told Steve Jellinek of this and indicated it would take me some time to do a mark up on the entire section on energy conservation -- which runs about 40 pages.

I was advised earlier today by CEQ staff that (a) Chairman Peterson directed that the draft be sent to GPO to be put in galley proof form, (b) changes have not yet been made to solve problems identified, (c) Dr. Peterson is now considering what action he will take with respect to objections from OMB and me, and (d) further attempts by me to mark up the report are probably not worthwhile.

Briefly, my problems with the energy conservation section are as follows:

1. It calls for a Federal role in energy R&D that is inconsistent with:

   - the President's 1977 budget decisions;
   - Administration philosophy on Federal vs. private role;
   - the ERDA energy R&D report which was modified on this same point and cleared after extensive discussions.

2. It does not distinguish between Federal and National (i.e., Federal and non-Federal) responsibilities.

3. It outlines an unrealistic analytic approach to decisions on energy conservation R&D (which also contributes to a larger Federal role).

4. It will provide the basis for additional criticism of the President for not requesting enough money for energy conservation R&D.

This report may be a conscious attempt to bring about a change in Administration position on energy conservation R&D. If this is the case, I think it is the wrong approach. I think that should be approached through a decision paper. I would also point out that CEQ has had an opportunity to participate in the review of ERDA's 1977 budget request and in the review of ERDA's Energy R&D Plan.

OMB staff just informed me that there is another place in the CEQ draft where the Council's position contradicts current Administration position; i.e., CEQ apparently is taking a position that fossil energy R&D should not proceed as fast as it now is until more work on environmental impact is done by the environmental people at ERDA. ERDA and OMB position has been that such work should be done by the people responsible for the fossil technology development and not necessarily by the environmental people.

Enclosure - excerpt from law

cc: George Humphreys

(1) the Act entitled "An Act to protect trade and commerce against unlawful restraints and monopolies", approved July 2, 1890 (15 U.S.C. 1 et seq.), as amended;

(2) the Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes", approved October 15, 1914 (15 U.S.C. 12 et seq.) as amended;

(3) the Federal Trade Commission Act (15 U.S.C. 41 et seq.), as amended;

(4) sections 73 and 74 of the Act entitled "An Act to reduce taxation, to provide revenue for the Government, and for other purposes", approved August 27, 1894 (15 U.S.C. 8 and 9), as amended; and

(5) the Act of June 19, 1936, chapter 592 (15 U.S.C. 13, 13a, 13b, and 21a).

ENVIRONMENTAL EVALUATION

.0. SEC. 11. (a) The Council on Environmental Quality is authorized and directed to carry out a continuing analysis of the effect of application of nonnuclear energy technologies to evaluate—

(1) the adequacy of attention to energy conservation methods; and

(2) the adequacy of attention to environmental protection and the environmental consequences of the application of energy technologies.

(b) The Council on Environmental Quality, in carrying out the provisions of this section, may employ consultants or contractors and may by fund transfer employ the services of other Federal agencies for the conduct of studies and investigations.

(c) The Council on Environmental Quality shall hold annual public hearings on the conduct of energy research and development and the probable environmental consequences of trends in the development and application of energy technologies. The transcript of the hearings shall be published and made available to the public.

ty.

(d) The Council on Environmental Quality shall make such reports to the President, the Administrator, and the Congress as it deems appropriate concerning the conduct of energy research and development. The President as a part of the annual Environmental Policy Report required by section 201 of the National Environmental Policy Act of 1969 (42 U.S.C. 4341) shall set forth the findings of the Council on Environmental Quality concerning the probable environmental consequences of trends in the development and application of energy technologies.

ACQUISITION OF ESSENTIAL MATERIALS

11. SEC. 12. (a) The President may, by rule or order, require the allocation of, or the performance under contracts or orders (other than contracts of employment) relating to, supplies of materials and equipment if he finds that—

(1) such supplies are scarce, critical, and essential to carry out the purposes of this Act; and

(2) such supplies cannot reasonably be obtained without exercising the authority granted by this section.

(b) The President shall transmit any rule or order proposed under subsection (a) of this section (bearing an identification number) to each House of Congress on the date on which it is proposed. If such proposed rule or order is transmitted to the Congress such proposed calendar days of continuous session of Congress after the date on which such proposed rule or order is transmitted to it unless, between the date of transmittal and the end of the thirty day period, either House passes a resolution stating in substance that such House does not favor such a proposed rule or order.

WATER RESOURCE EVALUATION

SEC. 13. (a) At the request of the Administrator, the Water Resources Council shall undertake assessments of water resource requirements and water supply availability for any nonnuclear energy technology and any probable combinations of technologies which are the subject of Federal research and development efforts authorized by this Act, and the commercial development of which could have significant impacts on water resources. In the preparation of its assessment, the Council shall— 42 USC

(1) utilize to the maximum extent practicable data on water supply and demand available in the files of member agencies of the Council;

(2) collect and compile any additional data it deems necessary for complete and accurate assessments;

(3) give full consideration to the constraints upon availability imposed by treaty, compact, court decree, State water laws, and water rights granted pursuant to State and Federal law;

(4) assess the effects of development of such technology on water quality;

(5) include estimates of cost associated with production and management of the required water supply, and the cost of disposal of waste water generated by the proposed facility or process;

(6) assess the environmental, social, and economic impact of any change in use of currently utilized water resource that may be required by the proposed facility or process; and

(7) consult with the Council on Environmental Quality.

(b) For any proposed demonstration project which may involve a significant impact on water resources, the Administrator shall, as a precondition of Federal assistance to that project, prepare or have prepared an assessment of the availability of adequate water resources. A report on the assessment shall be published in the Federal Register for public review thirty days prior to the expenditure of Federal funds on the demonstration. Publica in Feder Register

(c) For any proposed Federal assistance for commercial application of energy technologies pursuant to this Act, the Water Resource Council shall, as a precondition of such Federal assistance, provide to the Administrator an assessment of the availability of adequate water resources for such commercial application and an evaluation of the environmental, social, and economic impacts of the dedication of water to such uses.

(d) Reports of assessments and evaluations prepared by the Council pursuant to subsections (a) and (c) shall be published in the Federal Register and at least ninety days shall be provided for public review and comment. Comments received shall accompany the reports when they are submitted to the Administrator and shall be available to the public. Publica in Feder Register

(e) The Council shall include a broad survey and analysis of regional and national water resource availability for energy development in the biennial assessment required by section 102(a) of the Water Resources Planning Act (42 U.S.C. 1962a-1(a)).

File: Cal. Trip ?

THE WHITE HOUSE

WASHINGTON

Also. Teller

August 26, 1976

MEMORANDUM FOR: JIM CANNON

FROM: GLENN SCHLEEDE Glenn

SUBJECT: YOUR TRIP OF CALIFORNIA

I suggest that you consider visiting three types of energy activities while you are in California:

1. Commercial Nuclear Power Plants.

   The table and map at Tab A show the location of some that are either in operation or under construction. It might be nice, if possible, to visit one site that has both an operating reactor and one that is under construction. I will check further on this possibility if you wish.

   I think the arrangements for such a visit should be made directly with the utilities involved. I have contacts in all four utilities if you wish to do this. An alternative would be to have the visit set up by the regional office of the Nuclear Regulatory Commission.

2. ERDA National Laboratories.

   The options are:

   - The Lawrence-Livermore Laboratory at Berkeley, California, which is about 60-70 percent weapons and the rest in energy R&D and physical and biomedical research.

   - The Lawrence-Berkeley Laboratory has a common boundary with the Berkeley campus of the University of California. This lab has programs of interest ranging from high-energy physics (atom smashers) and other sophisticated life and physical sciences research to materials and energy R&D work.

Ideally, you would spend a day at a minimum to get a good feel for one of these labs. Arrangements for a visit to these could be made through ERDA and can be done easily.

3. Selected Energy R&D facilities.

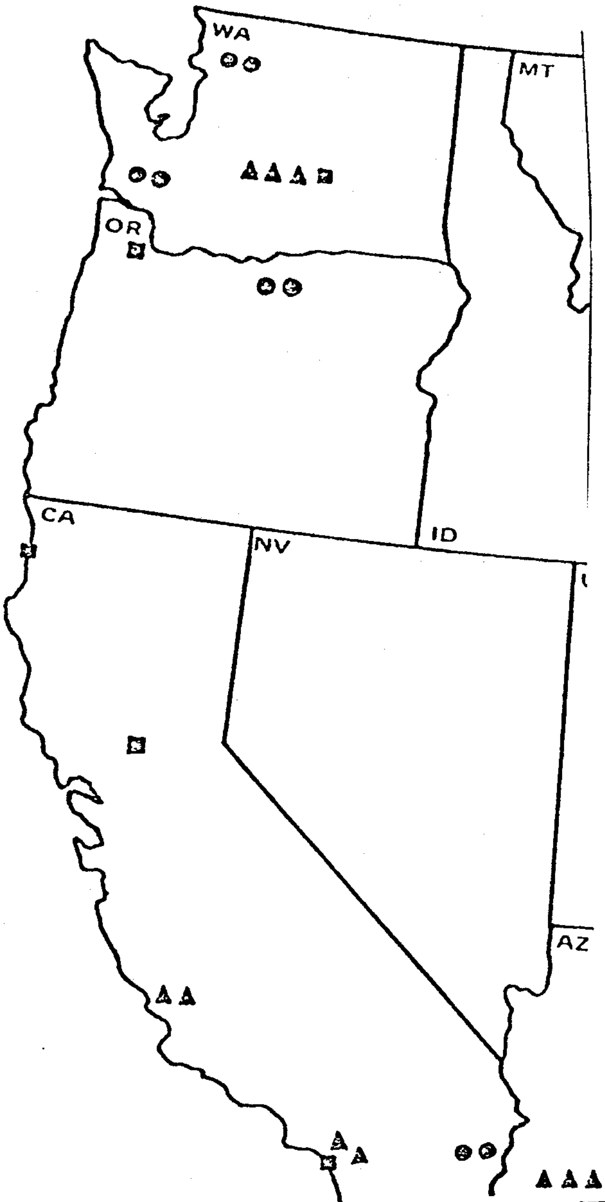
A list of possibilities is attached at Tab B. This list gives you a selection which includes solar, conservation, geothermal, uranium enrichment, nuclear fission (breeder), and nuclear fusion work.

Arrangements for a visit to these facilities can be made by ERDA.

Please let me know which steps you would like to me take next on this.

Attachments

TAB A



CALIFORNIA		
Eureka	Humboldt Bay Power Plant: Unit 3	65,000
San Clemente	San Onofre Nuclear Generating Station: Unit 1	430,000
San Clemente	San Onofre Nuclear Generating Station: Unit 2	1,100,000
San Clemente	San Onofre Nuclear Generating Station: Unit 3	1,100,000
Diablo Canyon	Diablo Canyon Nuclear Power Plant: Unit 1	1,084,000
Diablo Canyon	Diablo Canyon Nuclear Power Plant: Unit 2	1,106,000
Clay Station	Rancho Seco Nuclear Generating Station	913,000
•	–	1,200,000
•	–	1,200,000
Blythe	Sundesert Nuclear Plant: Unit 1	950,000
Blythe	Sundesert Nuclear Plant: Unit 2	950,000

NUCLEAR GENERATING UNIT CAPACITY

	kilowatts
■ Operable	
58 licensed by NRC to operate	40,317,400
2 others authorized to operate (ERDA-owned)	940,000
▲ Being Built	
74 construction permits	76,931,200
19 site work authorized	20,490,000
● Planned	
61 reactors ordered	69,394,000
24 reactors not ordered*	28,900,000
238	236,972,600

* Since these units have not been ordered and site information is incomplete, there are no further references to them in this document. There are no symbols for units planned but not sited.

Because of space limitations, symbols do not reflect precise locations. See reverse side for site information.

TAB B

To: R. Walters, A X4015 From: R. Maine, SAN 536-7781

1 of 2

Re our conversation, following is a sample of things Cannon could see in California. Samples show either: (a) complexity of technology, (b) operating facilities and/or (c) joint Federal/industry ventures. Let me or Don Reardon know if you need more info.

PROJECT or PROGRAM AREA	LOCATION	AMOUNT OF TIME TO DESCRIBE, DEMONSTRATE, ETC.	BRIEF DESCRIPTION AND/OR REMARKS (Unless otherwise noted, there is direct ERDA involvement)
SOLAR			
Solar & Photovoltaic	JPL-Pasadena	1 hour	50 ft. diameter collector, approximately 50 KW with 76% efficiency turbo generator; not funded, proposal in to DSE. Various demonstrations of solar cell power for various applications
Solar	UCLA, Los Angeles	½ hour	Glass honeycomb collector development high efficiency/performance
Solar Assisted Gas Energy (SAGE)	El Toro, CA	½ to 1 hour	Solar assisted hot water for 32 apartments in larger complex. Excellent displays and diagrams. Equipment accessible and clearly marked
Minimum Energy Dwelling (MED)	Mission Viejo, CA	½ to 1 hour	Twin energy conserving houses. Solar assisted heating cooling and hot water. Insulation, weather stripping, double doors, special windows, special venting, prototype appliances are all visible. Special equipment abounds. Displays and brochures should be on hand in late September.
CONSERVATION			
Garrett Airesearch	Los Angeles, CA	1 hour	Flywheel testing and winding; good technical explanations and excellent view of state-of-the-art Flywheel technology.
Uranium Enrichment			
"	"	"	Centrifuge test facility

PROJECT or PROGRAM AREA	LOCATION	AMOUNT OF TIME TO DESCRIBE, DEMONSTRATE, ETC.	BRIEF DESCRIPTION AND/OR REMARKS (Unless otherwise noted, there is direct ERDA involvement)
GEOTHERMAL			
Geysers Geothermal Plant	Geyserville, CA (½ hour by Chopper from San Francisco)	2 hours	Operating plant supplying electricity to grid of 500 MW. Operated by PG&E, Union Oil Co. and Thermal Power.
Geothermal Test Facility (SDG&E)	Nilands, CA (out in desert ½ hour by chopper from LA or San Diego)	1 hour	Test loop pumps brine through flashers, separators, scrubbers, heat exchangers and reinjection pumps. Cooling system and heat exchangers also visible. Color coded piping and tanks aids explanation.
NUCLEAR			
Liquid Metal Engineering Center (LMEC)	Santa Susanna, CA	2 hours	Major non-reactor test facilities for ERDA's LMFBR Program including sodium pump test facility and sodium components test installation.
Fuel Fabrication Facility	Canoga Park, CA	1 hour	Facilities for fabricating ERDA test reactor fuel. Currently working on fuel for experimental Breeder Reactor II and Advanced Test Reactor.
FUSION			
Doublett III	General Atomic LaJolla, CA	1 hour	Facility under construction-Major test facility in ERDA's magnetic fusion program. Expected operational date mid-1978.
Baseball II	LLL (½ hour by chopper from San Francisco)	1 hour	Operating facility demonstrating fusion process.

Energy
Non-Proliferation

THE WHITE HOUSE

WASHINGTON

August 26, 1976

NOTE TO: JIM CANNON

FROM: GLENN SCHLEEDE

This is something that developed late yesterday and may be worth allerting the senior staff about.

Unless you think otherwise, Bob Fri intends to DEX this memo out to Brent Scowcroft at Vail and have him inform the President about it.

Action occurs this morning in Senate Foreign Relations and this afternoon in the Joint Committee on Atomic Energy.

Glenn & Jim

THE WHITE HOUSE

WASHINGTON

August 26, 1976

INFORMATION

MEMORANDUM TO: The President

FROM: Bob Fri

SUBJECT: Congressional Action on Non Proliferation Act

The Congress is rapidly moving ahead on an unacceptable bill to control nuclear proliferation. The liklihood of passage is very high in the Senate, and is quite possible in the House. The Joint Committee on Atomic Energy (JCAE) is likely to report the bill at a 1:30 meeting today, August 26.

Background

In late July, Chairman Pastore of the JCAE decided to kill an unacceptable Senate Government Operations bill on nuclear export reorganization by drafting a substitute JCAE bill, entitled "Nuclear Weapons Nonproliferation Act of 1976." He offered to work with the Administration on this substitute. We expressed our willingness to do so, with reservations that we complete the nuclear policy review that I am conducting before committing to major policy decisions.

Until now, we have provided drafting assistance and comments on several drafts of the JCAE bill. We decided not to negotiate actively on policy questions.

Current Situation

In the last two days, an unacceptable JCAE bill was drafted, largely in negotiations among Senators Pastore, Symington, Javits, Percy and others. The bill has been introduced in the Senate by Senators Pastore and Baker with cosponsors. Representatives Price and Anderson introduced it, by request, in the House.

In our view, the bill would severely disrupt, if not stop our nuclear export program by imposing unreasonable requirements on exports. For example, the bill would preclude U.S. cooperation with Canada, the Euratom nations, and the International Atomic Energy Agency.

We are sending the JCAE a letter over Bob Seamans' signature expressing our opposition to the bill.

Secretary Kissinger is considering a call to Chairman Pastore on this subject.

Supporters of the bill can make appealing arguments that, in my judgment, will probably lead to its passage in the Senate. House passage is less assured, but likely. Tab A describes the bill and arguments for and against it.

We have been told that requests for delay of the bill until our policy review is complete would be considered dilatory, that no fundamental changes are acceptable, and that perfecting amendments might be considered.

I do not believe we should be a party to a bill of such importance that has been developed in this unusual way without open debate. Accordingly, I intend to express our dissatisfaction with this situation, and I recommend we endeavor to stop the bill and consider a veto, if necessary.

In the meantime, I will conclude the policy review and attempt to recover the time already lost in dealing with these developments in Congress.

TAB A

JCAE BILL SUMMARY

The most objectionable provisions of the JCAE bill are:

1. Immediate imposition of six mandatory export licensing criteria. The President could, by Executive Order, change four of the criteria for a specific export license.

2. Imposition in 18 months of stiffer criteria. The President could delay imposition of all or some of these criteria for one year, and could impose any number of subsequent one year delays.

In our judgment:

1. The bill would disrupt the export program severely during the first 18 months. It is possible exports would stop entirely. Even if broad interpretation were given to the criteria, agreements with 12 countries would be affected. Under the most optimistic circumstances, our agreements with Canada, IAEA, and Euratom would be seriously hurt.

2. The more stringent criteria, if ever applied, would be seriously hurt.

3. Even if the bill could be administered to permit exports, our credibility would be severely eroded and our customers would go to other suppliers.

However, proponents of the bill could be expected to make the following arguments that could lead to passage:

1. It is time for the Congress to come down hard on proliferation. The Administration has not.

2. The bill clearly expresses the intent of Congress as to the conditions of export.

3. Since the U.S. is still the world's major nuclear supplier, it had better come down hard on proliferation now; we may have no other chance.

4. The bill gives the President flexibility to deviate from Congressional criteria, but requires him to do so publicly and with oversight.

5. The alternative to passage is to allow the Administration to permit proliferation in the interests of profits for U.S. corporations like GE, Westinghouse and Bechtel.