

Scowcroft

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

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MEMORANDUM OF CONVERSATION

PARTICIPANTS: Dr. Henry A. Kissinger, Secretary of State and
Assistant to the President for National Security Affairs
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

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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.



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