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DEPARTMENT OF STATE
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MEMORANDUM FOR: The Honorable William P. Rogers
Secretary of State

1. Following our discussion Monday of the current seeming impasse between the Shah and the companies, I have spent some time talking to [REDACTED]

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[REDACTED] This memorandum about his impressions is solely for your information.

2. [REDACTED] saw the Shah on [REDACTED] to discuss a number of points related to the overall United States [REDACTED] position in Iran and to inform the Shah that he would be in Washington this week.

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3. The Shah said that there was one point which he wished [REDACTED] to understand very clearly: that he would not discuss his essential position on what would be done with Iran's oil with me or any other representative of the United States Government whose objective was to influence him to modify it. He said that this is not the proper role of government as has been recognized by the United Nations. The U. N. has also made clear that the way in which a nation handles and disposes of its natural resources is its business alone. After further conversation during which [REDACTED] sought to insure that he had as precise as possible an understanding of what the Shah meant, [REDACTED] asked whether the Shah's position as outlined in his speech to the National Congress could accurately be characterized as "non-negotiable". The Shah replied affirmatively, adding that he was entirely unable to understand why both the companies and the United States Government did not recognize that the arrangement which he offered was one which would fulfill the major United States objective of insuring a free and predictable flow of oil to the West at reasonable prices and at the same time relieve the oil companies of the need to make substantial investments in physical plant and exploration. As he had said in his speech, good customers traditionally receive prices advantageous to them. As to compensation, his intention was not to confiscate -- although he could if he wished -- but to pay just and reasonable amounts to the companies in reimbursement

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for their investment. Also, the purchaser-seller relationship once established, would eliminate for all time the kind of crisis-type negotiations which have characterized the Iran-consortium relationship and have on occasion led to a serious erosion of the relationship of his country to its Western friends.

4. [REDACTED] asked the Shah whether he could identify what aspects of the purchaser-seller relationship were giving the companies trouble. The Shah said he thought it had something to do with taxes, at least in the case of the United States companies. If taxes were in fact a major problem, he could not see why appropriate modifications could not be made to the United States tax structure. After all, the energy problem of the United States and the world is clear enough. Iran can and will provide oil at reasonable cost and with greater predictability than most other producers. Iran cannot, however, take care of problems which are properly those of the United States Government.

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5. The Shah went on to say that to equate Iran and Saudi Arabia in terms of their respective abilities to manage their oil resources is both absurd and confusing to a realistic assessment of his position. "Participation" is both appropriate and necessary to Saudi Arabia given her present stage of development. Certainly the Saudis recognize this. On the other hand, "participation" is neither appropriate nor necessary to Iran. Iran would retain some "technicians" presently employed by the consortium and perhaps hire others. However, the number required is in no way comparable to Saudi Arabia's requirements -- to say nothing of the requirements of Kuwait and Abu Dhabi. To argue then that for the consortium to take advantage of his offer would be to risk upsetting agreements reached with Arab producers is, in his view, specious. So, too, he thought, would be any legalistic argument to the effect that he was arbitrarily abrogating a contractual agreement to which the other parties had rigorously adhered. He had frequently made the point to the companies that appropriate steps had to be taken to implement secondary recovery and other "conservation" measures. That they would do so was explicit in last year's agreement. To date they had not taken such steps, as he had "told his people" in his speech.

6. The Shah said that he had no intention of coming out second best to Dr. Yamani. He said that the companies had seriously misled him last year during discussions in St. Moritz when they

"promised" him that they would not go above twenty percent participation. The Shah went on to say that he was convinced that his way -- the purchaser-seller arrangement -- is "the way of the world today". Existing contractual arrangements are already anachronistic in some instances and will become increasingly so.

7. It should be noted in connection with the Shah's sensitivity about his and Dr. Yamani's respective positions that the United States Government through Ambassador Farland has formally assured the Shah that this would not be the case, i.e. that Iran would not come off second best.

8. It is perhaps worth noting at this point that in recent years, when the Shah intends to do something which he considers significant in terms of his (somewhat different) relationships with the United States and Britain, he has taken pains to make his intention clear and has on the whole done what he has said he would do. Not long before his occupation of the Tunbs and Abu Musa he remarked that he had made every effort to avoid a situation in which -- after he had done what he said he would do -- the British would say, "Why did you not tell us you were going to do that?"

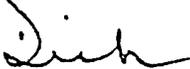
9. [REDACTED] believes that since the Shah has stated his position to his people and both the Senate and Majlis have endorsed it (whether pro-forma or not is unimportant), it is very difficult to see how -- or for that matter why -- he could or should change it.

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10. [REDACTED] concludes that the Shah is saying that while his basic position is not negotiable and he will find anything that savors of government intervention to change it intolerable, there are areas within the basic framework which are negotiable: for example, prices, the nature of price to world price index relationship, bases of reimbursement of investment, continuation of company personnel on contract to MIOC, amounts of capital to be contributed. There may be others. In any case, it is in these areas that productive discussions between the Shah and the companies appears possible.

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11. Copies of this memorandum have been sent to Mr. John Ehrlichman, Assistant to the President for Domestic Affairs, Mr. Henry Kissinger, Assistant to the President for National Security Affairs, and Mr. Peter Flanigan, Assistant to the President for International Economic Affairs.


Richard Helms