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U.S. DEPARTMENT OF STATE
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Intelligence
Note

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To : The Secretary
Through: S/S
From : INR - Thomas L. Hughes *tlh*
Subject: IRAN: Showdown in Negotiations With the Oil Consortium
is Imminent

The two months moratorium agreed upon on March 10 at the first session of the talks between the Oil Consortium and Iran is ended and the all-important second round is scheduled to begin May 11. The "breathing spell" has been marked by intense behind-the-scene negotiations as each side has sought to shore up its position. At the same time, however, there has been genuine effort at finding a compromise solution and the gap between the two parties doesn't seem as wide as in March although serious differences remain unresolved.

Iran Requests Increase in Revenues. The basic Iranian position is that Iran must receive \$1 billion in oil revenue for the current Iranian year 1348 (March 21, 1969-March 20, 1970). The Shah has indicated that he is personally committed to the \$1 billion figure and that even \$5 million less will be unacceptable. By investing his own prestige the Shah has served notice that this demand is a fundamental issue in the negotiations. Thus the Consortium will be under intense pressure to satisfy this revenue demand in some manner.

Consortium Fears Escalating Demands. Consortium officials have flatly stated that \$1 billion from crude offtake alone is an impossible requirement to meet and that Iran must accept this position.

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They have, therefore, been thinking in terms of increasing their planned offtake revenue \$25 million above the \$900 million they were prepared to offer in March. The gap between this figure and the \$1 billion the Shah is demanding would be made up in the form of an advance cash payment to be repaid during the course of 1349. The Consortium is reluctant to be even this forthcoming since the oil companies fear that to satisfy the Shah's demands this year will merely whet his appetite for further increases in revenues in the years to come. However, the Shah may not consider this offer satisfactory.

The oil companies are especially worried over the level of projected oil revenues that the Iranian Plan Organization has postulated for the remaining years of the Fourth Five Year Plan. The Consortium claims that these projected revenue levels are completely unrealistic and that they are in no way obliged to meet them since the oil companies were not involved during the preparation of the Fourth Plan goals. Thus, one of the points which the Consortium has been insisting must be included in an agreement on the revenue level for 1348 is a reduction of these projected payments for future years. There is a strong feeling within the Consortium that little is to be gained by meeting the Shah's demands this year if similar crises are going to be encountered annually.

Breakdown in Negotiations Could Have Serious Consequences. If earlier crises in Consortium-government relations are any guide, a compromise solution will probably be found eventually. Should the negotiations break down or become stalemated, however, the impact

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could be far-reaching. The Shah has threatened several actions if his demands are not met. Prominent among these is a take-over by the National Iranian Oil Company (NIOC) of 50% of the Consortium's operations with the oil thus obtained being marketed by NIOC. Such a take-over would, no doubt, be unacceptable to the oil companies and they would take various counter-measures, probably including legal action. The dispute would be likely to draw in sooner or later the UK and the US as home governments of most of the Consortium members and thereby affect relations between them and Iran. The relationship between the oil companies and the governments of other oil producing countries could also be affected. Again judging by earlier experiences, however, it is not unlikely that other Persian Gulf oil-producing countries, such as Kuwait, Saudi Arabia and Abu Dhabi would try to take advantage of a conflict between Iran and the Consortium to increase their own exports and revenues. It is this prospect, incidentally, which might dissuade Iran from letting negotiations break down.

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