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By AB NARA Date 8/26/03

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DEPARTMENT OF STATE

Memorandum of Conversation

DATE: 10/26/73

Secretary's Conf. Rm.
5:30 p.m.

SUBJECT: Meeting with Oil Company Executives

PARTICIPANTS: Henry A. Kissinger, Secretary of State
 Kenneth Rush, Deputy Secretary of State
 William Clements, Deputy Secretary of Defense
 William Casey, Under Secretary of State for Economic Affairs
 Joseph Sisco, Assistant Secretary of State/NEA
 Thomas Kauper, Assistant Attorney General for Antitrust
 Julius L. Katz, Deputy Assistant Secretary of State/EB
 Harold Saunders, NSC Staff
 Leon Hess, Chairman, Amerade Hess
 Robert Anderson, Chairman, Atlantic-Richfield (ARCO)
 Louis Cabot, Chairman, Cabot Co. (District Gas)
 Ken Jamieson, Chairman, EXXON
 James Lee, President, Gulf
 Rawleigh Warner, Jr., Chairman, MOBIL
 Otto Miller, Chairman, Standard of California (SOCAL)
 Robert Dunlop, Chairman, Sun Oil
 M. F. Granville, Chairman, TEXACO

EXDIS REVIEW

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 with additional access;
 Cat. C - Caption and custody
 retained by S/S
 Reviewed by: AVK 2/8/74
 Date: 9/21 1977

PET 6-115
 XR POL 27
 XR PET 1-115
 RRAB-ISR

Kissinger: I thought the most useful thing for us to do today is for me to outline where the diplomatic situation is. I have certain fundamental questions about oil strategy, but perhaps it is best for me to put these questions to you and for us to meet again in three or four weeks when you have had a chance to consider them. Is that an all right way for us to proceed?

One thing I want to say about the immediate situation is that it does nobody any good to raise doubts about American foreign policy among those who are already jittery about it. Raising doubts cannot change our basic policy. Increasing uncertainty about our policy makes it only that much more difficult for us to achieve the objectives we have. Some comments I have seen made by oil company executives are an unmitigated disaster. It is bad enough to seek to

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 (Drafting Office and Officer)

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curry favor with the oil states but when this undermines our diplomatic efforts it is intolerable.

Our strategy starts from the fact that we are not hostage to Israel in the middle and long term. Once war broke out this time, we were forced into a position where we had to resupply Israel. But if we can keep our head down, I believe we are in a stronger position over the longer term than we have been at any time since 1948, in both Israel and in the Arab countries.

I do not want to go into the debate over whether more could have been done between 1967 and 1973 to produce a fundamental Arab-Israeli settlement. It is my view that Israel did not use the military supremacy it had to the best political advantage. But I do not want to debate that today.

The main elements in the new situation are that Israeli security is in question, on the one side. On the other, there is a romanticism about the Arab position which makes it difficult to negotiate a solution out of this present situation. All of the Arab foreign ministers I talked to want me to negotiate a peace and are trying to throw me into the breach. But I am not a prophet who can ride in from the desert on a white horse with a dramatic solution. The Arabs look at the four or five foreign policy successes I have had. They look at the results -- what happened on the last day -- and they want those results on the first day of their negotiation. What the Arabs have to know -- with all the sympathy in the world for their point of view -- is that they have to work with us on how to get from here to those results. The Arabs are personally very pleasant, but they have this vague romanticism which makes them very difficult to deal with.

This is essentially what I said to the Arab foreign ministers whom I saw in September and early October. I told them we would engage fully in a settlement. Prior to the crisis every foreign minister I talked to I told that it would be senseless to try a major initiative before the Israeli elections which were

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then scheduled for October 29. After those elections, I told them that if they were prepared to work seriously with us, we would make a real effort. I said the same thing to Eban.

Now, what was our policy during the war and where are we?

After the war broke out, it made no difference who was right. A victory by states perceived to be radical and armed by the Soviet Union would have had a disastrous impact on the U.S. position in the Middle East and globally. Our position of leverage would have been totally destroyed. Our role during the crisis had nothing to do with the merit of the crisis itself. Most of the Arabs with whom I have communicated seem to understand that.

In my communications with Ismail, the one theme I have followed persistently is that we might be on opposite sides during the conflict, but Egypt would need the U.S. in a settlement. I urged him repeatedly not to do anything to make a U.S. role in that process more difficult.

Because the Egyptians understood this proposition, they behaved moderately. We had more trouble with states like Kuwait who had less contact with us and who had less at stake. We maintained good contact with Saudi Arabia until the request to Congress for the supplemental appropriation to aid Israel. At that point, an emotional wave hit the Saudis. That did not work out. They are relatively new at this business of global diplomacy, and they reacted sharply.

We have paid a price for Arab romanticism. The Arabs were so surprised that they were able to maintain their forces on the East Bank of the Suez Canal, that they lost sight of their basic objective. If they had accepted our proposal of October 13, they would be in a good position for negotiation today. Once that failed, we matched the military equipment that the Soviets were putting in and put ours in more capable hands. Once the U.S. airlift began, the Soviets started moving. They invited me to Moscow and started pressing for a ceasefire as soon as they saw the Israelis were winning.

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Our purpose in stopping the war was to try to leave a situation which would be the best possible for the long term. If the war had gone on, Israel could have defeated the Arabs. The Soviets might have come in. Stopping the war now left a better balance for negotiation than if the Arabs had been totally humiliated.

The instability in the present situation is that the Israelis have trapped a whole Egyptian army. This creates constant pressures on the ceasefire. The experience of the last two days has been one of the harriest of my time here. There was a very real prospect that the Soviets would introduce forces of their own, and we faced them down. Soviet advisers are one thing. But if the Soviets had put in major military contingents, that would have created a totally new environment. All of your activities would be subject to a situation with which you had had absolutely no experience in the past.

The problem will be to get the Israelis to give up some of their present military advantage. They cannot force an army to surrender under conditions of a UN supervised ceasefire.

Beyond the present situation, we are in a better position for negotiations than at any time since 1948. Although the Israelis have won militarily, they have paid a tremendous price. They have suffered some 7,000 casualties, which would have been equivalent to some 300 to 400,000 casualties for us. They have found out that rapid spectacular victories are no longer possible and that in any war, they face a war of attrition which they cannot win over time. Our influence with Israel is greater than ever. They cannot go to war again without an open supply line from the U.S. They have to address what security they can now achieve by diplomacy.

On the other side, the Arabs have fought with honor. Although they have lost the war, they lost like normal countries; their forces were not routed this time. For their part, they must know that they can

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only get territory from the U.S. This dilemma is also apparent to the Russians. Everybody is coming to us.

Now, our strategy with respect to oil is that we will cooperate in a major diplomatic effort but not under pressure or blackmail. As soon as the ceasefire is stabilized, we will make this point to the key producers. We do not want to make it now because they are still concerned over what is going to happen to the Egyptian third army.

But we are going to start a diplomatic effort and link it to oil policy. This is in your interest. We recognize that we cannot play this along for five years, but we hope we can play it along for 6-9 months to give diplomacy a chance to work. I cannot tell you how the Saudis will react. I am confident how the Egyptians will react. When the ceasefire is firm, we will make formal approaches to the key countries explaining the diplomatic initiative we are going to undertake but making the point that we cannot operate under threat or blackmail.

The Arabs will have to learn to participate in a step-by-step negotiating process. On their side, the Israelis will have to learn that absolute security for them means absolute insecurity for someone else. Now they have the direct negotiations that they have been asking for for the last six years.

One thing I would say to you, gentlemen, is that it does not help this process which we are about to begin if your executives in the area keep wringing their hands. I read a telegram reporting a comment by a senior oil executive telling the Saudis that he was surprised they had waited so long to embargo shipments to the U.S. and agreeing with them that U.S. policy was stupid.

Jamieson: Was this in the Middle East?

Clements: Yes. I saw the telegram Henry is referring to, and I know the person involved. I am sure that Henry does not want to get into personalities, but the general point is that talking this way is not very helpful during a period of delicate diplomacy.

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Kissinger: I do not want to imply criticism of any individual. If I were a company executive in the Middle East and were faced with an American policy that was extremely distasteful to the people I was working with, I might feel the same way. But you can help us in one important respect. Tell your Arab friends that we are serious about trying to achieve a peace settlement but that they have to make an effort to move from here to there. But they have to engage in concrete steps and not just romanticizing. We can't go to the Israelis until the Arabs make a proposition that is realistic. You can help build confidence in us.

Now, on the longer term aspects of oil problems, for a year and a half everybody has been telling me that there is an energy crisis. Occasionally, we have had to help an oil company in trouble. What I have been trying to do is to see whether there is some concerted strategy that we all can follow together so we will not be picked off one by one. We need to enter negotiations as they arise knowing what we want. Theoretically, this is a supply-demand problem. But our ability to reduce the inequality between supply and demand is years away. The questions I have are: How do consumer nations deal with each other? How do consumers deal with producers? How should governments deal with oil companies? It would be good to have your ideas on the subject. Then we can meet again, perhaps in several weeks. We recognize that our interests may not always be parallel with yours. When you go into a negotiation, we should have a sense of what your relationship with us should be. If you want our help -- which we in principle are ready to give -- we need to have a strategy which we each understand. I am probably giving the Justice Department representative a heart attack.

Kauper: To the contrary. The more the government is a participant the less difficult the situation is.

Kissinger: I have other questions here which have been given to me. I can give you the list. I am just giving you the major questions which are on my mind.

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Jamieson: We recognize the overall strategy that you have been following. It is the only sound way to go at the problem. However, there are two problems for us: (1) How does the government fit into our activities over the longer term? We have actually had a long dialogue on this subject, but we have never really come to grips on it. (2) Now there is an immediate problem. There is a cutback in supply, and we should have no illusion about the seriousness of that cutback.

Kissinger: How soon will an impact become apparent?

Jamieson: Immediately, although the extent of impact will vary company by company. Hess may begin to feel it early in November. Those who have the longer supply lines to the Persian Gulf will begin to feel it in December, and by January it will be critical. Ultimately, the loss could be 2.5 to 3 million b/d. There are just no alternative sources of supply. That is the problem we face.

To put this back in a political context, it may be that the Saudis are naive and that Faisal has stuck his neck way out, but the problem is how to get him off the hook.

Kissinger: I have wondered whether the other Arabs might not help.

Jamieson: I just don't see what is going to be different enough this time to convince them.

Sisco: The beginning of a negotiating process will give Faisal one peg if he believes it is a serious effort. He should be very much impressed with the effort that is going to be undertaken. If he wants a way out, that should provide one to him.

Jamieson: The key is to convince Faisal.

Kissinger: You have to assume that we will make a major effort with Faisal. We will make every effort to build bridges to him. We cannot guarantee whether he will walk back over them.

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Clements: Henry is going to attack the problem with all of the resources at his disposal, and that means with all the resources available to the U.S. Government. Faisal will be impressed with the sincerity of this effort. He will be genuinely impressed. The question is how he will act then. Just for my information, don't you think that he is more afraid of the Soviets than of the Israelis?

Jamieson: Basically, But he is more fearful of the radical Arabs and of his own position.

Kissinger: Yes. As I see it, he is trying to forestall radical elements in his own country. I would say this as a gratuitous comment. I do not believe it is in his interest to push himself into the forefront of an Arab-Israeli settlement. Any settlement that is achieved will leave everybody a little bit dissatisfied. I think the Jordanians, Syrians and Egyptians ought to bear the responsibility for the settlement. Although we want them to survive, if all three of them go down the tube, that is not as bad as Saudi Arabia being lost.

You probably cannot influence Faisal very much, but for his own good I would encourage you to urge him to stay out of negotiations. It is in our interest and in his.

Jamieson: I agree. But what do we do to get Faisal out of his corner?

Kissinger: If we can just get the ceasefire firmed up, you will see in two weeks what concrete steps we are going to take. In the meantime, we cannot have an Egyptian army starving in the desert under a UN ceasefire. But I think the ceasefire will be straightened out. I do not promise success. But I do urge you not to contribute to the panic. The more you wring your hands, the better chance people have to upset our efforts. We do not want to operate in an atmosphere of confrontation. We are going to pursue our strategy in a conciliatory way.

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- Jamieson: The American public is just not geared up for the kind of crisis we face.
- Anderson: We do not have more than three or four weeks.
- Clements: Our purpose is to give Faisal some flexibility so that he can get himself out of the corner.
- Jamieson: If there is no movement on our side, there will be another dramatic move on their side. Either a further general cut in production or even nationalization of ARAMCO.
- Kissinger: You cannot affect what we do by commiserating with the Arabs. You can only make it more difficult. What we need now is for them to understand.
- Warner: The statement by one oil executive may be just one isolated incident. What has really affected attitudes in the Arab world are the press statements made here in Washington.
- Rush: Jack Anderson knew of this meeting.
- Anderson: Our trade publications are very well informed. The numbers that we are talking about will be published in the near future.
- Kissinger: We will make every effort we can to try to avoid giving the oil producers reason for further action. But if they go through with their cut, what can we do then? If they want Israel to go back to the 1967 frontiers by January 1, that will be impossible. If they want a serious move in a reasonable time, we can have a crack at it. The Israeli elections have been put off now until December 31. The opposition in Israel is to the right of the government. This is an Arab problem as well as ours. There will have to be the beginning of a negotiating session before that. But it is difficult to see major progress.
- We hope this will give Faisal a way out. We will talk to him very realistically about what we can hope

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to achieve and what we cannot expect to achieve in a limited period of time.

Jamieson: If we could do something for Faisal -- something he could take credit for -- that would help him immensely.

Kissinger: You are talking about Jerusalem.

I suggest that we meet again in 3-4 weeks. By that time our diplomacy will have unfolded. This may help to address the immediate problem. The question is where are we if the worst happens.

Jamieson: We will have to face up to the problem of consumer rationing. In World War II rationing reduced demand by about 6%. What we are talking about is the possible breakdown of the economy.

Clements: We are talking about a possible 18%. This could be a true disaster.

Kissinger: The problem is that there is no substitute for the Arabs trusting us. I could have Joe Sisco write a plan for peace overnight and we could publish it tomorrow, but in two weeks it could blow up and everybody would be angry with us. What we have to do is to move this thing ahead gradually.

Granville: We in the industry can perhaps help somewhat more if you could revamp the industry's supply committee. Then certain steps might be taken.

Jamieson: Any steps the U.S. takes will connote strength. They will suggest that we are working to resolve our problems.

Casey: We have to get together on our numbers. We do need a mechanism for doing this. It does seem to me that before the diplomacy could get moving, the Saudis might nationalize. It might be worth revitalizing the Foreign Petroleum Supply Committee.

Kissinger: We will do that next week. I think we will know more in three weeks whether what we are going to do diplomatically is enough to persuade the Saudis.

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They are certainly the key on the supply side. If the first phase of our diplomacy fails, we are in trouble. On the other hand, if they inflict a cold winter on us, there will be less incentive for us to continue with diplomacy. They have to understand ~~how~~ we will operate.

Warner:

There is a group of ARAMCO executives going to Saudi Arabia in ten days. This is the Board of ARAMCO. They are leaving for Saudi Arabia on November 6. Is there any problem with their going? In the normal course of things, they ought to go. It would be difficult to explain why they were not going.

Anderson:

We are six weeks from a true disaster. I understand the need to play it cool. But we are going to have to alert our customers in about two weeks to what lies ahead.

Kissinger:

Everyone is playing chicken here. If they do their worst now, they lose leverage on us in the future. But we will know in a couple of weeks whether the Saudis will listen to a rational plan.

Dunlop:

We need to know what we can say. We also need to be sure that the Cost of Living Council will not throw further impediments in our way.

Clements:

The trade journals are as knowledgeable as the U.S. Government about the shortfall that we can expect. This knowledge cannot be kept from the public.

Kissinger:

Our immediate problem is to reverse the situation. We have to do this in Saudi Arabia. Also, our public does have to know what lies ahead. The Saudis use the request for a supplemental appropriation for Israel as the pretext for their cutbacks.

Jamieson:

They have all the cards.

Kissinger:

On the other hand, I have never seen a negotiation succeed where one side shows excessive eagerness.

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- Miller The key is to convince the Saudis that their pressure will be counterproductive.
- Jamieson: Should the ARAMCO principals go to see Faisal?
- Kissinger: Not yet. We will tell you when the timing is better.
- Clements: The ARAMCO Board that is going to Saudi Arabia in a few days would not normally see King Faisal. They are at a lower level.
- Kissinger: I can see an advantage of having the ARAMCO principals talk with Faisal at some point. But let us tell you the time. Your disadvantage now is that you are supplicants. I can see the advantage of some hand-holding after our initial approach is made. The point then could be a low key one that there will be serious follow-up. I will discuss that with you (Jamieson) on the telephone at the end of next week. At that time it will be more apparent how we are moving. After we have determined where we are in the short term, then we can see where we are going in the long term.
- Jamieson: This has been a valuable discussion. We have been waiting for it for a long time. We want to cooperate with you.
- Anderson: I guess the message is to stay cool.
- Kissinger: In any approaches that we make, we do not want to single out Saudi Arabia. We think it best to wrap their problem into the problems of other producers.
- Lee: I have one other appeal. While you are romancing Faisal, bring Kuwait in also. I was in Kuwait when we went through this in 1967 and they felt very much left out. They are feeling the same way now.
- Clements: They are vulnerable to these approaches. You can do a lot by just talking with them.
- Anderson: What shall we tell the press about this meeting?

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Kissinger: Let's say that we had a general discussion of the situation in the Middle East. You can say that the State Department requested the meeting.

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