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Authority *NND 969000*
By *EW* NARA Date *5-31-02*

Department of State **TELEGRAM**



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ACTION SS-45

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FM AMEMBASSY TEHRAN
TO SECSTATE WASHDC IMMEDIATE 3339
INFO AMEMBASSY LONDON IMMEDIATE
AMEMBASSY TRIPOLI

TEHRAN 495

EXDIS:

SUBJ: OIL SITUATION

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

1. 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 AGREEMENT ARE WORTH MUCH. IN MY FIRST BRIEFING OF PIERCY (ESSO) 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 FOR 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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THAT PRICE FOR OIL WHICH GULF PRODUCERS AGREE TO WILL NOT BE FIXED BUT WILL BE SUBJECT TO UPWARD FLUCTUATION:

(D) DITTO FOR GULF PRODUCERS INSISTENCE ON RELATIONSHIP 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 PRICE, 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 UNSEC IRWIN AND ME AGAINST WHIPSAW OR THAT HE IS WEAKENING ON FIVE-YEAR 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 DIS-INGENUOUS WHEN THEY SAID TO ME THAT "AMOUZEGAR HAS RAISED NEW CONDITIONS SINCE HIS TALK WITH UNSEC IRWIN THAT INVALIDATE SHAH'S ASSURANCES RE FIVE-YEAR AGREEMENT." THEY CITED AS BASIS OF THIS ASSERTION IRANIAN INSISTENCE ON A RELATIONSHIP 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 AMOUZEGAR 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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E.O. 12958, as amended
June 21, 2006

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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 AGREEMENT 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.

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