

Washington, December 7, 1976, 10–11:23 a.m.

Negotiation About Oil Price

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

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



President Gerald Ford and Mohammad Reza Shah Pahlavi
Reviewing Troops, Whitehouse South Lawn

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.

An increase would also have a serious impact on our capability to help the developing countries. If economic conditions here don't

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

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



Amb. Ardeshir Zahedi with Betty Ford and President Ford

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

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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



President Gerald Ford and Amb. Ardeshir Zahedi

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.⁶

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.