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PA/HO Department of State
E.O. 12958, as amended
June 21, 2006

PET 3 OPEC

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Authority NND 969014
By RG NARA Date 6-5-02

Department of State **TELEGRAM**



~~SECRET~~ 337

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ACTION SS-45

INFO OCT-01 CCO-00 SSO-00 NSCE-00 /046 W

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126414 45
Tehran 218
1-14-71

- O 141445Z JAN 71
- FM AMEMBASSY TEHRAN
- TO SECSTATE WASHDC IMMEDIATE 3205
- INFO AMEMBASSY BEIRUT IMMEDIATE
- AMEMBASSY TRIPOLI
- AMEMBASSY LONDON
- AMEMBASSY PARIS
- AMEMBASSY THE HAGUE
- AMEMBASSY CARACAS
- USMISSION OECD BRUSSELS
- USMISSION OECD PARIS
- USMISSION NATO
- AMEMBASSY JIDDA
- AMEMBASSY KUWAIT
- AMCONSUL DHAHRAN
- AMEMBASSY TOKYO
- AMEMBASSY BONN
- AMEMBASSY ROME
- AMEMBASSY BRUSSELS
- USINT ALGIERS

~~SECRET~~ SECTION 1 OF 2 TEHRAN 218

~~EX-15~~

SUBJECT: OPEC-CONSORTIUM NEGOTIATIONS

REF: STATE 6068

1. DURING MEETING AMB ANNENBERG AND I HAD WITH SHAH JAN 14 A GENERAL DISCUSSION OF IRAN AND MID-EAST SITUATION WAS INTERRUPTED BY TELEPHONE CALL FROM PRIMIN HOVEYDA TO SHAH RE OPEC-CONSORTIUM PROBLEM. THIS AFFORDED NATURAL OPENING TO DISCUSS OPEC-CONSORTIUM NEGOTIATION AND MAKE POINTS IN REFTEL.

2. IN RESPONSE TO MY ASSERTION THAT USG HAS FIRST-HAND

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KNOWLEDGE THAT OIL COMPANIES HAVE GENUINE LEGAL AND COMMERCIAL PROBLEMS BUT WE BELIEVE THEY PREPARED TO BE FLEXIBLE AND FORTHCOMING. SHAH REPLIED WITH BITING SKEPTICISM, SAYING IT INCONCEIVABLE THAT CONSORTIUM, WHICH WAS ALERTED IN LONDON ON DEC 22 TO DETAILS OF OPEC RESOLUTIONS, COULD NOT HAVE HAD A NEGOTIATING TEAM IN TEHRAN BY JAN 12. HE FELT ACTION OF CONSORTIUM SENDING TEAM WHICH NOT ONLY COULD NOT NEGOTIATE BUT WOULD NOT EVEN NAME DATE WHEN RESPONSIBLE CONSORTIUM NEGOTIATORS WOULD ARRIVE IN TEHRAN WAS ANOTHER TYPICAL EXAMPLE OF CONSORTIUM'S "ARROGANCE." WHILE CONSORTIUM HAD GOT AWAY WITH ARROGANT APPROACH IN PAST, HE WISHED TO ASSERT UNEQUIVOCALLY THAT THEY WOULD NEVER AGAIN GET AWAY WITH IT INPUGRE. HE SEEMED PARTICULARLY INCENSED THAT CONSORTIUM GROUP IN JAN 12 MEETING HAD BEEN UNWILLING TO GIVE ANY INDICATION WHEN PRINCIPALS WOULD BE PREPARED TO SIT DOWN AT NEGOTIATING TABLE. I AGAIN EMPHASIZED THAT CONSORTIUM, BECAUSE OF ITS INTERNATIONAL COMPOSITION, HAD GENUINE LEGAL AND COMMERCIAL PROBLEMS THAT HAD TO BE SORTED

OUT. ON PERSONAL BASIS I ALSO POINTED OUT THAT CONSORTIUM HAD BEEN INFORMED JUST BEFORE CHRISTMAS-NEW YEARS HOLIDAY WHEN TRADITIONALLY SOME IMPORTANT EXECUTIVES, KEY MEMBERS OF THEIR STAFFS, WERE NOT ALWAYS IMMEDIATELY AVAILABLE.

3. SHAH BRUSHED ASIDE THESE ARGUMENTS SAYING HE OFTEN WORKED ON HOLIDAYS WHEN NECESSARY AND CONSORTIUM COULD DO LIKEWISE. HE WANTED TO MAKE CRYSTAL CLEAR THAT OPEC WOULD MEET IN TEHRAN NEXT TUESDAY, JAN 19, AND IF CONSORTIUM PRINCIPALS HAD NOT ARRIVED IN TEHRAN AND BEGUN NEGOTIATIONS BEFORE THAT DATE, OPEC WOULD TAKE ITS OWN UNILATERAL ACTION, WHICH WOULD INCLUDE SHUTTING DOWN PRODUCTION. I AGAIN REFERRED TO DIFFICULT LEGAL AND OTHER PROBLEMS COMPANIES HAD TO SOLVE AND EXPLAINED (PARA 4 REFTEL) USG WOULD TAKE SERIOUS VIEW OF ANY ARBITRARY DEADLINES OR PRODUCTION CUTBACKS OR SHUTDOWNS WHICH WOULD INEVITABLY AFFECT OUR RELATIONS WITH COUNTRIES INVOLVED. SHAH RESPONDED WITH RESTRAINED ANGER, SAYING HE SUPPOSED THIS WAS "A BIG POWER THREAT." HE WANTED US TO KNOW THAT THREATS WOULD NOT WORK AND THAT IRAN AND ITS

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OPEC PARTNERS, REGARDLESS OF CONSEQUENCES TO RELATIONS WITH WESTERN OIL CONSUMING COUNTRIES, WOULD PROCEED UNILATERALLY WITH PRODUCTION SHUTDOWNS UNLESS CONSORTIUM WERE FORTHCOMING.

4. I REPLIED THAT WITH ALL DUE RESPECT THERE HAD BEEN NO THREAT OF ANY KIND IMPLIED IN WHAT I HAD SAID. POINTS I HAD MADE WERE (A) WE DID FEEL DEADLINE SET BY VENEZUELA OPEC RESOLUTION HAD BEEN SHORT GIVEN VERY COMPLEX LEGAL AND OTHER PROBLEMS INVOLVED FOR CONSORTIUM; (B) WE CONVINCED THAT AS SOON AS THESE PROBLEMS SORTED OUT THE CONSORTIUM WOULD BE PREPARED TO COME FORWARD AND NEGOTIATE IN GOOD FAITH, PUTTING FORWARD PROPOSALS THAT WOULD BE RESPONSIVE TO OPEC GROUP'S OBJECTIVES; AND (C) IF MEANINGFUL NEGOTIATIONS WERE TAKING PLACE AND ANY ARBITRARY PRODUCTION CUTBACK WERE INSTITUTED BY OPEC, THEN INEVITABLY BECAUSE OF EFFECT OF SUCH A CUTBACK ON ECONOMIES OF MANY COUNTRIES, IT WOULD SERIOUSLY AFFECT RELATIONS WITH THE PRODUCER INVOLVED.

5. SHAH SAID IRAN HAD BEEN PATIENT FOR YEARS AND BELIEVED IN MODERATION. IT HAD NO INTENTION OF FOLLOWING COURSE OF LIBYA OR VENEZUELA, EVEN THOUGH COMPANIES CRAVENLY FOLDED UP TO LIBYAN PRESSURE "WHILE INTRANSIGENT TO IRAN AN ALLY THAT EXERCISED MODERATION." IF CONSORTIUM GROUP ARRIVED IN TIME TO BEGIN NEGOTIATIONS BEFORE JAN 19 AND IF IT WAS CLEAR THAT CONSORTIUM WAS SINCERE AND WAS NOT JUST SITTING DOWN TO NEGOTIATING TABLE TO DRAG ITS FEET FURTHER, THEN, OF COURSE, THERE WOULD BE NO NEED TO CUT BACK OR SUSPEND PRODUCTION. HOWEVER, IT WAS UP TO CONSORTIUM TO PROVE ITS GOODWILL AND SINCERITY. WHILE HE SPOKE FOR IRAN, HE FELT SURE SAUDI AND IRAQ MEMBERS OF PRICING COMMITTEE WOULD AGREE. HE ALSO SAID HE UNDERSTOOD THAT IN SUCH NEGOTIATIONS CONSORTIUM NEGOTIATORS MIGHTS HAVE TO REFER BACK SOME PROBLEMS TO THEIR HOME OFFICES AND ASK FOR A DELAY OF 24, 36 OR A FEW MORE HOURS MORE. THIS DID NOT POSE PROBLEM INsofar AS HE IS CONCERNED. HOWEVER, IF OPEC IS NOT TO BE MACARTHUR

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O 141445Z JAN 71
FM AMEMBASSY TEHRAN
TO SECSTATE WASHDC IMMEDIATE 3206
INFO AMEMBASSY BEIRUT IMMEDIATE
AMEMBASSY TRIPOLI
AMEMBASSY LONDON
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AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMCONSUL DHAHRAN
AMEMBASSY TOKYO
RUFHOL/AMEMBASSY BONN 145
AMEMBASSY ROME
AMEMBASSY BRUSSELS
USINT ALGIERS

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EX

FORCED TO TAKE DIRECT ACTION, COMPANIES MUST IN GOOD FAITH BEGIN NEGOTIATIONS BEFORE JAN 19. I SAID THERE WERE MANY RUMORS GOING AROUND THAT PRODUCTION CUTBACKS OR SHUTDOWNS MIGHT BE USED BY OPEC AS A BARGAINING WEAPON IN NEGOTIATIONS AND THEREFORE I FOUND HIS WORDS REASSURING THAT IF CONSORTIUM BEGAN NEGOTIATIONS IN GOOD FAITH BEFORE JAN 19 THERE WOULD BE NO UNREASONABLE DEADLINES OR ARBITRARY PRODUCTION CUTBACKS.

6. SHAH CONCLUDED BY LONG AND EXTREMELY EMOTIONAL CRITICISM OF CONSORTIUM ATTITUDE AND ACTIONS OVER NUMBER OF YEARS, CASTIGATING IT FOR ARROGANCE AND

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ATTEMPT TO PUSH PRODUCING COUNTRIES AROUND. HE SAID THIS WOULD NOT WORK AGAIN NOR WOULD PRODUCING COUNTRIES EVER AGAIN ACCEPT THAT KIND OF TREATMENT. FURTHERMORE, CONSORTIUM COMPANIES AND CONSUMING GOVTS HAD BEEN DERIVING STEADILY INCREASED PROFITS AND BENEFITS THROUGH INCREASED PRICES AND INCREASED TAXES WITH NO CORRESPONDING BENEFITS FOR PRODUCERS. NET EFFECT HAD BEEN TO WIDEN GAP BETWEEN DEVELOPING PRODUCER COUNTRIES AND "FATBIRING ONES." THIS COULD NOT GO FURTHER OR THERE WOULD BE AN EXPLOSION COMPARABLE TO EXPLOSION US IS EXPERIENCING IN PERU, BOLIVIA, CHILE, ETC. IN ADDITION TO AN AGREEMENT ON POSTED PRICES AND RELATED MATTERS, SOME FORMULA MUST BE DEVELOPED TO PROTECT PRODUCER COUNTRIES FROM EFFECTS OF INFLATION IN WESTERN COUNTRIES WITH RELENTLESS INCREASE IN PRICE OF GOOD WHICH PRODUCING COUNTRIES PURCHASED FROM THEM WITH OIL REVENUES WHILE OIL REVENUES REMAINED FIXED AND IN TERMS OF PURCHASING POWER STEADILY DECLINED.

7. COMMENT: (A) ALTHOUGH WE REALIZED SHAH WOULD REACT STRONGLY TO OUR VIEWS SET FORTH IN REFTEL (PARTICULARLY PARA 4) THE STRENGTH AND VEHEMENCE OF HIS REACTION SURPASSED OUR ESTIMATE. NONETHELESS I THINK IT WAS USEFUL AND NECESSARY TO MAKE PITCH WE DID SO THAT THERE WOULD BE NO MISUNDERSTANDING ON HIS PART THAT ARBITRARY CUTBACK OR SHUTDOWN OF PRODUCTION WOULD INEVITABLY LEAD TO VERY SERIOUS CONSEQUENCES IN RELATIONS WITH US AND OTHER CONSUMERS. WHILE HE WAS AT THE TIME EXTREMELY IRKED, I DO NOT BELIEVE DESPITE VEHEMENCE OF HIS REACTION THAT IT WILL LAST. FURTHERMORE EVEN IF IT DOES ENDURE FOR A TIME THE GRAVITY OF THIS ENTIRE PROBLEM IN TERMS OF NOT JUST OIL COMPANIES BUT CONSUMER GOVTS HAD TO BE MADE CLEAR. FONMIN ZAHEDI, WHO SAW HIM JUST AFTER I DID, TOLD ME LATER THAT SHAH HAD RECOUNTED OUR EXCHANGE TO HIM BUT SHAH HAD SAID HE INITIALLY MISUNDERSTOOD POINTS WE WERE TRYING TO MAKE. FURTHERMORE, AFTER OIL PART OF OUR DISCUSSION CONCLUDED, SHAH DISCUSSED A NUMBER OF OTHER TOPICS FOR OVER AN HOUR IN MOST AMICABLE AND FRIENDLY WAY.

(B) RECOMMENDATIONS. I STRONGLY RECOMMEND CONSORTIUM NEGOTIATING PRINCIPALS BE HERE IN TIME TO

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HAVE NEGOTIATIONS UNDER WAY BEFORE TUESDAY, JAN 19 OR FAT WILL BE IN FIRE AND I FEEL REASONABLY CERTAIN THAT OPEC WILL ACT. IF THEY ARRIVE HERE IN TIME, AND THE SOONER THE BETTER, PREPARED TO NEGOTIATE AND NOT UNDULY SPIN OUT TALKS, I ALSO FEEL REASONABLY CERTAIN THAT SHAH WILL RESTRAIN ANY EFFORTS TO USE PRODUCTION CUTBACKS AS BLACKMAILING WEAPON IN NEGOTIATIONS, ALTHOUGH, OBVIOUSLY, SUCH ACTION WILL HANG LIKE SWORD OF DAMOCLES OVER HEADS OF NEGOTIATORS UNTIL AGREEMENT IS REACHED. WE ALSO RECOMMEND THAT CONSORTIUM AT ONCE INFORM FINMIN AMOUZEGAR OF DATE WHEN ITS NEGOTIATING PRINCIPALS WILL ARRIVE TO ENABLE NEGOTIATIONS TO BE UNDER WAY PRIOR TO JAN 19. ANY OTHER COURSE IS SIMPLY ASKING FOR TROUBLE.

8. HAVE INFORMED BRITISH AMB WRIGHT OF FOREGOING AND HE REQUESTS, AND I CONCUR, EMBASSY LONDON PASS GIST OF FOREGOING IN STRICTEST CONFIDENCE TO BRITISH FONOFF INCLUDING MY RECOMMENDATION THAT CONSORTIUM NEGOTIATING PRINCIPALS ARRIVE HERE SOONEST AND IN TIME TO PERMIT NEGOTIATIONS PRIOR JAN 19. GP-3.
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