MEMORANDUM OF CONVERSATION

PARTICIPANTS:

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

DATE AND TIME:

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

PLACE:

The Oval Office
The White House

President: Fill me in.

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

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

President: Where was he educated?

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

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

President: At what price?

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

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

President: Where was he educated?

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

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

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

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

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

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

Shultz: That was the first point.

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

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

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

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

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

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

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

Fourth, on OPEC. Iran is in the middle he says. Iraq is a hawk; Venezuela is in the middle. No one pays any attention to Yamani.
Indexing is one of his themes. He argued for it. I said there are technical problems with it. What is the base? What is the basket of goods you measure it against? How can you make it work for the variety of basic materials -- some of which had dropped badly?

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

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

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

President: How old is he?

Robinson: 55.

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

President: How did he take over?

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

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

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

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

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

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

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

Kissinger: That is one of the drawbacks of quotas.
Shultz: Let me tell you about the German meeting. It was nicely arranged, in a castle at Kronberg.

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

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

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

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

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

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

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

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

All agreed that conservation is essential.

We discussed a floor price. The initial reaction was bad, but at the end, we felt that while the idea of a minimum price for OPEC oil was bad, for
non-OPEC oil it was good -- to insure protection development of non-OPEC sources. We didn't really fill this idea out.

President: You mean like Mexico?

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

Shultz: They are already running a deficit.

Kissinger: If they play it straight, we can relate our bilateral deals to a multilateral arrangement. Otherwise, we would be naked before them.
The meeting took place in a lovely old castle, where we were served delicious food. The mood was informal, the group talked well with each other and frankness of communication developed. The Japanese delegate said almost nothing, although he speaks good English. He said at the end that he agreed with the points listed below.

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

1. Analysis of the Problem
   a. Financial flows
      • bound to be large but, with continued responses in terms of OPEC imports, conservation, and supply encouragement, they seem to be self-limiting within manageable range in the overall
      • used the Morgan statement, which is similar to other private and government analyses
         • general view: it is somewhat optimistic but peak OPEC reserves on order of $200-250 b. by turn of decade, give or take a year or two
      • still leaves problems of
         • weak industrialized
         • developing
         • huge and continuing transfer of real resources
         • long-term investment in genuine and productive capital formation
   b. Price of Oil
      • likelihood is for erosion: haggling of the market has now turned from luring up to coming down - a development that will be encouraged by further conservation and by additional and non-OPEC resources
      • it was reported that several members of OPEC are forcing the price under the table
c. Still much potential for short term damage by:
   - cutoffs
   - raising price
   - moving money
   - difficulty for industrial world

They are all destructive to OPEC in the long run.

2. Necessary steps for Consensus

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

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

c. Endorsed Kissinger-Simon plan - essential in strategy that it be funded by consumers and that it be a real presence in existence, but:
   - should be regarded as safety net when other measures fail
   - reality and speed mean submission to legislatures is slow and uncertain, bilateral guarantees questionable in case of potential borrowers; therefore joint guarantee most promising approach

d. Conservation is central, though the group could only call attention to importance of:
   - price
   - regulations and incentives

e. Ensuring long-term security of supply
   - minimum price for non-OPEC oil is an idea that deserves exploration but we would rule out guaranteeing a price to OPEC
guarantees to particular investments
storage capacity
surge capacity
r&d on new sources
importance of particular countries not setting back development of our resources, especially Britain and U.S.

3. Content and Structure of Consumer-Producer Meeting
a. Note that it could be a disaster if not carefully prepared
   • reach too early for preparatory conference, but if it must be held, confine discussion to housekeeping items
   • better not to have it if impossible to put in constructive view.
   • better to take time necessary to properly get ready
b. Assume governments can get "2" in place
c. Indexation in any form is a trap and we should not agree on this under any circumstances
d. This point plus feeling that oil price is going to erode had us to conclude that oil price should not be the center of discussion
e. Possible focus on joint development needs and problems
   • feasibility of their plans
   • technical resources of West
   • long-term investment vehicles, including:
     • triangular arrangements, as with Ex-Im
     • Roosa type arrangements, which are being spontaneously developed by the market
• must face up to issues of:
  • coordination with host country
  • coordination with host company
  • plan for withdrawal of funds
  • control of short-term movements of money

4. Role of this Group
   a. Usefulness should be judged by governments on step by step -
      or meeting by meeting basis
   b. Possible additional meeting of the "115" after report to governments
      to concentrate on plan for private consumer-producer meeting
   c. Possible consumer-producer meeting
      • if
        • it seems worthwhile
        • its
        • its suitable counterparts can be found
P. Full memo.

S. John 2 p.m. - Yes we /& Shocks (w/ small
garage - Shocks)

- Shocks very well, compared to what we could 1-

- Tell Shocks to call us if he needs any

- Have to make sure we take specific credit
goal from Shocks.

P. Price?

S. Not the minimal number which we can buy in large

- Are you sure you need it or are you?

- Separately demand repair from Shocks and let

- We need to know more about minor /& major

- Are they all up to 16.4

- Electrics only? Does John 2 p.m. - Themen for the

- Open house part in. Why? Did you then

- Be offered to facilities for changes for $1,000.

- That on continuing projects. A broken things

- Day period would be a way of selecting a contract.

S. This was 1st point.

- Capitol Hill which is a key location in MC.

- It's not that many blocks away in certain location.

- There's great value in John 2 m.

- Of course.

- We need to prepare our by the expected

- Day in anticipation of final trip.

- Having fun to meet on long.

DECLASSIFIED

AUTHORITY:

BY: NLF DATE: 1/26/67
We decided to put together a 10-bit program of modest
size, based on the basic layout during work.
It is probably a point of view, this is a solid black
shirt, the whole monotonous tone is dark blue which
he won't eat.

5. He would never trust these points.

4. Even if the energy comes still live, it could
prove the calls out a north-south (say yes). It
understood of a system but that had
dependent on a computer because it would have
made my page.

2. His book among others energy function.

1. Horizontal in set is not for all the Pacification
experiment that it. He may still doesn't want
to understand more - if they did they wouldn't have
understand. And he the more step torturing
understanding. Please your now. Can't make use to forget
nothing so important because.

4. Open. Jim is in middle long teeth, Amezcua
in middle were just any attention is assumed.
Explaining the supposed part.

2. Hard little points - what is bone what a base? How
must work for e.g. if you make simple - some
of which he didn't understand.

5. He sent out for her who had given a lot of aid - about
The R.C.P. But he objected some effort which
he went to feel motions.

I told them part in January. He made me
a comment of all that and that had played a role
in giving Schmidt a idea for piano, going.

Thus, I present what new thing basic, manner
had come down.
How old is he?
75.
1. (Stole 50 pounds from his wallet)
2. How did he die?

1. Faintened. Connalith was a Sgt. (Descends Norfolk, opens)
2. Not sure. Connalith was a total asset to the war effort.

The war was a war we could fight and won the war. Even in the most difficult situations, we were able to overcome.

We could fight the enemy and win.

He died fighting. We'll miss him dearly.

He was a fine man. We'll honor his memory.

He was a true hero. We'll remember him.

If you need me, I'll be here.

J.S.

I was looking at the weather forecast.

It looks like it will rain.

Should we go outside?

J.S.

That's a good point.

Ready for the rain?
It is very late; I must go. Everyone is af
in some other country. I wonder if they
know if there is food. I was in a hotel of about 2000 beds. That
day, there was a great deal of people and we could see that the
weather is very nice. I don't know if they have
a famous street in Paris, it is called
Paris II. It is called a famous street in
Paris. It is called a famous street in
Paris. I don't know if they have
a famous street in Paris, it is called
Paris. I don't know if they have
a famous street in Paris, it is called
Paris.
we can tie other expenses as tightly as possible. Only in this way can we not exceed things. That's why this is a hot demand that attracts. Economics is going to algebra.

So they already see a trend.

A. If they play it straight, we can achieve solidarity. Help for multi-arrangement. Otherwise we would suffer losses.