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DEPARTMENT OF STATE

Memorandum of Conversation

DATE: October 10, 1973

SUBJECT: The Middle East Conflict and U.S. Oil Interests

10/16/73

PARTICIPANTS:
Mr. Kenneth Jamieson, Chairman of the Board, EXXON
Mr. B. R. Dorsey, Chairman of the Board, Gulf Oil
Mr. James E. Lee, President, Gulf Oil
Mr. Herbert Hanson, Vice President, Gulf Oil
Mr. Nestor Ortiz, Washington Representative, Gulf Oil
Mr. Kenneth Rush, Deputy Secretary
Mr. William J. Casey, Under Secretary for Economic Affairs
Mr. Willis Armstrong, Assistant Secretary for Economic Affairs
Mr. Rodger P. Davies, Deputy Assistant Secretary, NEA
Mr. Michael Samuels, Executive Assistant to the Deputy Secretary
Mr. Brooks Wrampelmeier, NEA/ARP

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The Deputy Secretary began by remarking that the current oil company negotiations with the OPEC governments in Vienna appear to be pretty rugged. Mr. Jamieson agreed, saying that the companies are between the rock and the hard place at this time.

Mr. Dorsey said he had requested this meeting with the Deputy Secretary because he was disturbed by a cable received from Kuwait this morning. A Kuwait Oil Company (KOC) representative in Kuwait had talked to Minister of Oil and Finance Atiqi regarding the latter's initiative to hold an emergency meeting of Arab Oil Ministers to discuss the role of oil in the present Middle East conflict. Atiqi confirmed he had sent messages to the other Ministers and was awaiting their responses. Atiqi had then become sharply critical of the U.S. stand on the Middle East conflict. Atiqi's message was: Don't force us into something drastic; do not compel us to act prematurely against U.S. oil interests; the West must leave us alone and not intervene against the Arabs. The KOC official reporting this conversation believed that one U.S. move considered unfriendly

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by the Arabs could severely jeopardize Gulf Oil's interests in Kuwait. However, a U.S. gesture considered friendly could help greatly to reduce the pressures on the Kuwaitis to act against U.S. interests.

Mr. Lee said that he had been in Kuwait during the 1967 war. He had met with Atiqi many times during that crisis and was familiar with his thought process and that of the Kuwaiti Government. The Government gives considerable weight to pressures from the National Assembly. Mr. Lee said he was worried that in this charged-up atmosphere one move, such as an announcement that the U.S. is sending replacement aircraft to Israel, could lead to legislation overnight nationalizing Gulf oil interests. There could then be no return from that step. Continuing, Mr. Lee said that in 1967 KOC operations had been shut down by a strike. The company had then told the Kuwaiti Government that it could no longer ask its U.S. and UK expatriate employees to keep the oil fields operating at the minimal level required to provide natural gas for running the Kuwaiti desalination and electric power facilities. After three days, therefore, the Kuwaiti authorities had told the workers to go back to their jobs.

Mr. Lee believed that the festering Middle East situation since 1967 has increased the pressures on the Kuwaiti Government to act this time. There was the weight of parliamentary and public opinion on the ruler for whom the question was one of survival of the Sabah family. If Kuwait nationalized U.S. oil interests, the Saudis will take a move of some sort also. The situation is critical. While Minister Atiqi may be speaking emotionally, his is no idle threat. Mr. Dorsey added that we survived the 1967 crisis but now the Arabs have the oil companies at their mercies. Gulf Oil interests had already come close to nationalization in Kuwait once before when Iraq nationalized the IPC. At that time there was sentiment in the Kuwait National Assembly for following the Iraqi example rather than that of Saudi Arabia. Mr. Dorsey was convinced that any U.S. action now that the Kuwaitis see as unfriendly will result in nationalization. Mr. Dorsey had recently been in Kuwait and had met there with the Amir and with the Prime Minister. They had implied that Minister Atiqi speaks for the Government of Kuwait on oil matters.

The Deputy Secretary agreed that the longer the conflict goes on the more dangerous the situation becomes. Prolongation of the fighting is undesirable. The Arabs, he noted, are fighting better now than they did in 1967. The conflict has dealt a blow to two myths, that of Israel's inevitable military superiority and that of the Arab's perennial inferiority. The U.S. is trying to keep the Soviets out of the situation while maintaining our own position in the Arab world. The Deputy Secretary said that he considered the views expressed by Mr. Dorsey to be important and would see that they are given every consideration.

Mr. Jamieson reported that Saudi Oil Minister Yamani had told EXXON's George Piercey, who is representing the oil companies in the talks with OPEC in Vienna, that the Secretary had sent a message to Faisal asking Syria and Egypt to pull back to the October 6 ceasefire line (sic). Faisal, Yamani said, was "absolutely infuriated" by this message. Yamani said that the Saudi Arabian Government, and he personally are taking a large risk in trying to make any deal with the oil companies at this time. Yamani then gave the company negotiators until 5:00 p.m. Vienna time on October 11 to accept the governments' demand for a 100% increase in Persian Gulf posted prices (from $3 to $6 per barrel) or face unilateral action by the governments. Yamani said that if the companies fail to act by this time he was not sure that the Arab oil ministers would remain in Vienna through the weekend.

Mr. Jamieson said that the companies are currently discussing a possible counteroffer that would increase the posted price by $2 per barrel, or 2/3 or Yamani's request. The companies are not yet sure whether to propose this counteroffer or to allow the producer governments to act unilaterally. Particularly among the European companies, there is some sentiment to do nothing and let the governments act unilaterally. Industry representatives would be meeting in New York on October 11 to consider their response to Yamani. Jamieson noted that the 100% increase in the posted price requested by Yamani would yield the Saudis $7 1/2 billion a year. In response to a question from Mr. Casey, Mr. Jamieson said that the net result of such a price increase would be for the government-oil company profit split to become 85-15. He wondered whether consuming countries could permit the companies to pass such price increases along.

Mr. Jamieson said that on the political side Yamani had also stated that soon there will be only one oil price. Yamani warned that the Saudi Government may soon limit production to 7.2 million bpd. This production level would then be cut back further at a rate of 5% per month until Israel gives up the occupied territories. The companies would then be begging for oil which would be sold at only one price. Jamieson said that Yamani speaks for King Faisal.

The U.S., he continued, cannot stand any curtailment in Saudi production now since there is only 1-1 1/2% spare production capacity available. Already oil exports have been cut back from Syrian ports because of the war and from Sidon because Tapline throughput is running at about half of its capacity. In response to the Deputy Secretary's question about the impact of Iraqi nationalization, Mr. Jamieson said that his company had lost 150,000 bpd. This is further aggravated by the fact that this was short-haul crude and there are no tankers available.

Mr. Dorsey commented that if Kuwait nationalized American interests in KOC, Gulf Oil will lose 1 1/2 million bpd (out of its 2 1/2 million bpd production). He feared that these oil resources would then come under control of French, Italian or Japanese interests. Mr. Jamieson remarked that the U.S. stands a risk of being isolated with its Middle East oil supplies frozen.

The Deputy Secretary agreed that this was a dangerous situation. The U.S. Government is fully aware of it and is seeking to avoid it. Referring to Ambassador Scali's statement in the UN Security Council, the Deputy Secretary said that when we mentioned a ceasefire on the basis of the status quo ante bellum we thought it would actually favor the Arabs since they appeared certain to be pushed back behind the existing ceasefire lines when the Israeli counteroffensive got underway. As of now, however, the military situation is uncertain.

Mr. Dorsey said that unless the U.S. makes a statement comparable to that made by the British Government (that it would ship no arms to the Middle East), the emotional reaction in Kuwait will grow. The Deputy Secretary agreed that this was indeed a possibility.

Mr. Jamieson said that King Faisal has said consistently that the U.S. must do something positive to bring about a Middle East settlement. The King would not be satisfied with the sale to Saudi Arabia of a few Phantom aircraft. The Deputy Secretary hoped that out of this conflict we will get a better negotiating atmosphere. He agreed that in the meantime there is a danger we may get rash actions in the Persian Gulf. Mr. Dorsey added "and in Libya." The Deputy Secretary said that we are already in a bad situation in Libya. However, Qadhafi has not said very much since the fighting began. Mr. Jamieson felt that a pro-Israeli gesture by the U.S. could trigger some action by Qadhafi. Mr. Dorsey agreed, saying that Qadhafi's mind is such that he might rush in even before the other Arabs to take action against U.S. interests. The Deputy Secretary commented that Qadhafi is not now the savior of the Arab world; Sadat holds the limelight. King Faisal and Hussein are the keys to the situation.

Mr. Dorsey thought that if Kuwait acted against Gulf Oil interests, Saudi Arabia may go right ahead and severely limit its oil production. He pointed out that Saudi Arabia is the only possible source for additional oil over the next decade. By 1985 some 50% of U.S. oil consumption must come from Saudi Arabia. The problem is, therefore, not a short-term one but one of 12-15 years' duration. Coal, nuclear energy, and exploitation of alternative sources of oil in East Asia just cannot get us around this problem in the next 10 years. Mr. Jamieson concurred, noting that it takes 7-8 years to bring a new oil field into production.

The Deputy Secretary remarked that today the high price of oil gives countries like Saudi Arabia and Kuwait less incentive to keep production growth up. Mr. Dorsey observed that Yamani's proposed posted price increase would be a further disincentive to production growth.

The Deputy Secretary said that we are very conscious of this situation and very concerned about it. Mr. Jamieson urged that if at all possible the U.S. must avoid any overt act. Mr. Lee said it is also important to avoid public statements which are often quoted out of context and misunderstood by Arab oil officials. Everyone needs to be very careful about what he says. The Deputy Secretary said that the Department is being very careful about its public statements. He pointed out, however, that it is impossible to control what is being said elsewhere, including on Capitol Hill. Mr. Dorsey thought that Atiqi and other Arab leaders remember what is said in Congress. Mr. Jamieson observed that the oil companies have a problem in communicating with Congress which is always suspicious of their motives. It is important to get across to Congress that it is not just the question of the companies losing some profits but of their access to oil.

The Deputy Secretary said it was unfortunate the war came at a time when we are already facing energy problems. It was helpful to have the views of the oil companies at this time. They could be assured that matters are being handled very carefully. Mr. Dorsey hoped that the U.S. Government could make a positive statement similar to that of the British. The Deputy Secretary pointed out that the U.S. has a unique relationship with Israel and that there is considerable support for that relationship in this country.

Mr. Dorsey asked what could cool a situation like this. The Deputy Secretary said that Israel had foregone undertaking a pre-emptive strike before October 6. As a consequence it does not now have complete dominance of the air over the west bank of the Suez Canal. The Syrians are also putting up quite a fight. Israel is concentrating its efforts on the Golan Heights. He thought eventually the Israelis would be successful militarily.

Mr. Jamieson said that the U.S. cannot win no matter what happens on the ground. The Deputy Secretary said we can only seek to curtail the losses. Mr. Dorsey asked if either side was likely to sue for a settlement. The Deputy Secretary did not see this as likely now. Israel's manpower losses are high in proportion to its population. There is a strong desire in Israel for revenge. The U.S. cannot control the situation. It can try to limit the consequences. Meanwhile, the Soviets continue to be pouring arms into Egypt and Syria.

Mr. Jamieson said he had that afternoon heard a report that an Israeli plane was being loaded with munitions in the U.S. The Deputy Secretary said that it will be very difficult to prevent such stories from circulating. Mr. Davies called attention to the President's October 10 statement that the U.S. intends to be scrupulously fair to both sides. Mr. Dorsey asked what would happen if Israel were close to a military defeat. Mr. Davies said that as he had told the Yemeni Ambassador earlier that day there is growing evidence of a massive Soviet resupply of aircraft and ammunition to the Arab states and this will put great pressure on the U.S. to resupply Israel.

In conclusion the Deputy Secretary again assured the company representatives that he regarded their views as important and that he appreciated their bringing them to the Department's attention.