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Department of State

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O 181632Z JAN 71
FM AMEMBASSY TEHRAN
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3237
INFO RUEHCR/AMEMBASSY JIDDA IMMEDIATE 1026
RUEHCR/AMEMBASSY KUWAIT 970
RUEHCR/AMCONSUL DHAHRAN 763
RUEHCR/AMEMBASSY TRIPOLI 133
RUEHCR/AMEMBASSY LONDON 1715
RUEHCR/AMEMBASSY THE HAGUE 49
RUFNCR/USMISSION OECD PARIS 991
RUEHCR/USMISSION EC BRUSSELS 225

3935Q

Jan 18, 4:04 PM 1971

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SECRET SECTION 1 OF 2 TEHRAN 277

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PARIS PASS TREZISE

FOR THE PRESIDENT AND THE SECRETARY FROM IRWIN

SUBJECT: UNDER SECRETARY'S MEETING WITH SHAH

1. HIM RECEIVED AMB MACARTHUR AND ME ALONE PREPARED THOUGH TO BRING IN HIS OIL EXPERTS IF WE HAD BROUGHT MR. AKINS INTO THE MTG OR IF THERE WERE NEED FOR THEM. WHILE WE TALKED WITH HIM, DAVIES AND AKINS TALKED WITH HIM'S OIL EXPERTS.
2. I DELIVERED THE PRESIDENT'S LETTER TO HIM, AT THE SAME TIME EXTENDING THE PRESIDENT'S WARM REGARDS. I SAID THAT THE PRESIDENT HAD SENT AN EMISSARY NOT TO DISCUSS THE DETAILS OF THE OIL NEGOTIATION BUT TO STRESS HIS INTEREST IN THE VITAL PART OIL PLAYED IN FREE WORLD SECURITY FROM BOTH AN ECONOMIC AND MILITARY STRATEGIC VIEW AND CONCERN OF US THAT THE OIL NEGOTIATIONS RESULT IN A STABLE SYSTEM OF OIL SUPPLY AND MARKETING THAT WOULD BE FAIR TO THE PRODUCING COUNTRIES, THE OIL COMPANIES, AND THE CONSUMING COUNTRIES. PREVIOUSLY THE US HAD NOT PARTICIPATED IN ANY OIL NEGOTIATIONS AND IT WAS DOING SO NOW TO THIS VERY LIMITED EXTENT, BECAUSE IT THOUGHT THESE NEGOTIATIONS WERE CRITICAL TO THE FUTURE OF THE OIL INDUSTRY, ARRANGEMENTS IN THE PERSIAN LILF, EFFECT ON EUROPE, JAPAN, ELSEWHERE AND THE US, AND BECAUSE THREATS HAD ISSUED FROM LIBYA THAT OIL WOULD BE USED AS A POLITICAL WEAPON AGAINST US POLICY IN THE MIDDLE EAST. THE US WAS NOT REPRESENTING OR TAKING THE

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PART PER SE OF THE OIL COMPANIES BUT BECAUSE OF THE GREATER INTEREST, INCLUDING THAT OF IRAN, WE WERE ASKING HIM TO USE HIS GREAT PRESTIGE AND INFLUENCE TO SEEK AN AGREEMENT WHICH WOULD RESULT IN STABILITY.

3. I OUTLINED BRIEFLY ASPECTS OF THE STRATEGIC SITUATION IN EUROPE AND THE MIDDLE EAST AND HIM TOOK OVER GIVING AN INTERESTING ANALYSIS OF THE WORLD SCENE FROM HIS VIEWPOINT. (AMB MACARTHUR WILL REPORT ON THIS SEPARATELY AS HE HAS HAD A SIMILAR CONVERSATION WITH HIM.)

4. I COMMENTED ON THE EFFECT OF CUTS BY LIBYA IN ITS PRODUCTION ON EUROPE AND JAPAN AND THEREFORE ON THE US, ON THE EFFECT OF TAPLINE AND ON THE EVEN GREATER PROBLEMS OF ALL OF US IF PRODUCTION WERE HALTED OR EVEN CUT IN THE PERSIAN GULF;

(A) THAT PART OF OUR CONCERN AND THAT OF THE OIL COMPANIES AROSE FROM THE RECENT NEGOTIATION WHICH RESULTED IN PRICE INCREASES FIRST IN LIBYA, NEXT IN THE PERSIAN GULF AND THEN IN VENEZUELA, ONLY TO HAVE THE CYCLE BEGIN AGAIN IN LIBYA AND NOW IN OPEC WITH ITS CARACAS RESOLUTION. THE FEAR WAS THE PATTERN WOULD BE REPEATED. THIS WOULD CREATE AN INTOLERABLE SITUATION FOR THE OIL COMPANIES AND ALSO FOR EUROPE, JAPAN, AND THE US. THE QUESTION WAS WOULD IT BE JUST ANOTHER ROUND OF PRICE INCREASES OR COULD IT BE A RESPONSIBLE NEGOTIATION WHICH WOULD BRING STABILITY FOR A SPECIFIC PERIOD OF TIME TO THE OIL INDUSTRY;

(B) THAT THE US HAD URGED THE OIL COMPANIES APPROACH THE NEGOTIATION IN A COOPERATIVE SPIRIT AND TO NEGOTIATE IN GOOD FAITH FOR AN AGREEMENT FAIR TO ALL;

(C) THAT THE US HAD GIVEN THE OIL COMPANIES CERTAIN LIMITED ASSURANCES REGARDING THE APPLICATION OF ANTI-TRUST LAWS, BUT HAD DONE SO ONLY ON JANUARY 15, 1971. THIS MEANT THAT THE OIL COMPANIES HAD HAD NO TIME TO EXCHANGE INFORMATION AND PREPARE THE JOINT POSITION NEEDED TO ENTER THE NEGOTIATIONS. I HOPED HIM WOULD UNDERSTAND THIS FACT AND WOULD RECOGNIZE THAT ALTHOUGH THE OIL COMPANIES HAD SENT TWO NEGOTIATORS TO BEGIN DISCUSSIONS IT WOULD TAKE TIME FOR THE COMPANIES TO PREPARE ALL THE DATA NEEDED TO CONCLUDE THE NEGOTIATIONS.

5. IN DISCUSSION WE ALSO COVERED ASPECT RE FUTURE OIL SUPPLY, WORLD AND INDIVIDUAL COUNTRY NEEDS, THE INCREASING IMPORTANCE IN FUTURE OF PERSIAN GULF OIL, THE ADVANTAGES THAT THE OIL COMPANIES BROUGHT TO THE PRODUCING COUNTRIES, E.G., CAPITAL NEEDED IN THE NEXT DECADE, PERHAPS \$200 BILLION, ACCESS TO MARKETS AND MARKETING FACILITIES, THAT WOULD BE MOST DIFFICULT TO ATTAIN AS A PRACTICAL MATTER IF ARRANGEMENTS WERE ATTEMPTED DIRECTLY BETWEEN PRODUCING AND CONSUMING COUNTRIES.

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6. THE SHAH SAID HE GREATLY APPRECIATED EXPLANATIONS I HAD GIVEN HIM AND WAS GRATEFUL TO THE PRESIDENT FOR SENDING ME. HE COULD UNDERSTAND THAT COMPANIES DID NOT WISH TO BE WHIP-SAWED BY ESCALATION AD SERIATIM DEMANDS BY DIFFERENT PRODUCERS OR COUNTRIES. HE FELT OFFER BY OIL COMPANIES REPRESENTED A GOOD BASE FOR NEGOTIATION BECAUSE IT ACCEPTED THE PRINCIPLE OF AN INCREASE IN PRICES AS WELL AS THE PRINCIPLE OF AN INDEX WHICH WOULD PROTECT THE PRODUCERS AGAINST INFLATION IN THE WEST.

7. HE SAID HE WAS SURPRISED THAT THE COMPANIES HAD INCLUDED IN THEIR PAPER A REFUSAL TO ACCEPT (A) NO FURTHER INCREASE IN TAX RATE PERCENTAGE BEYOND CURRENT 55 PERCENT RATE; (B) NO RETROACTIVE PAYMENTS; AND (C) NO NEW OBLIGATORY REINVESTMENT BECAUSE THESE THREE POINTS HAD NOT BEEN INCLUDED IN THE VENEZUELAN-OPEC RESOLUTION. HE KNEW VENEZUELA, ALGERIA, AND LIBYA HAD OTHER IDEAS BUT THESE HAD BEEN EXCLUDED FROM THE RESOLUTION. HE WENT ON TO SAY THAT HE SAW NO CONFLICT BETWEEN THE TERMS OF THE OPEC RESOLUTION AND THE COMPANIES RESPONSE.

8. HE ALSO AGREED THAT IT WOULD BE A GOOD THING TO STABILIZE PRICES FOR FIVE YEARS. HOWEVER, THIS MEANT A FREEZE ON PRICES BY BOTH PRODUCERS AND COMPANIES. HE HAD STATISTICS WHICH SHOWED
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COMPANY PRICE INCREASES ALREADY PUT INTO EFFECT MORE THAN COVERED INCREASES IRAN HAD IN MIND. THEREFORE IF COMPANIES TRIED TO INCREASE PRICES AS RESULT OF AGREEMENT REACHED IN FORTHCOMING NEGOTIATIONS, PRODUCERS WOULD HAVE TO BENEFIT ACCORDINGLY. HE ALSO MADE CLEAR THAT WHEN AGREEMENT WAS REACHED IT WOULD BE RETRACTIVE TO JANUARY 1, 1971 AS GP AND SHELL HAD JUST RAISED THEIR PRICES AT END OF DECEMBER. TO SUMMARIZE, HE BELIEVED THAT NEGOTIATIONS COULD BE SUCCESSFULLY CONCLUDED IF, BUT ONLY IF, "THERE IS NO DISCRIMINATION, NO FAVORITISM, AND NO DIRTY TRICKS ON THE PART OF THE COMPANY NEGOTIATORS."

9. AMPLIFYING REMARK ABOUT "NO DIRTY TRICKS," SHAH SAID THAT IF, HOWEVER, COMPANIES DRAGGED OUT THE NEGOTIATIONS OR IF THEY REACHED AN AGREEMENT WITH THE GULF PRODUCERS HEADED BY IRAN BUT REFUSED TO SIGN SUCH AN AGREEMENT UNLESS ALL OPEC MEMBERS SUBSCRIBED TO IT, THERE WOULD BE SERIOUS TROUBLE. AS THE OIL COMPANIES KNEW FULL WELL, IT WAS NOT POSSIBLE FOR IRAN AND THE GULF PRODUCERS TO IMPOSE THEIR WILL ON VENEZUELA OR RADICAL ARAB PRODUCERS SUCH AS LIBYA, ALGERIA, AND POSSIBLY IRAQ WHICH ASKED MUCH MORE. THEREFORE ANY ATTEMPT BY THE COMPANIES TO SAY THAT THEY WOULD NOT SIGN AN AGREEMENT UNLESS THESE STATES, WHICH WERE ALREADY RECEIVING OR MAKING DEMANDS FOR MORE THAN WAS IN THE OPEC RESOLUTION, ALSO SIGNED SIMILAR AGREEMENT, WOULD BE TAKEN BY IRAN AND THE OPEC AS A SIGN OF BAD FAITH AND HE COULD ASSURE US THAT OPEC WOULD TAKE ACTION. IT WAS NOT POSSIBLE FOR THE COMPANIES TO GET AWAY WITH THE TACTICS OF TRYING TO PLAY OPEC MEMBERS OFF AGAINST EACH OTHER AND STRINGING OUT NEGOTIATIONS.

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10. THE SHAH SAID WHEN SAUDI OIL MINISTER VISITED TEHRAN YESTERDAY HE BROUGHT A MESSAGE FROM KING FAISAL THAT SAUDI ARABIA WOULD GO ALONG WITH WHATEVER THE SHAH AGREED TO. THERE WAS A SIMILAR INDICATION FROM KUWAIT. WHILE IRAQ MIGHT BE TEMPTED TO TRY TO MAKE TROUBLE, HE THOUGHT IRAQ COULD BE CONTAINED BY IRAN, THE SAUDIS, AND OTHER MODERATE GULF PRODUCERS. THE SHAH REITERATED GULF PRODUCERS WILLING TO SIGN A FIVE-YEAR CONTRACT ON BASIS OF OPEC RESOLUTION EVEN IF VENEZUELA AND THE MEDITERRANEAN PRODUCERS (IRAQ, LIBYA, AND ALGERIA) WERE UNWILLING TO DO SO. OBVIOUSLY, HOWEVER, IF COMPANIES AGREED TO GIVE THESE COUNTRIES SUBSTANTIALLY MORE IN TAXES AND ROYALTIES THAN GULF STATES, THERE WOULD BE POLITICAL AND PSYCHOLOGICAL PROBLEMS. THE SHAH INDICATED HE HOPED COMPANIES WOULD STAND FIRM AGAINST THOSE MAKING UNREASONABLE DEMANDS. HE PERSONALLY FELT THAT THE COMPANIES SHOULD DEAL SEPARATELY WITH THE THREE MAJOR OIL PRODUCING AREAS--VENEZUELA (CARIBBEAN), MEDITERRANEAN, AND THE GULF WITHIN FRAMEWORK OF OPEC. HE REPEATED, HOWEVER, THAT IRAN AND OTHER PERSIAN GULF COUNTRIES WOULD AGREE TO ABIDE BY FIVE-YEAR AGREEMENT EVEN IF OIL COMPANIES CAVED INTO HIGHER DEMANDS OF LIBYA, ALGERIA, AND VENEZUELA. IT WAS CLEAR THOUGH THAT SUCH ACTION BY OIL COMPANIES WOULD ANGER HIM AND MAKE RELATIONS DIFFICULT.

COMMENT: SHAH RECEIVED ME THROUGHOUT THE TWO-HOUR MEETING IN A FRIENDLY MANNER, LISTENING ATTENTIVELY AND EXPRESSING APPRECIATION OF OUR VIEWPOINTS AND PROBLEMS. AMBASSADOR AND I BOTH BELIEVE THAT HE HAS A MUCH CLEARER UNDERSTANDING OF HOW OUR OWN NATIONAL INTERESTS AND THOSE OF NATO AND FREE WORLD COULD BE AFFECTED BY THE NATURE OF AN OIL SETTLEMENT. SUBSEQUENTLY, FONMIN ZAHEDI (WHO SAW SHAH IMMEDIATELY AFTER WE DID) TOLD US THAT SHAH HAD FOUND OUR MEETING "TO BE VERY USEFUL AND CONSTRUCTIVE." I THINK THE TALKS WERE SUCCESSFUL FROM OUR VIEWPOINT AND THAT IT WILL INFLUENCE HIM TOWARD MODERATION, IF, BUT ONLY IF, COMPANIES ARE UNDERSTANDING AND RESPONSIVE TO THE FACTS OF LIFE THEY WILL FACE AND THE RECOMMENDATIONS WE ARE SUBMITTING.

THE CRUX, HOWEVER, OF THE WHOLE VISIT WAS THE FACT THAT THE PRESIDENT FOR WHOM HIM EXPRESSED HIGHEST REGARD AND ADMIRATION HAD SENT AN EMISSARY.

SUBSEQUENTLY, WE HAD A MEETING WITH FINANCE MIN AMOUZEGAR WHO, GAVE US DETAILED CLARIFICATION OF SHAH'S VIEWS WHICH CAST QUITE A NEW AND HELPFUL LIGHT ON CERTAIN ASPECTS OF THIS PROBLEM. I AM SUMMARIZING AMOUZEGAR'S CLARIFICATIONS IMMEDIATELY FOLLOWING TELEGRAM TOGETHER WITH MY RECOMMENDATIONS WITH WHICH AMBASSADOR MACARTHUR FULLY AGREES AND ON WHICH I HOPE ACTION CAN QUICKLY BE TAKEN.

WE HAVE CLASSIFIED TELEGRAMS NOFORN SO THAT DECISION ON BRIEFING ALL OIL COMPANIES, AMERICAN AND FOREIGN, CAN BE MADE IN WASHINGTON. WE WOULD THINK THAT TREZISE SHOULD GIVE COMPANIES FULL BRIEFING. GP-4.

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