MEMORANDUM

THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

PARTICIPANTS: President Ford
Amb. Ardeshir Zahedi, Ambassador of Iran
Brent Scowcroft, Assistant to the President
for National Security Affairs
Alan Greenspan, Chairman of the Council
of Economic Advisors

DATE AND TIME: Tuesday, December 7, 1976
10:00 - 11:23 a.m.

PLACE: The Oval Office

[There is a brief discussion of the weather here and in Iran, hydro-electric
projects in Iran, the Helmand River project. etc.]

The President: Let me extend to the Shah my personal regards. I have
great personal regard and affection for him. I hope that in the future years
the close relations we have between our two countries will continue. There
is a strong feeling in the United States for the Shah and Iran.

But I want to talk about an issue which troubles me -- the Doha meeting
and a possible oil price increase. I have read the Shah's letter very care-
fully. I both agree and disagree with it. I agree wholeheartedly with his
points about conservation. The industrial world has not done enough, and
it is essential. I have proposed a conservation plan which the Congress
has not yet accepted. We are searching and we need to do more with respect
to alternate sources of energy. I do disagree with him on the issue of oil
price and its relation to industrial prices. These are honest differences
between friends.

But let me talk about the impact that an increase will have. There is
unanimity among my advisers that the world economic health is not good.
Any increase in the price of oil would have a serious impact on the world
financial structure. Its precise impact is hard to predict accurately.
An increase would also have a serious impact on our capability to help the developing countries. If economic conditions here don't improve, the American people will ask how they can continue helping the developing world when we have such serious difficulties at home. If our economic situation improves -- I am an optimist, but we do have this pause, which I feel will be resolved in the direction of stable growth -- we will be able to continue and expand our efforts toward North-South cooperation. The other industrial countries are lagging behind now the United States, and the resources for North-South cooperation simply wouldn't be available if economic progress halted.

I am a strong supporter of the Shah. I think he has done great things for his country and is a strong force for moderation and stability in the Middle East. I spoke out publicly during the campaign in support of the Shah. I want to continue my participation in public affairs after I leave. I want to continue my support of Iran -- I would like to visit there at some time. It would help greatly in my efforts if the Shah could exercise a moderating influence in the OPEC meeting. I understand his position and I agree with part of his position. But we have to look at it in a broader perspective now and I think an increase would have a serious impact on the world economic structure.

Zahedi: It is a great honor for me to meet with you, Mr. President. I want you to know how greatly you are admired by the Shah and by my people. I say that from the heart on his behalf and my behalf.

I don't want to take your time, but two years ago when prices were going up I talked to Secretary Kissinger and Secretary Simon and would have gone to the area right then and would have helped. But the past is past.

Again, the meetings on the North-South dialogue have not gone well. There are people in this government who are not sympathetic. Then under President Johnson and early in the Nixon Administration, when I was Foreign Minister, we proposed that oil resources be set aside to buy industrial equipment on a swap basis. The Congress objected to that too and it never came to fruition.

The decision on holding this meeting in December was accidental, based on a number of countries' budgets. But I have been talking to other Ambassadors about postponing the meeting. I talked with His Imperial Majesty about it, but it is almost impossible. Had I known of your letter to His...
Imperial Majesty, I would have urged that it be held earlier or not at all. The timing was not good.

The Shah told me how much respect he has for you and he would like to do whatever he could. But he said he could not propose a change of date for the meeting but would accept it if others do.

On the question of price, he said it is inevitable there would be an increase but he proposed that it be a moderate one. Our industrial import costs are going up rapidly. The price of services has risen tremendously. The price per month has gone up from $3-4,000 to $12,000-16,000.

But we do understand the problem, and we have been thinking of only a 10 percent increase. We thought about setting aside 10 percent of each barrel to help the needy countries. This failed, and we compromised on $600 million of which we -- the Arabs -- gave 40 percent. Again, on the agricultural fund, we have contributed about $400 million and the developed countries haven't done too well. Then bilaterally we have set aside about 7 percent of our Gross National Product to help the developing world and our neighbors. [He listed some who are being helpful.]

We do understand the problem. The recommendations for the proposed increase range from Algeria who is proposing 40 percent -- that would be irresponsible -- to Saudi Arabia which publicly says 5 percent but they are trying to be the white knight. There will be an increase. What would be moderate?

The President: The only way we can reassure the world economy is to have no increase.

Zahedi: That is not possible.

The President: I am telling you the facts. Any increase would jeopardize the economy and no increase would be a shot in the arm. The next best would be a delay. Is that possible?

Zahedi: Now, it is almost impossible. If it were done early in the fall -- when Secretary Kissinger and I were joking about it -- if you had asked for March, it would have been easy. But Secretary Kissinger said wait until after the election.
I know how you spoke up for Iran and the Shah is deeply grateful. I don't believe any of the OPEC countries would agree to a delay because it would look like they were forced to.

**The President:** That's why I asked you to come in quietly. I want to have no confrontation, and that is why this meeting is private. You say a delay or no increase is out of the question. Start with the Nigerian 40 percent. That would be catastrophic.

**Zahedi:** Most of them are talking of 20-25 percent.

**The President:** That would also be catastrophic. Alan, maybe you can address it in more detail.

**Greenspan:** I think it is a fact that the world has not yet adjusted to the earlier increase. The early very sharp increase was very destabilizing. It was possible to accommodate as well as we did because there was considerable lending flexibility, both among borrowers and lenders. Now, however, that flexibility has vanished. The international financial structure is now stretched thin. What is wrong in the strong industrial countries is a lack of confidence. That is the basic reason for the pause. The reason for the confidence gap is the huge increase in debts. The overhang of an oil price increase adds greatly to that lack of confidence. No price increase would have a very beneficial psychological effect around the world. It would bring us together and help the world economy to move again.

I agree with the Shah that oil is scarce and has to be priced against competing fuels. It is a matter of time. Alternate sources take time and tremendous investment.

Since it is a matter of psychological confidence, there is no such thing as a moderate increase. And the psychological benefit of no increase, in the face of all the current fears, would be substantial.

**The President:** There is just one more thing. The situation, in several countries, is very serious. Take Italy. They are having serious economic problems but at the bottom it is political. If the government can't cope, there will be Communists in the government. In France, the situation is potentially serious, with strong Communist forces. In Portugal, the situation is very tenuous with the government just hanging on and the threat of a collapse. In Spain also, they are making great progress, but it is still fragile. That is why I come back to no increase or a delay. Any increase adds to the danger of a financial crisis, to failure in some governments, even to the danger of military crisis.
Zahedi: I think there is no doubt there will be an increase, especially after the steel price increase in this country. Many newspapers are now speculating there will be a 7-15 percent increase. We would not accept a big increase. There will be an increase, but we are concerned about the security situation in Europe. We know more than most how important Europe is and the dangers of being isolated. That is why we are giving bilateral help to European governments. The price of oil is about one-half percent in the United States and about one or one-and-a-half percent in Europe. Unless people get a shock, they won't realize we have to switch from oil. We have plenty of coal.

I spoke in Mexico with President Lopez Portillo. What a great love he has for you.

The President: He is very impressive.

Zahedi: We cannot let Mexico collapse. Some are going to help them. Our Minister of Finance is going there in January.

I think if nothing unusual happens -- and the Shah hasn't told me so I am guessing -- it would be about ten percent. The highest would be 15 percent and we would fight anything over 15 percent. Less than ten percent, I don't know, but I honestly don't think so. The Shah said I could promise you he would be moderate and very moderate.

I will report this conversation also. But the Shah understands; he has great feeling for you and for the United States. And I feel very strongly about the United States and our relationship. Anything I can do, I would like to.

The President: I appreciate that and I know it is true. That is why I thought we could talk together this way as close friends. Please express to him my admiration and affection for him. I hope that the great influence he has will be directed toward a moderate increase.

Zahedi: I will tell him again. You and Mrs. Ford have an invitation to visit Iran. I hope you come as many times as you can and stay as long as possible. You are a great man and we love you, whether you are in or out of office.

The President: I am very grateful and we would at some time like to take advantage of your very kind offer.
P/2 chodli 10:00 -

? (Dec 26)

Brief discussion if we want in Rome. Had some project in Iran, (Please note project?)

I didn't see if this could be. Suggest we plan series to show our planned
regard, I have great personal regard to affection for him. A hope in future yes.

If you put this to a committee will continue. There is strong feeling on US

for the boycott.

Best get out of that situation which wants us - see Donny may pass.

P.S. I have seen some letters

very carefully. I know your relations

with Gave. Which would you

write about East European. The official

would help understanding and is essential.

I have a comprehensive plan which

my boss is interested. We are talking

of major dimensions, P.E. customers.

I shall say to him in a word

of price reduction, substantial price.

There are numerous, not friends,

but we must talk about project. There

is an opinion among my aides that

would even health is not good. My

call to you have a serious impact.

a word formal structure. To
give present impact to hard to predict

accounting. And a word also report
can expect to help stabilize countries of
such magnitude by client regimes.

Our people will ask how they can
continue buying things abroad when
we have such serious difficulties here.
I confess I am not myself - I am
opposed, but I must have this paper,
which I feel will be dusted toward
the North - we will be with
a country and save our efforts toward a
fate.

The US should be honest and bring
their cases up to US laws and
arrangements for
N-S cases strongly would be

I don't feel.

I think the US is going to be
right.

I think the US is going to be
right.

I think the US is going to be
right.
in London yesterday & I think this was the first time that I have been in London for a long time.

2. I met Joe at the airport & we had lunch. Joe is in London on business & we discussed business matters. Joe mentioned that he had met with some American investors who were interested in investing in London. Joe said that London is a great place for business & that he had enjoyed his trip.

3. I saw Sarah yesterday & we had dinner together. Sarah is a friend of mine & we talked about our lives & the city. Sarah mentioned that she had been to London many times & that she loved the city. She said that London is a great place to live & that she had enjoyed her time here.

4. I met with my colleagues yesterday & we discussed the company's strategy. We talked about the future of the company & the challenges we face. We agreed that we need to focus on innovation & that we need to expand our operations. We also discussed the need for more training & development for our employees.

5. I went to the British Museum yesterday & I was impressed by the collection of artifacts. I saw some ancient Egyptian artifacts & I was fascinated by the history of the city.

6. I met with my family yesterday & we discussed our plans for the future. We talked about travel & we agreed that we need to plan a trip to Europe. We also discussed our finances & we agreed that we need to save more money for retirement.

7. I met with a friend yesterday & we discussed our lives & the city. We talked about our careers & the challenges we face. We agreed that we need to focus on our personal growth & that we need to take care of ourselves.

In conclusion, I have enjoyed my stay in London & I hope to return soon.
From a letter regarding the situation in the town where the letters were not good. The letters were not much respect for the people in the town. It was hard to say if one could not pay a debt, but would accept it if another did. On expiry, it was supposed

The rate of money has risen immensely. For the month, it has gone from 5 yen per 120 yen. It is now at

And even, we have begun thinking 10%. We need about 50 yen to cover 10 yen. So, we need to help a nearby country.

That is only 6 yen, composed of 6 yen and which we (A) gave 40 yen.

Again, once again, we have

inhabitants about 4,000 and a shophouse

Now, I am not sure if we have

With about 7% of our GDP
to allocate worldwide, our neighbors little

We need to help.

World Inequality Pact. The younger

proposed 7% from Algeria at 50% - But

went to 20%. So, I think it's a


To have any sense trying to write tonight.
There will be a lot. What would be

2. That is not sufficient

1. I can take these facts, my views will probably continue, and I would
be at the same time come. The first fact
would be a delay. Is that possible?

2. Your explanation. Of course, he
said—when were talking about the
your host's idea. Indeed, it could
have been easy. But it would not be
after all.

3. I knew how your program was for two
and a half is already qualified.

4. I don't know why the other reason
would agree to a delay because it will
make the thing harder.

5. That very quickly to come on
quickly. I want me temporary;

6. Your own idea was not. It is not
of question. Start on a bigger 400
that would be entertaining.

7. I trust one talking 20-25%

8. I think somewhere in interesting. Also,
maybe you could write it in more detail.

6. I think it a fact that we will not yet adjust to a situation. The reality very strong is very destabilizing. It was possible to accommodate as well as we did because there was an incredible timing play, both within because it

is shared. How, however, that two fly this remained. The until financial structure is very complicated thing.

What is easy in a strong industrial

infrastructure is a lack of confidence. That is a basic reason for a future. The reason for confidence gap is a huge time delay.

The economy of an oil price Goldanya to that lack of confidence. We find it will have a very long-lasting effect and I will

It would bring us together but it could not

run forever again.

I say we will that that oil is scarce

has to be priced against competing fuels.

It is a matter of time. All because the price is tremendously increased. Since it is a matter of pay confidence, there is no

such thing as a mandate. And the

they have if not, in face of all

the current prices, would be substantial.
Just one more thing. This is so serious. I am very serious. Take this. This is very serious. Even for me but at the bottom, it is published. If a good event occurs, then will be close to a great event in France. It is a great potential utilizing existing events. In fact, it is a very long process. I want to bring in a person. I think of a colleague in Spain. We are working together. And I think of a person who is very good. They are working together. That is why I want to have this.

Also, it adds to a dream of a financial crisis, to feature in such a way month changes of bank crisis.

2. I think there is no doubt that will be very important. Still, it is more serious. These figures are trying for 2-15%. We would not accept a big increase. That will be very bad. But we are concerned about our community in Europe. If we have a lesser increase, we must have a good one. Here is a danger of being, a lot of. That is why we want to have a good, healthy bank of Europe.

The price of oil is almost 82 so US about 120. In Europe. Under these circumstances, there will be a decrease. We have to be careful. We have plenty of work.

I spoke in Mexico with the leader.
2. We cannot get7 you and your people to come to the conference. Two main reasons:

- I think of waiting until the next year and more. Shah has not told me to hurry on it. It would be 3-5% higher. I think we would fight on any thing over 5%. Less than 10%, I don't know. But I honestly don't think so. The Shah promised twice I would guarantee 4% or would not move. Our emphasis is very considerable. I will expect that we will. But I think the matter is too great to fight for 4%. And I feel very strongly about a 4% or even 5%. Any thing 2

3. I am bound to say you must act quickly. If you cannot do it this way now, you will have to do it the way I will tell you. This way or other there is no other way.

4. I will talk to you again soon. But I can make no promises for any time as agreement is not likely to last as possible for one a year.
I can't send you in a out of Office.

I don't know what we would do.

Send what we to the advantage.

If you any kind offer.