MEMORANDUM OF CONVERSATION

PARTICIPANTS: Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
William Simon, Secretary of Treasury
Arthur Burns, Chairman, Federal Reserve Board
Robert S. Ingersoll, Deputy Secretary of State
Thomas Enders, Assistant Secretary of State for Economic and Business Affairs
Lt. General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

DATE: Saturday - August 3, 1974
10:00 a.m.

PLACE: State Department

Kissinger: You [Simon] are saying the oil price situation is unmanageable?

Simon: Yes. It will also force a massive political realignment -- you can assess whether that is good or bad for us. Europe is becoming dependent on the Arabs both for oil and for money.

Kissinger: You must also know there is a real chance for another Arab-Israeli war. Are the Saudis really prepared to cooperate in getting lower prices, and how far?

Simon: If production doesn't get cut, oil prices would drop by 30%. We would consider production cuts an unfriendly act, and for Iran, we could cut military supplies.

Kissinger: The first question is who would do the confronting -- the U.S., or the U.S. and Europe and Japan?

The second question is what happens after this opening round. I think Iran would be supported by Algeria and many others. If the U.S. is alone, this
certainly would be the case. Boumedienne certainly is psycho on oil prices, and if it's the U.S. alone, Algeria would mount a campaign. They would carry Syria with them. In effect, the Saudis would be isolated and I don't think they could or would stand up to it.

The Europeans and Japanese could support us, stay neutral, or pick up the pieces. The Europeans could supply the Iranians with hardware. The Saudis may be preparing an ultimatum on Israel. They want to be our sole supplier so they can squeeze us when they want.

My conclusion is we have to move with enormous care -- we can take on the producers at the right moment -- to disassociate Israel from the oil problem. But it must be at a time when we can't be isolated and it can't be linked with oil. We first need to get the consumers together. Then we can do some confronting -- but it will only work if we are willing to use force.

I plan to tell Fahmy that we will not stand for another oil embargo.

If all this is correct, we need to get the Europeans together and share this with them. They first will be shocked, but I see no other way to go.

I, though, am prepared to talk privately to the Shah.

Simon: I agree with you, but I don't think the Europeans will go along. They would do either your second or third option. Schmidt told me he couldn't hold off much longer going bilaterally.

Kissinger: That makes it worse. If you are right, we don't have the strength to do it alone, against the Arabs, the Europeans, the Japanese, and in a possible Israeli crisis, the USSR. Of the things I have said, Schmidt would understand and support.

Simon: I wonder.

Burns: I think he would.

Kissinger: We have to be willing to threaten force. The British, maybe. The French -- Giscard will probably agree intellectually and not cooperate.

Simon: I would put Schmidt in the same category.

Kissinger: Then you are saying we will fail.
Simon: I think we have to work with the Saudis -- telling them hard out what we need.

Burns: I thought our strategy in February was good: (1) Conservation, (2) Project Independence; (3) cooperation with the consumers to put pressure on the producers. I see no movement.

We are heading toward economic disaster in the industrial world. Withholding arms from Iran won't help. Getting the consumers together would work. I think the Germans would go with us. We have a firm chance with the British. The French would drag their feet but might go along after all the others do. The Japanese, I don't know. Conservation should be pushed. The tax on gas has gone up everywhere but in this country. How about hanging a tax on exports to the producing countries by all of us -- on all exports?

[Kissinger takes a phone call about an Israeli/Soviet incident in the Suez mineclearing area.]

Kissinger: The Soviets may be looking for a confrontation in the next crisis.

Burns: Shouldn't we get a token force into the area?

Kissinger: We have always made it a policy to react violently when provoked.

I think we should talk to the five big consumers. The question is will they come around fast enough to influence events?

And if we have to go it alone, we first must have tried with the consumers. We must meet with the consumers at a high political level -- the finance and foreign ministers.

Simon: We could do it at the September meeting.

Kissinger: How about Project Independence?

All: It is collapsing.

Kissinger: Project Independence is the one thing we can do unilaterally which matters.

Simon: I can do it if I have a mandate as committee chairman.
Kissinger: I will talk to Haig. It will give us leverage.

Enders: There are a number of things we can do. We can tell the companies to hold at 93%, or something fairly high, and gradually put the screws on. Having Aramco resist nationalization will help.

Ingersoll: We have to tell the companies they must risk their equities.

Enders: The other countries will pressure their companies to do the same.
R. You (Arab) are paying oil prices and it is unreasonable.
S. Yes it will slow hack. More oil production means:
you can stress whether you can go back for more.

Egypt is independent on Arab oil for its energy.
R. You must also know there is a real chance for
another Arab-Israeli war.

Are Saudis really prepared to pay prices, 1.5 times?
S. If Egypt does not get out, oil prices would drop by 50%.
We would consider production cuts a meaningful cut,
of course, but unlikely to happen.

1st question is who would support US, a US/Egypt
2nd question is what happens if the sanctions go.
I think Iran would be supported by Algeria & (W.)(E.)
If US is alone, this rant could be because. Saddam
3. heady in Egypt on oil prices and if US only, Algeria
would mount campaign. They could carry signature.

In fact, Saudis would be isolated & don't think
they could or would stand up to it.

Fears/jug containment, they wanted, a pick-up in prices. Even could supply premium hardware.
Saudis want to pay for an illusion in Iraq. They
want to be one KSA supplier so they can squeeze us
when they want.

My understanding is we have to meet all demands and
we can take on a problem at the right moment. To determine
Demand for oil problem. It must be at a limit,
we can't be isolated and it can't be linked worldwide.
We first need to put a regimes together. Then we can
do some campaigning - but it will only work if we are
working together.

I plan to take Lebanon or Jordan and start an attack
on their economy.
If all this is correct, we need to get the Jews together as that the U.S. will be involved, but I don't want war to go.

2. We were preparing to take positive action.

3. As a last resort, I don't think it's worthwhile.

4. The French would likely agree intellectually with your plan.

5. Schmidt told me he couldn't hold off much longer going industrial.

6. That makes sense.

7. If you are more correct, we don't have a thing to do.

8. What is the situation, eastern Europe, USSR, Japan, in a peace situation?

9. For things, I have said Schmidt would understand and support.


11. We have to be willing to threaten peace.

12. The British, maybe.

13. The French - Russia will probably quit intellectually.

14. She suggested.

15. I don't think she would win some day.

16. Then you are saying we will fail.

17. We need to wave Elk in Bering Str.

18. Get out what we said.

19. Though our strategy in Far East good.

20. planners.

21. Strategy (a) Pro-Japanese (b) Cooperate (c) Cooperate with Japan and

22. Cooperate with Japanese to stick together.

23. We are backing an action in war with

24. backing away from Japan and help.

25. Getting everyone together would work.

26. From the Russians would go with us. We have a firm

27. channels with the. The French would keep:

28. fast best might go along after all others.

29. Don't want them.
Communique should be started. Take a plan and
your story into effect that in this country
about buying, try on X K. Our own tissues
by all means on all K.
(Knowledge call about 100K sop on mine doing)

K. Some way to feeling in communique in next time.

K. Should get clean free in time soon.

K. (How we estimate when finished).

I think we should take 6-8 day communique. The
question is will they come around for enough to
influence events.

And if we have to go into other, we first most
have tried w/c weaknesses.

We must meet in communique on high plateful and
so on.

S. We could do it at the Sept 16th.

K. How about 4pm today.

K. It is all good.

K. My people is come one thing we can do something
which matters.

S. I am free at 2pm have a man date. Quite done.

K. Would like to do it. It will still me to discuss.

Europe.

They are most of thing we can do. We can tell
companies to hold at 85% a something fairly high
gradually towards put a sense an story.

Changes will without will help.

Japan.

We have to tell Companies they must hold
their qualities.

End use. The other countries will prepare their vengence
to do some.