

MEMORANDUM

THE WHITE HOUSE  
WASHINGTON

~~SECRET/NODIS/XGDS~~

MEMORANDUM OF CONVERSATION

PARTICIPANTS: President Ford  
Amb. Ardeshir Zahedi, Ambassador of Iran  
Brent Scowcroft, Assistant to the President  
for National Security Affairs  
Alan Greenspan, Chairman of the Council  
of Economic Advisors

DATE AND TIME: Tuesday, December 7, 1976  
10:00 - 11:23 a.m.

PLACE: The Oval Office

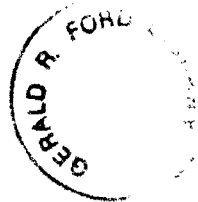
[There is a brief discussion of the weather here and in Iran, hydro-electric projects in Iran, the Helmand River project. etc.]

The President: Let me extend to the Shah my personal regards. I have great personal regard and affection for him. I hope that in the future years the close relations we have between our two countries will continue. There is a strong feeling in the United States for the Shah and Iran.

But I want to talk about an issue which troubles me -- the Doha meeting and a possible oil price increase. I have read the Shah's letter very carefully. I both agree and disagree with it. I agree wholeheartedly with his points about conservation. The industrial world has not done enough, and it is essential. I have proposed a conservation plan which the Congress has not yet accepted. We are searching and we need to do more with respect to alternate sources of energy. I do disagree with him on the issue of oil price and its relation to industrial prices. These are honest differences between friends.

But let me talk about the impact that an increase will have. There is unanimity among my advisers that the world economic health is not good. Any increase in the price of oil would have a serious impact on the world financial structure. Its precise impact is hard to predict accurately.

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EXEMPTION CATEGORY 5(b) (1, 3)  
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E.O. 12958, SEC. 3.5  
NSC MEMO, 11/24/98, STATE DEPT. GUIDELINE state dir: ew 8/13/04  
BY VA NARA DATE 7/3/04

An increase would also have a serious impact on our capability to help the developing countries. If economic conditions here don't improve, the American people will ask how they can continue helping the developing world when we have such serious difficulties at home. If our economic situation improves -- I am an optimist, but we do have this pause, which I feel will be resolved in the direction of stable growth -- we will be able to continue and expand our efforts toward North-South cooperation. The other industrial countries are lagging behind now the United States, and the resources for North-South cooperation simply wouldn't be available if economic progress halted.

I am a strong supporter of the Shah. I think he has done great things for his country and is a strong force for moderation and stability in the Middle East. I spoke out publicly during the campaign in support of the Shah. I want to continue my participation in public affairs after I leave. I want to continue my support of Iran -- I would like to visit there at some time. It would help me greatly in my efforts if the Shah could exercise a moderating influence in the OPEC meeting. I understand his position and I agree with part of his position. But we have to look at it in a broader perspective now and I think an increase would have a serious impact on the world economic structure.

Zahedi: It is a great honor for me to meet with you, Mr. President. I want you to know how greatly you are admired by the Shah and by my people. I say that from the heart on his behalf and my behalf.

I don't want to take your time, but two years ago when prices were going up I talked to Secretary Kissinger and Secretary Simon and would have gone to the area right then and would have helped. But the past is past.

Again, the meetings on the North-South dialogue have not gone well. There are people in this government who are not sympathetic. Then under President Johnson and early in the Nixon Administration, when I was Foreign Minister, we proposed that oil resources be set aside to buy industrial equipment on a swap basis. The Congress objected to that too and it never came to fruition.

The decision on holding this meeting in December was accidental, based on a number of countries' budgets. But I have been talking to other Ambassadors about postponing the meeting. I talked with His Imperial Majesty about it, but it is almost impossible. Had I known of your letter to His

Imperial Majesty, I would have urged that it be held earlier or not at all. The timing was not good.

The Shah told me how much respect he has for you and he would like to do whatever he could. But he said he could not propose a change of date for the meeting but would accept it if others do.

On the question of price, he said it is inevitable there would be an increase but he proposed that it be a moderate one. Our industrial import costs are going up rapidly. The price of services has risen tremendously. The price per month has gone up from \$3-4,000 to \$12,000-16,000.

But we do understand the problem, and we have been thinking of only a 10 percent increase. We thought about setting aside 10 percent of each barrel to help the needy countries. This failed, and we compromised on \$600 million of which we -- the Arabs -- gave 40 percent. Again, on the agricultural fund, we have contributed about \$400 million and the developed countries haven't done too well. Then bilaterally we have set aside about 7 percent of our Gross National Product to help the developing world and our neighbors. [He listed some who are being helpful.]

We do understand the problem. The recommendations for the proposed increase range from Algeria who is proposing 40 percent -- that would be irresponsible -- to Saudi Arabia which publicly says 5 percent but they are trying to be the white knight. There will be an increase. What would be moderate?

The President: The only way we can reassure the world economy is to have no increase.

Zahedi: That is not possible.

The President: I am telling you the facts. Any increase would jeopardize the economy and no increase would be a shot in the arm. The next best would be a delay. Is that possible?

Zahedi: Now, it is almost impossible. If it were done early in the fall -- when Secretary Kissinger and I were joking about it -- if you had asked for March, it would have been easy. But Secretary Kissinger said wait until after the election.

I know how you spoke up for Iran and the Shah is deeply grateful. I don't believe any of the OPEC countries would agree to a delay because it would look like they were forced to.

The President: That's why I asked you to come in quietly. I want to have no confrontation, and that is why this meeting is private. You say a delay or no increase is out of the question. Start with the Nigerian 40 percent. That would be catastrophic.

Zahedi: Most of them are talking of 20-25 percent.

The President: That would also be catastrophic. Alan, maybe you can address it in more detail.

Greenspan: I think it is a fact that the world has not yet adjusted to the earlier increase. The early very sharp increase was very destabilizing. It was possible to accommodate as well as we did because there was considerable lending flexibility, both among borrowers and lenders. Now, however, that flexibility has vanished. The international financial structure is now stretched thin. What is wrong in the strong industrial countries is a lack of confidence. That is the basic reason for the pause. The reason for the confidence gap is the huge increase in debts. The overhang of an oil price increase adds greatly to that lack of confidence. No price increase would have a very beneficial psychological effect around the world. It would bring us together and help the world economy to move again.

I agree with the Shah that oil is scarce and has to be priced against competing fuels. It is a matter of time. Alternate sources take time and tremendous investment.

Since it is a matter of psychological confidence, there is no such thing as a moderate increase. And the psychological benefit of no increase, in the face of all the current fears, would be substantial.

The President: There is just one more thing. The situation, in several countries, is very serious. Take Italy. They are having serious economic problems but at the bottom it is political. If the government can't cope, there will be Communists in the government. In France, the situation is potentially serious, with strong Communist forces. In Portugal, the situation is very tenuous with the government just hanging on and the threat of a collapse. In Spain also, they are making great progress, but it is still fragile. That is why I come back to no increase or a delay. Any increase adds to the danger of a financial crisis, to failure in some governments, even to the danger of military crisis.

Zahedi: I think there is no doubt there will be an increase, especially after the steel price increase in this country. Many newspapers are now speculating there will be a 7-15 percent increase. We would not accept a big increase. There will be an increase, but we are concerned about the security situation in Europe. We know more than most how important Europe is and the dangers of being isolated. That is why we are giving bilateral help to European governments. The price of oil is about one-half percent in the United States and about one or one-and-a-half percent in Europe. Unless people get a shock, they won't realize we have to switch from oil. We have plenty of coal.

I spoke in Mexico with President Lopez Portillo. What a great love he has for you.

The President: He is very impressive.

Zahedi: We cannot let Mexico collapse. Some are going to help them. Our Minister of Finance is going there in January.

I think if nothing unusual happens -- and the Shah hasn't told me so I am guessing -- it would be about ten percent. The highest would be 15 percent and we would fight anything over 15 percent. Less than ten percent, I don't know, but I honestly don't think so. The Shah said I could promise you he would be moderate and very moderate.

I will report this conversation also. But the Shah understands; he has great feeling for you and for the United States. And I feel very strongly about the United States and our relationship. Anything I can do, I would like to.

The President: I appreciate that and I know it is true. That is why I thought we could talk together this way as close friends. Please express to him my admiration and affection for him. I hope that the great influence he has will be directed toward a moderate increase.

Zahedi: I will tell him again. You and Mrs. Ford have an invitation to visit Iran. I hope you come as many times as you can and stay as long as possible. You are a great man and we love you, whether you are in or out of office.

The President: I am very grateful and we would at some time like to take advantage of your very kind offer.

wing P/Zohedi 10:00 -  
7? Nov (Dec?) 76 11:23 ✓

(Brief discussion of exports in Iran  
Hydro projects in Iran, Helmand river proj, etc.)  
P Let me ~~take~~ extend to a short my personal  
regards. I have great personal regards  
affection for him. I hope in future years  
a close relation bet our 2 countries will  
continue. There is strong feeling in US  
for a short Iran.

But I want to talk about an issue which  
troubles me - as Omani unity + possible  
purs 9. I have read Gash's letter  
very carefully. I took a year or so  
w/it. I agree wholeheartedly w/ his  
points about consumption. The industrial  
world has not done enough - it is essential.  
I proposed a consumption plan which  
Oman has not <sup>yet</sup> accepted. We are searching  
to find a decrease in alt. sources.  
I do disagree w/ him on a issue  
of price relation to industrial prices  
There are honest dif. but friends  
But when we talk about impact. There  
is uncertainty among my advisors that  
world war health is not good. Any  
oil it would have a serious impact  
on a world financial structure. Its  
precise impact is hard to predict  
accurately. An oil would also impact



are capable to help developing countries of  
even countries here don't require, &  
then people will ask how they can  
continue helping developing world when  
we have such serious diff. at home.

If we even set ourselves - I am an  
optimist, but we do have this panel,  
which I feel will be used toward  
stable growth - we will be able to  
continue + expand our efforts toward N-S coop.  
The other industrial countries are lagging  
behind because US + C economies for  
N-S coop simply wouldn't be workable  
if even prog. halted.

I am a strong supporter of the Shah.  
I think he has done great things for  
his country & is a strong force for mod-  
ernization & stability in the M.E. I spoke out  
fearlessly during my visits in support  
of the Shah. I want to continue my participation  
in public affairs after I home. I want  
to continue my support of the Shah - would  
love to visit there at some time. I would  
help me greatly in my efforts if the  
Shah could exercise an ambassadorial  
influence in the OPEC entry. I don't understand  
his position & I agree with part of his  
position. But we have to look at it



in broader perspective - error + I think  
and would have a serious impact on  
world  
economy structure.

2 It is great shame to melt all year. I must  
you to know how greatly you are  
admired by a State + my people. I  
say that from a heart on his + my  
behalf.

I don't want to take your time, but  
2 yrs ago when prices were going up  
I talked to K + Sirim + would have gone  
to a case report there + would have  
helped. Best part is part.

Again, a ~~very~~ meeting on N-S have  
not gone well. There are people in this  
part who are not sympathetic.

Then under Johnson + early in Nixon  
administration, when Prices Fall, we proposed  
that oil revenues be set aside to buy  
industrial equipment on a long basis.  
The Cong objected to that too + it never  
came to fruition.

The decision on holding this meeting in  
Dec was accidental, based on a # of countries  
budgets. But I have talked to other  
Couns about postponing a meeting. I talked  
w/ HIM about it but it almost impossible.  
Had I been a figure letter to HIM



knowing I have rejected it earlier or not  
at all. The thing was not good. The  
State will have how much report he  
has for you + he would like to do whatever  
he could. Kent he said he could not  
propose a date change but would accept it  
if others do. On price, he said it  
inevitable would be an X but he prepared  
to be moderate. ~~Of course, we are~~ One  
of industrial M costs are ~~is~~ going up  
especially Civil Depart + pay. contract)  
Price of services has risen tremendously.  
Price per month has gone up from 3-4000  
to 12000-16000. But we do under-  
stand a part, but + we have been thinking  
10%. We think about setting <sup>10</sup> a certain  
% of each board to help a needy member.  
That failed ~~so~~ + we compressed on  
6000 mil for which we (C. Arab) gave 40%.  
Again, on a Agri fund, we have  
contributed about 400 mil + a depletion  
hasn't done too well. Then historically we  
have set aside about 7% of our GDP  
to helping world + our neighbors (lots  
who being helped).

We do understand the prob. The range of  
proposed 7 is from Algeria at 40% - that  
would be nice. I Arabia publicly says  
~~vvvv~~

5% about they are trying to be white knight.  
There will be one. What would be  
moderate.

P The only way in an insurance world  
clear is no P.

Z That is not possible

P I am talking you a facts. Any insurer  
would jeopardize a recovery + the P would  
be a short time over. The next best  
would be a delay. Is that possible.

Z Now, about injunctive. If early in a  
fall - when K + I were going about it -  
~~to~~ you had asked for launch, it could  
have been easy. But K would wait till  
after election.

I know how you spoke up for Ives  
+ a. I think is deeply grateful.

I don't believe any of the Open Committee  
would agree to a delay because it would  
look like they feared to.

P That why I am willing to come in  
quietly. I want no confrontation +  
that why this meeting private.  
You say a delay as a no P is not  
of question. Street as/c Injection 400  
That would be catastrophic.

Z Just are talking 20-25%.

P That would also be catastrophic. Also,

maybe you can address it in more detail.

6 I think it a fact that a world has not yet adjusted to a earlier  $r$ . The early very strong  $r$  was very destabilizing. It was possible to accumulate debts as well as we did because there was considerable lending flux, both among borrowers & lenders. Now, however, that ~~the~~ flux has diminished. The world financial structure is now stretched thin. What is wrong in a strong industrial countries is a lack of confidence. That is a basic reason for a panic. The reason for confidence gap is a huge  $r$  in debts. The overshooting of an oil price  $r$  adds greatly to that lack of confidence. An price  $r$  would have a very beneficial effect <sup>on</sup> a world. It would bring us together & ~~start~~ <sup>help</sup> a world economy <sup>to</sup> move again.

I agree w/c that oil is scarce has to be priced against everything else. It is a matter of time, all forms take time & tremendous investments. Since it a matter of pay confidence, there is no such thing as a moderate  $r$ . And a pay benefit of  $r$ , in face of all a current prices, would be substantiated.

1 Just one more thing, The rate, in several countries, is very serious. Take Italy. They having serious economic problems but at bottom it is political. If a government collapses, there will be chaos in a country. In France, a crisis is very potential serious w/ strong credit fears. In part a crisis is very serious, w/ a government just hanging on + a threat of a collapse. In Spain also, there are making great progress, but it still fragile. That's why I even talk to us + a delay. Any  $\pi$  adds to a danger of a financial crisis, a failure in some parts, + a danger of a credit crisis.

2 I think there is no doubt there will be an  $\pi$  up after a  $\pi$  still  $\pi$  in this country. Many people are now speculating 2-15%. We would not accept a big increase. There will be an  $\pi$ , but we can ensure we start a security net in Euro. Less severe was there must have important Euro is a danger of being isolated. That's why we giving bilateral help to Euro zone.  $\pi$   
The price of oil is about 1/2 in US + about 1/2 in Euro. Unless people get a shock, they won't realize we have to search forward. We have plenty of oil.  
I spoke in Mexico w/ L.P. about a great

how he has forgiven

P A very impressive

Z W & cannot let anyone else. Some are going to help them. Our Miss Finney going there in Jan.

I think if nothing unusual happens - & c. Shuk hasn't told me so I'm guessing - it would be about 10%. Highest 15% & we would fight anything over 15%. Less than 10%, I don't know but I honestly don't think so. The Shuk ~~promised~~ said I could promise you he would be moderate & very moderate. I will repeat this over & over. But c. Shuk understands, he has great feeling for you & for c. v.s. And I feel very strongly about c. v.s. & our relation. Anything I can do I would like to

P I agree. That & I know it true, & please express my admiration & affection for him. I hope that great influence he has will be channeled toward a very moderate &

Trust every I that we could talk together this way or other friends.

Z I will tell him again. You & Mrs. Fred have an invitation to June. I hope you to come as many times as you can & stay as long as possible. You are a great

man + no love you in or out of office.  
P I am very grateful + we would not  
send them to take advantage  
of your very kind offer.

