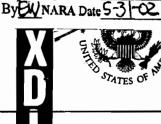
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ACTION SS-45

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

0:301400Z JAN: 71 FM: AMEMBASSY TEHRAN: TD: SECSTATE: WASHDC: IMMEDIATE: 3339 INFD: AMEMBASSY LONDON IMMEDIATE AMEMBASSY TRIPOLI

TEHRAN 495

EXDIS

SUBJE OIL SITUATION

REF# (A) STATE 16444 (B) TEHRAN 480 (C) TEHRAN 301

I. AS: INDICATED IN REF B, AMERICAN OIL COMPANY NEGOTIATORS HAVE, IN CONNECTION WITH CURRENT NEGOTIATIONS, CONSISTENTLY EXPRESSED BELIEF THAT NO RPT NO ASSURANCES THAT SHAH GIVES ON FIVE-YEAR AGREE-MENT ARE WORTH MUCH. IN MY FIRST BRIEFING OF PIERCY (ESSD) AND STRATHALMOND JAN 19 (REF C) PIERCY TOOK THIS POSITION, WHICH AS ECHOED BY US COMPANY REPS' YESTERDAY (REF B).

2. AMERICAN OIL REPS ADVANCE FOLLOWING REASONS TO SUPPORT THEIR CONVICTION THAT ASSURANCES NOT WORTH MUCH:

(A) THEY CLAIM IRAN HAS NOT ABIDED BY AGREEMENTS.
NEGOTIATED IN EARLY FIFTIES AT END OF MOSSADEGH PERIOD;
(B) FACT THAT DESPITE EXISTING AGREEMENTS; THERE HAS
FDR PAST SEVERAL YEARS BEEN: ANNUAL CONFRONTATION BETWEEN
CONSORTIUM AND GOI WITH GOI INSISTING ON NEW MEASURES
TO: INCREASE ITS BENEFITS; PARTICULARLY THROUGH INCREASED
OFFTAKE;

(C) SHAH'S INSISTENCE ON ESCALATION CLAUSE TO PROTECT IRAN AGAINST INFLATION IN WEST IN ITSELF MEANS.



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Authority NND969000 ByEWNARA Date 5-31-02 S 5

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THAT PRICE FOR DIL WHICH GULF PRODUCERS AGREE TO WILL NOT BE FIXED BUT WILL BE SUBJECT TO UPWARD FLUCTUATION:

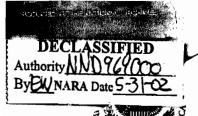
(D) DITTO FOR GULF PRODUCERS INSISTENCE ON RELATION-SHIP BETWEEN PRICE OF CRUDE AND PRICE COMPANIES CHARGE CONSUMERS

(E) AND, FINALLY, DEEP INGRAINED FEELING ON PART OF AMERICAN COMPANY REPS THAT NO RPT NO ASSURANCE FROM SHAH OR GULF PRODUCERS IS WORTH VERY MUCH AND THAT EVEN IF AGREEMENT REACHED ON PRICES GOI WILL CONTINUE TO PUT PRESSURE ON CONSORTIUM MEMBERS FOR INCREASED OFFLIFT.

3. WE HAVE NO RPT NO INDICATION THAT AMOUZEGAR HAS WATERED DOWN ASSURANCES EXPRESSED TO UNSECTINGIN AND ME AGAINST WHIPSAW OR THAT HE IS WEAKENING ON FIVEFYEAR AGREEMENT. HOWEVER, AS I PUT SQUARELY TO US COMPANY REPS'IN MEETING YESTERDAY (REF B), WHETHER OR NOT CONDITIONS (PARA 2 ABOVE) IRAN AND GULF OPEC GROUP HAVE PUT FORWARD AS ESSENTIAL TO AN AGREEMENT WOULD AS A PRACTICAL: MATTER COMPROMISE VALIDITY OF ASSURANCES FOR FIVE-YEAR PERIOD WOULD SEEM TO DEPEND ON ACTUAL TERMS WHICH ARE AGREED BETWEEN TWO PARTIES. YESTERDAY AMERICAN COMPANY REPS SEEMED EITHER NOT WELL INFORMED OR DISH INGENUOUS WHEN THEY SAID TO ME THAT "AMOUZEGAR HAS: RAISED NEW CONDITIONS SINCE HIS TALK WITH UNSEC IRWIN THAT INVALIDATE SHAH'S ASSURANCES REFIVE +YEAR AGREEMENT." THEY CITED AS BASIS OF THIS ASSERTION IRANIAN INSISTENCE: ON A RELATION-SHIP BETWEEN CRUDE PRICES AND CONSUMER PRICES. THIS PROPOSAL, AS I POINTED OUT TO THEM (REF B) HAD BEEN MADE CLEAR TO UNSEC AND ME BOTH BY SHAH AND AMDUZEGAR IN JAN 18 MEETING AND I HAD CONVEYED IT, AS WELL AS OTHER IRANIAN POSITIONS IN DETAIL TO PIERCY AND STRATHALMOND WHEN I BRIEFED THEM FOR OVER AN HOUR JAN 19 SO THAT THEY WOULD KNOW PRECISELY WHAT THEY WOULD BE UP AGAINST.

4. IN LIGHT OF FOREGOING I DO NOT RPT NOT THINK A QUERY OF AMOUZEGAR WOULD ELICIT MORE THAN RENEWED ASSURANCE THAT GOI AND OTHER OPEC GULF PRODUCERS ARE WILLING TO SUBSCRIBE TO A FIVE YEAR AGREEMENT IF SATISFACTORY OVER-ALL AGREEMENT REACHED WITH COMPANIES. I RECOGNIZE OF COURSE THAT SOME OF RELATED CONDITIONS (PARA 2 ABOVE) BY THEIR VERY NATURE DO PROVIDE FOR SOME





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CHANGE IN PRICES EVEN IF THERE IS A FIVE-YEAR AGREEMENT. HOWEVER COMPANY REPS ARE FULLY AWARE OF THIS AND IT SEEMS TO ME THAT THESE ARE THINGS THAT THEY SHOULD TRY TO TIE DOWN IN THEIR NEGOTIATIONS ON THESE POINTS TO GET BEST DEAL POSSIBLE. THEY DO NOT AFFECT SHAH'S COMMITMENT TO GIVE FIVE YEAR ASSURANCES SUBJECT TO SATISFACTORY AGREE MENT ON CONDITIONS HE ATTACHES.

5. INSOFAR AS: DIFFERENCES: BETWEEN: COMPANIES! OFFER FOR POSTED PRICE INCREASES: OF 15 CENTS AND INITIAL GULF PRODUCERS! DEMAND: OF 54 CENTS ARE CONCERNED, WE NOTICE THAT GERMANS' (BONN 1080, PARA 1) AS: WELL AS OTHERS BELIEVE COMPANY OFFER SUBSTANTIALLY TOO LOW TO BE ACCEPTABLE TO GULF PRODUCERS. WE ALSO RECALL THAT AMOUZEGAR: COMMENTED: PRIVATELY TO US THAT IN BARGAINING OVER POST PRICE INCREASE HE EXPECTED COMPANIES WOULD ASK: A. FIGURE SUBSTANTIALLY BELOW WHAT GULF PRODUCERS WOULD ACCEPT, WHEREAS GULF PRODUCERS WOULD ADVANCE A FIGURE SUBSTANTIALLY ABOVE WHAT THEY KNOW COMPANIES COULD ACCEPT AND THAT THIS INVOLVED USUAL TYPE OF BARGAINING THAT WENT ON IN SUCH NEGOTIATIONS. GP=3 MACARTHUR



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