

MEMORANDUM

OFFICE OF THE VICE PRESIDENT  
WASHINGTON


~~SECRET/SENSITIVE/EYES ONLY~~

INFORMATION

Memo No. 42-79

January 11, 1979

MEMORANDUM FOR THE VICE PRESIDENT

FROM: Denis Clift   
SUBJECT: Foreign Policy Breakfast, Friday,  
January 12, 1979, 7:30 a.m.

Tony Lake and Peter Tarnoff have provided me with Vance's tentative agenda for the January 12 breakfast. They consider much of the following information to be sensitive, and they would not wish to be identified as the source. (C)

Iran

Vance and the President earlier this week proposed to Giscard that our former Ambassador to Afghanistan, Ted Eliot, meet with Khomeini at his French residence to urge that the holy man give his support to the Bakhtiar government. Giscard, in effect, overruled this saying the emissary should be French. This was agreed and the French emissary was scheduled to meet with Khomeini on January 11. Vance may have a report by the time of the meeting. (S/S)

Middle East

We are still attempting to work out the level and the site for the next Israeli-Egyptian-US talks. Vance's current thinking is to bring Dayan and Khalil here later this month, and then have a Vance mission to the Middle East in mid-February. (S)

SALT

Based on Vance's most recent meeting with Dobrynin, State believes the Soviets want to conclude the negotiations and move ahead with a SALT II agreement. It is against this background that the SCC meeting has been called immediately following your foreign policy breakfast to consider the US SALT position. This should be an important meeting. (S)

~~SECRET/SENSITIVE/EYES ONLY~~  
Classified by A. Denis Clift  
Review on January 11, 1999

DECLASSIFIED  
NLIC-2006-076  
per 7/4/06 NSC/HR  
EX-10 NARA, DATE 7/21/06

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Cambodia/Vietnam

Secretary Vance will meet with Sihanouk. The US is faced in the UN with the question of whom to acknowledge as the rightful representative of Cambodia, and this, in turn, risks putting us in the position of seemingly tilting toward either the USSR or the PRC. (S)

You should ask Vance and Zbig for an update on the situation in Thailand. The changes in Indochina have given added importance to Prime Minister Kriangsak's visit in February. (S)

Mexico

Vance may raise the issue of US policy on gas and oil from Mexico, recommending that we agree within the Administration now that the issue will not be settled before or during the President's summit talks with Lopez Portillo and that we make this information public. State seems clearly unhappy with Schlesinger's negative statements about oil and gas from Mexico. They may make sense in terms of immediate energy considerations, but they are damaging to broader US-Mexican interests. (S)

CTB Negotiator

Vance is still weighing names for the US CTB negotiator. He may report on this. It is my understanding that Dick Clark is one of the candidates but that Clark would like to be Refugee Coordinator. The Senator may have mentioned this during his recent meeting with you. (S)

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MEMORANDUM

OFFICE OF THE VICE PRESIDENT  
WASHINGTON


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INFORMATION

Memo No. 69-79

January 18, 1979

MEMORANDUM FOR THE VICE PRESIDENT

FROM: Denis Clift   
SUBJECT: Foreign Policy Breakfast, Friday,  
January 19, 1979

I am sure Secretary Vance will touch on Iran, the Middle East, US-USSR and US-PRC relations. We are at a point where we should also give careful consideration to the domestic aspect of several foreign policy issues. Vance may raise these during the breakfast from the foreign policy viewpoint. (C)

PRC Normalization - The legal issues with Taiwan are extremely complicated, probably involving years of court cases, and it is State's reading from the Hill that there will be a bitter debate. Vance may indicate that he is asking Warren Christopher to play the same Congressional role on Taiwan that he did on Panama. You may wish to suggest that it would be helpful if, as in the case of Panama and other key issues last year, you have a series of working luncheons on the Hill, with Warren present, to discuss Taiwan with members of the Senate. (S)

Mig 23s in Cuba - As you have seen from the cables, there clearly are Mig 23s in Cuba rigged for a bomber role, and the Soviets have rejected our demarches on their removal. State has had a number of Congressional inquiries which it has been fending off. Unless this is managed carefully, we risk having it become a major domestic/Congressional issue as 1980 approaches (reminiscent of Senator Keating and Cuba in 1962). This is also an issue which risks dividing the bureaucracy. With the Brezhnev summit coming up, attention should be focused on this problem and a careful strategy should be developed. (S)

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Classified by A. Denis Clift  
Review on January 18, 1999

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NLJC-2006-076  
per 7/11/06 NSC/IF  
BY CS NARA, DATE 7/21/06

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Nicaragua - As you know, Somoza has basically rejected the mediation proposals. From the foreign policy viewpoint, there will be considerable pressure to start taking action against him. Again, there is an adverse domestic spin here. Somoza has strong supporters in the Congress. They will oppose our actions, saying that, once again, our basic grudge seems to be that he is anti-communist. This, in turn, can be expected to have an adverse impact on Panama Canal implementing legislation and foreign assistance legislation. Again, a strategy that takes into account domestic as well as foreign policy problems will be required if we are to manage this properly. (S)

Mozambique - We have had reports that Mozambique is seeking military assistance from Cuba as a result of Rhodesian raids. This is sensitive. In many ways it evokes memories of Angola. It will require careful management. The Chinese, as you know, have been active in this part of Africa -- you may wish to ask Vance what options we have for discussing this problem with Deng. We should also be looking at the problem in terms of upcoming talks with David Owen at the beginning of February. (S)

Portugal - I have obtained a bootleg copy (Tab A) of Secretary Vance's memorandum to the President requesting the President to approve an additional \$20 million (an increase from \$120 to \$140 million) to successfully conclude the Azores Base Agreement for nine years - and to approve an additional \$21.2 million in MAP for Portugal. If ever there were a case where a modest amount of increased funding will further strategic US interests, this is such a case. Just last week, after Spain turned down our request for an F-15 refueling stop by the squadron flying to Saudi Arabia, the Portuguese immediately approved such a stop in the Azores (echoing Spanish refusal and Portuguese approval of US flights to Israel in the 1973 war. Portugal is extremely fragile. She is on the right foot in her efforts to strengthen her democratic institutions. She is of strategic importance to us. Secretary Vance's recommendations should be approved. Without reference specifically to the attached memorandum, you may wish to note your understanding that we are at this decision point and to urge approval. (S)

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THE SECRETARY OF STATE  
WASHINGTON

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(with SECRET/EXDIS attachment)

January 17, 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: Cyrus Vance *CV*

SUBJECT: Request for New Authorization to  
Negotiate a Renewal of the Azores  
Base Agreement; Request for  
Additional Grant Military Assistance  
for Portugal

I am coming back to you for additional assistance to Portugal in FY 1980 in full realization that budget figures are already set. However, I strongly believe that the great importance of our aid relationship with Portugal warrants review. The unhesitating concurrence by the Portuguese for the use of the Azores base for the F-15 deployment to Saudi Arabia dramatizes the critical role of the base as well as the full cooperation we can expect from our present close relationship with the Portuguese Government (messages from Ambassador Bloomfield and General Haig are attached).

The purpose of this memorandum is twofold: (1) to secure your approval to raise our offer for a 9 year (1974-83) Azores base agreement renewal from \$120 million to \$140 million; (2) to offer an additional \$21.2 million in military assistance for Portugal in FY 1980 outside the base agreement to sustain our present excellent relations with Portugal.

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GDS, 1/16/86

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NLJC-2006-076  
per 7/11/06 NSC/HF  
BY *GA* NARA, DATE 7/21/06

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You have already approved a \$120 million negotiating authority to conclude an Azores base agreement with the Portuguese. There are firm indications that the Portuguese Government is ready to conclude a base agreement. We think that it would accept \$140 million which we, DOD, and NSC find reasonable. This would be disbursed over the next four years. In a separate Tarnoff/McIntyre memorandum dated July 7, 1978 we set forth the rationale for this increase (attached). No additional funds are required in FY 1980 for this purpose. The FY 1980 budget contains \$30 million in military assistance and \$50 million in economic assistance for Portugal. OMB has earmarked the \$30 million as base military quid; \$15 million of the \$50 million can go to base economic quid.

This, however, would leave us with no Military Assistance Program (MAP) for Portugal in FY 1980 beyond the base quid; the Portuguese Government also expects us to continue a program of grant military assistance to develop the NATO-designated brigade - our initiative and the centerpiece of the modernization and depoliticization of the armed forces.

I therefore recommend that you raise the FY 1980 budget mark by \$21.2 million in MAP for Portugal.

The impact of these funds will be crucial for a number of reasons: (1) to help secure renewal of the Azores base agreement -- a vital link in our security system -- for a reasonable sum; (2) to sustain Portugal's still fragile democracy which is heavily dependent on us materially and psychologically; (3) to encourage the continued depoliticization of Portuguese Armed Forces while equipping them to become a credible component of the NATO force

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structure. The dividend from our assistance over the past three years has been substantial -- Portugal's emergence from a repressive dictatorship to a democratic government devoted to the economic betterment and human rights of its people.

If the additional funds are not approved: (1) the Portuguese Government may well withdraw its proposal and up the ante on the base negotiations in order to compensate - a speedy conclusion would become impossible; (2) the reduction in regular MAP (outside of the base agreement) from \$25.9 million in FY 1979 to zero in FY 1980 would send negative signals about our support for a depoliticized, NATO-oriented Portuguese military and for Portuguese democracy in general; (3) the disillusionment of the military could begin a downward trend in our relations which could lead to restrictions on the use of the base; (4) our oft-stated position to our NATO allies that they should contribute more not less to modernize the Portuguese armed forces would be seriously undercut.

We have examined the alternatives and find none to be feasible. An offer of \$21.2 million in a Foreign Military Sales loan rather than grant MAP would increase Portugal's foreign debt by that amount plus 9.4% interest. This directly contradicts the economic policies we and the International Monetary Fund have successfully urged the Portuguese Government to adopt to cope with its severe economic difficulties. Continuing budget stringencies argue against planning to provide for any MAP for Portugal after fiscal years 1980 and 1981.

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Recommendations:

1. That you authorize an additional \$20 million (an increase from \$120-\$140 million) to conclude the Azores base rights renewal agreement for the 9 year period (1974-83).

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

2. That you authorize us to offer \$21.2 million in FY 1980 MAP for Portugal in addition to the \$30 million MAP provided in the base agreement, the minimum necessary to maintain our excellent relations with Portugal.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

Attachments:

- 1 - Messages from Ambassador Bloomfield and General Haig
- 2 - Tarnoff/McIntyre Memorandum

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FOR THE SECRETARY  
FOR NSC - BPZEZINSKI  
FOR OMB - MC INTYRE  
~~FROM BLOOMFIELD~~

1. O. 12065: RDS-3 1/12/89 (BLOOMFIELD, P.J.) OR-M  
TAGS: OR-M PFOR PC  
SUBJECT: THE F-15 OPERATION AND FY 80 BUDGET DECISIONS  
1. THE PROMPT RESPONSE OF THE PORTUGUESE GOVERNMENT  
TO OUR ELEVENTH-HOUR REQUEST FOR THE USE OF LAJES FOR  
THE F-15 OPERATION WAS COURAGEOUS AND EXTREMELY FORTH-  
COMING. COURAGEOUS, BECAUSE THE FOREIGN MINISTER AND  
THE PRIME MINISTER WERE WELL AWARE THAT THEIR DECISION  
WILL PROVIDE AMMUNITION FOR PORTUGAL'S VOCAL COMMUNIST  
PARTY AND OTHERS ON THE EXTREME LEFT AND RIGHT TO USE  
AGAINST THEM AND MIGHT INCUR FOREIGN POLICY COSTS  
FOR PORTUGAL AS WELL. FORTHECOMING, BECAUSE WE WERE  
ASKING THEM TO MAKE A DECISION FRAUGHT WITH POTENTIAL  
POLITICAL REPERCUSSIONS ON EXTREMELY SHORT NOTICE AND  
THE COP COULD HAVE INSISTED AS A MATTER OF PRINCIPLE  
ON MORE TIME TO DELIBERATE AND CONSULT.

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PAGE 02 LISBON 00304 121232Z  
2. THIS INCIDENT DEMONSTRATES THE CRITICAL ROLE OF  
PORTUGAL AND OF THE TONE OF OUR RELATIONS WITH THIS  
COUNTRY TO OUR BROADER STRATEGIC CONCERNS. IT UNDERLINES  
THE IMPORTANCE OF THE PENDING DECISIONS REGARDING THE  
ADDITIONAL \$21.2 MILLION IN MAP FOR FY 1980 AND THE  
INCREASE IN THE QUID FOR THE LAJES AGREEMENT. IF EITHER  
OF THESE DECISIONS GOES AGAINST PORTUGAL, WE SHOULD  
NEITHER BE SURPRISED NOR RESENTFUL IF THE NEXT TIME  
WE WANT COP CONCOMITTANCE IN THE USE OF LAJES FOR A  
POLITICALLY SENSITIVE OPERATION, THE PORTUGUESE RESPONSE  
IS NOT AS FORTHECOMING.

BLOOMFIELD

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NLTC-2006-076  
per 7/11/06 NSC 1fr  
BY CS NARA, DATE 7/21/06

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The following is a message from General Haig received January 3, 1979:

- "1. I understand that a final decision on the MAP for Portugal is pending. In this regard I am concerned that any attempt to eliminate either MAP or the base rights quid by some combination of the two or an "either-or" approach is unrealistic and would be counterproductive in the extreme for U.S. and alliance interests. This message summarizes and reiterates arguments previously made in references as well as in various other messages since 1975 which advocate continuing Portuguese MAP, distinct from any Lajes quid, at the level of at least \$30 million per year.
- "2. Amb Bennett presented the case as eloquently as it has ever been made in his message of 5 Dec (ref D) in which he stated we can expect little support from allies if we do not continue Portuguese MAP. This would be most unfortunate since the Portuguese are on record in NATO as praising the reliability of the U.S. MAP - a quality as important to them politically and militarily as the actual materiel provided. As Amb Bennett noted, a fundamental alteration of MAP levels would send the wrong signals to allies and would come precisely at the time when European nations in direct response to the U.S. lead are at last beginning to make the legal and political moves necessary to assume a larger share of the assistance effort.
- "3. Implicit in Amb Bennett's message and explicit in my earlier ones as in those of Amb Bloomfield (e.g., ref E), is the practical impossibility of convincing the Portuguese that the U.S. was committing anything but a major breach of faith by attempting to combine MAP and the basing rights quid. These two entirely separate programs have always had separate objectives with the potential for even greater positive effect in the future at very modest cost. Admirals Kidd and Train (Refs F and G) have both noted the impact of losing use of Lajes which is so key to our ability to reinforce allied command Europe.

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"4. We see no way that the Portuguese military can be turned away from politics unless they have a non-political goal on which to focus. Since 1975 that goal has been orientation towards NATO's common defense. Realistically, this reorientation cannot be sustained without continued modernization of the obsolete Portuguese armed forces. Portugal has necessarily counted on U.S. MAP, other U.S. military assistance related to the Lajes quid, and NATO-wide military assistance through the Ad Hoc Group. Without all three, Portuguese force modernization will quite likely fail. In such an event, the Portuguese military can be expected to turn again to politics with only the most adverse results for the present moderate government in Lisbon. Alternatives could only be offered by the extreme right or extreme left. In this regard we should all bear in mind the fact that Portugal is not beyond the danger of another takeover by extremists. The U.S. has championed President Eanes and his moderates as a new regime which stands steadfast against extremism. We should not lose the hard won ground on which we have thusfar invested relatively little in the way of financial and other resources.

"5. In the case of vital U.S. national as well as alliance interests a MAP of at least \$30 million annually is needed separate from the \$60 million military portion of the Lajes quid which Portugal confidently expects of Washington. It is clear that failure to meet both "commitments" (as perceived by the Portuguese and our other allies) will quite likely destabilize the internal situation of Portugal and have consequences which will cost much more than \$38 million annually to undo -- if indeed those consequences can be undone. Haig"

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DEPARTMENT OF STATE

Washington, D.C. 20520

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July 7, 1978

MEMORANDUM FOR MR. JAMES T. MCINTYRE  
OFFICE OF MANAGEMENT AND BUDGET

Subject: Renewal of US Base Rights in the Azores

On June 10, 1977 your office advised that the President had approved a Department of State recommendation to offer the Portuguese Government \$120 million in grant economic and military assistance in return for a 10-year (retroactive to 1974) renewal of US rights to use the Lajes Air Base in the Azores. We presented that offer to the Portuguese Government on June 17, 1977 (see Tab 1).

Due to the domestic political crisis, which culminated late last year in a change of government, and because of continuing differences between the central government and the Azoreans, Lisbon was unable to respond to our offer until May 31 of this year. At that time the Portuguese made a counter-proposal for \$160 million in US grant assistance (\$100 million in economic and \$60 million in military assistance) in return for an eight-year renewal agreement. In addition, the Portuguese tabled several Azorean requests concerning labor relations at the Lajes base. We told the Portuguese that their proposal was not acceptable to us, that \$160 million was too much, and that eight years was too short a time considering that a renewal would be retroactive to February 1974.

Subsequently the GOP stated that \$140 million in US grant assistance (\$80 million in economic and \$60 million in military) would be acceptable to the Portuguese Government for a seven-year agreement. They also agreed that discussion on labor relations

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NLTC-2006-076  
per 7/11/06 NISC/tr  
BY LS NARA DATE 7/21/06

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at the base should be dealt with at the technical level and not be spelled out in the exchange of diplomatic notes which will comprise the renewal agreement.

Ambassador Bloomfield has recommended that we now present to the Portuguese a final offer of \$140 million for a nine-year agreement. We believe that an offer of that size is reasonable considering the virtual irreplaceability of the Lajes base and our interest in assisting the Portuguese economically and militarily. Ambassador Bloomfield believes that the Portuguese will accept such an offer.

The Department, therefore, requests the President's approval for a suggestion to the Portuguese, subject to annual authorization and appropriation by the Congress, that the US would be willing to offer the following on the basis of a nine-year extension of the 1951 Lajes agreement:

(Millions of dollars in each fiscal year)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>Totals</u>
Grant economic aid for the Azores	15	20	20	25	80
Grant MAP	30	30			60
Yearly rate	45	50	20	25	

Whether the economic portion of the agreement should be funded by AID or by Defense may be resolved at an appropriate time in the budget process. AID believes this item to be inappropriate for its budget but would be willing to administer such a program if requested to do so by State and Defense. State and Defense prefer the existing precedents, ie. reliance on SSA, MAP and IMET (military training accounts).

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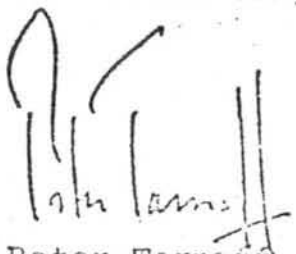
- 3 -

The assistance which we will provide, as a result of a base renewal agreement is only a part of our larger effort to help the Portuguese maintain and strengthen their fledgling democracy. The next few years will be critical for Portuguese democracy as the government attempts to contain rising popular discontent at a continued decline in living standards and satisfy a disillusioned military at the same time that it carries out tough IMF-mandated austerity measures. Therefore, State is considering recommending that economic assistance (including PL-480) and grant MAP be furnished to Portugal in FY 1980 and FY 1981 outside the context of a Lajes agreement. For OMB's planning purposes the following chart contains the Embassy's estimates of assistance which would be provided outside the context of a base agreement:

(Millions of dollars in each fiscal year)

	<u>1980</u>	<u>1981</u>
Economic assistance	100	77
PL-480 (Title I loans)	50	50
Grant MAP	20	20

However, final determination of proposed assistance levels will not be made until after completion of the annual ZBB exercise.

  
Peter Tarnoff  
Executive Secretary

Attachments:

- 1) Benson-Lance letter of April 21, 1977
- 2) Cutter-Benson letter of June 10, 1977

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OFFICE OF THE VICE PRESIDENT  
WASHINGTON


~~SECRET~~/SENSITIVE

INFORMATION

Memo No. 98-79

January 25, 1979

MEMORANDUM FOR THE VICE PRESIDENT

FROM: Denis Clift   
SUBJECT: Foreign Policy Breakfast, Friday,  
January 26, 1979

Your Visits to South America and the Nordic Countries

By the time of the Friday breakfast, telegrams will have been sent to our Embassies in Brazil and Venezuela advising that the President has asked you to head the US delegations to the Presidential inaugurations on March 12 and 15.

Telegrams will also have been sent to our Ambassadors in each of the Nordic countries and the Netherlands advising that you wish to visit these countries during the April 13-22 period and asking if this timing would be acceptable to the host governments. We will not have received a reply from any of these countries by the time of the breakfast.

MAP for Portugal

The President has approved the figure of \$140 million rather than \$120 million which should permit us to successfully conclude the Azores Base negotiations.

The President has expressed concern that on the question of MAP, our Ambassador has exceeded his instructions. The President has reaffirmed his desire to do away with MAP programs. He understands the importance of MAP for Portugal but has asked Zbig if it would not be possible to indicate that we will provide the \$21.2 million MAP in FY 81 rather than FY 80 (clearly he is concerned about changes to his FY 80 budget).

~~SECRET~~/SENSITIVE

Classified by A. Denis Clift  
Review on January 25, 1999

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ALJ-2006-076  
per 7/11/06 NISC/H  
BY LS NARA, DATE 7/21/06



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Secretary Vance can be expected (a) to take up the question of whether or not Ambassador Bloomfield exceeded his instructions, (b) agree generally with the President's position on MAP, but (c) urge that we move ahead with a FY 80 MAP program for Portugal. I concur with Vance given Portugal's fragile state, her helpfulness to us (e.g., permission for F-15s to land in the Azores), and the need for us to show strong support if her democratic experiment is to succeed. We have good reason to provide MAP in FY 80, and then tail it off or eliminate it in following years. There is also a domestic argument for proceeding in FY 80. If we successfully conclude the Azores Base negotiations and if we show continuing strong support for Portugal this year, the President can take major credit in the Portuguese-American community (and the political side of the White House should ensure that he does). The majority of Portuguese-Americans, as you know, trace their roots to the Azores. The Portuguese American community is concentrated in important Northeastern states including Connecticut, New Jersey and Massachusetts, as well as Rhode Island, and there is also a large community in California. Putting together a good package for Portugal this year makes sense in terms of taking credit later in the year and in 1980.

#### Nicaragua

The PRC will meet on Friday, January 26 to consider steps to be taken following Somoza's unsatisfactory response to the mediation team. State is eager to move ahead with firm steps against Somoza. It is my understanding that the President may be inclined to prefer continuing bilateral discussions with Somoza to see if it is possible to work out an acceptable compromise. (I personally tend to favor the resume bilateral discussions approach.)

NOTE: You are scheduled to meet with Bill Bowdler on February 1 for a detailed briefing on the Nicaraguan situation.

#### AID

It is my understanding that AID Administrator Gilligan has been asked to submit his resignation and that Vance is now considering possible successors. Vance may raise this at the breakfast.

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#### USSR/Cuba/MIG 23s and MIG 25s

The Migs-in-Cuba issue is going to be a growing problem unless we handle it with care. As you know the Soviets briskly dismissed our arguments about the Mig 23. State is now responding to Congressional correspondence with the line that we do not consider these Migs at their present levels to be a threat. The Soviets and Castro have served notice through various channels that the Mig 25 Foxbats will soon arrive in Cuba. Interdepartmental assessment of the Foxbat's capability is underway -- it can be configured as a bomber.

My feeling is that State believes we should take the same soft line on the Mig 25s that we are now taking on the Mig 23s -- namely that they are interceptors (they were designed to shoot down the SR 71) and do not pose an offensive threat to the U.S. As 1980 presidential candidates heave their hats into the ring in increasing numbers, I am concerned that the approach I think State plans to take simply will not wash with a large number of Americans (whether the approach is technically correct or not). The fact is that the Soviets at a time of alleged detente will be seen as increasing tensions by sending their most sophisticated aircraft to Cuba. I recommend that you ask where this situation stands and suggest that careful attention should be given to how the President might best play this with Brezhnev before the summit, at the summit and then with the American people after the summit.

#### Meeting with Dobrynin

You may wish to note that on the fringe of the Harmon Trophy presentation (including the award to Cosmonaut Leonov) you and Dobrynin informally mentioned the desirability of getting together for a meeting. You may wish to ask how such a meeting might best be tailored to fit in to our current moves aiming toward a US-USSR summit.

#### Middle East

Invite Vance to provide a status report on the Atherton mission.

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#### Saudi Oil Production

Tony Lake has provided us with a backchannel copy (Tab A) of a thoughtful paper prepared by his staff arguing against any pressure by the US on Saudi Arabia to increase its oil production. I concur that we should not be asking the Saudis to distort their economy and their current way of life by a major effort to increase oil production to meet our needs. This issue, of course, is central to the US-Saudi relationship. It also bears on the President's energy discussions with Lopez Portillo. You may wish to invite a discussion on steps that we are planning to take to substitute the loss of Iranian oil.

#### Spain

As you will have seen from State's cables on Thursday, January 25, Prime Minister Suarez sees terrorism as the number one threat to Spain, and he is urging Ambassador Todman to have the US continue to provide assistance. Todman, at least in the cable, seems extremely cautious focusing the main body of his response to the Prime Minister on the need for confidentiality. It seems to me that we should be doing everything we can to help Spain on this front. You may wish to ask Cy and Zbig to comment.

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## *Foreign Affairs Breakfast*

### Additional Talking Points on Nicaragua Provided by Henry Owen

1. Charles Wilson, Texas, called to say that if we took certain actions vis a vis Nicaragua over the weekend, he would cut the heart out of foreign aid for FY 1980.
2. Wilson means it: He refused yesterday the seat on the defense appropriations committee that he had long coveted in order to carry out this threat.
3. Bob Beckel says that Wilson has the capacity to do us enormous harm. Given the narrow margin by which we won votes in the aid subcommittee, on which Wilson sits, and on the floor--and given Wilson's influence with conservative Democrats and Republicans--he could cost us hundreds of millions of dollars for aid to poor people in Latin America and elsewhere.
4. The actions Wilson cited were: elimination of aid and withdrawal of the U.S. aid mission.
5. Last year Wilson promised us vigorous and effective help on foreign aid and gave it, when he learned that we were continuing aid to Nicaragua.



DEPARTMENT OF STATE

Washington, D.C. 20520

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MEMORANDUM  
SECRET/SENSITIVE

January 19, 1979

TO : The Secretary  
THROUGH: S/P - Anthony Lake  
FROM : S/P - Karin Lissakers  
SUBJECT: Future Saudi Oil Production

This memo suggests that there are factors which may make it impossible for Saudi Arabia to increase its oil production capacity sufficiently to keep pace with world oil demand in the 1980's, and that the Saudis may be unwilling even to sustain the current rate of production when Iran is once again at full capacity.

This suggests that while we should continue to urge enhanced production, as in the attached cable, we should not concentrate too much of our limited leverage with the Saudis behind a push for something they are unlikely to do. We should also avoid raising Congressional and public expectations that the Saudis might take such actions, since disillusionment later could complicate our relations.

The memo also suggests that the US should be looking now for an alternative to Saudi Arabia as the principal world oil price moderator. Mexico would seem to be the most logical candidate.

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MLTC-2006-076  
per 7/11/06 NSC/tr  
BY 60 NARA, DATE 7/21/06

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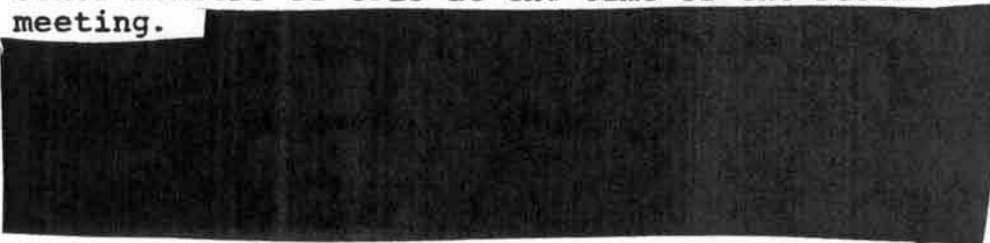
- 2 -

A. Why was Saudi Arabia not successful in holding down the December OPEC price increase?

At the time of the meeting in Abu Dhabi, Saudi Arabia had no spare production capacity. Hence, it had no leverage with which to exercise downward pressure on the price.

Since the crisis in Iran virtually shut down that country's oil industry, Saudi Arabia has been producing at the upper limits of its sustainable capacity of 10 to 10.4 mbds. Before the crisis, Saudi production had been held below 8.5 mbd. Even going all out, Saudi Arabia has been able to make up less than half of the 5.5 mbd short-fall resulting from the Iranian shut down. With very little spare capacity elsewhere in the world, most of the rest is being made up by a draw-down of international oil stocks.

The fact that Saudi Arabia had reached the outer limits of its capacity was known to other members of OPEC at the time of the December meeting.



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Thus, the USG seems to have expended a good deal of diplomatic effort on trying to convince the Saudis to do something they were in no position - even with the best will in the world - to do. The outcome of the December meeting was never in doubt.

- B. Can Saudi Arabia be induced to continue producing at present high levels after Iranian oil comes back on stream, and thus, perhaps, force a delay or a reversal of the third and fourth quarter price increases?

#### Political Considerations

Saudi Arabia has always acted as the balance wheel within OPEC - increasing production when demand warranted, and absorbing the largest production cuts when the market was soft. Without Saudi cooperation, the cartel could not survive.

In 1977, the Saudi's flexed their muscles and forced a small roll-back in OPEC's price increase.\* But they had divorced themselves from that pricing decision at the outset: this time, we are talking about a price hike which the Saudis have endorsed. It is highly unlikely that they would renege on the recent OPEC decision, barring some overriding and acute international financial consideration such as another severe dollar crisis. Without such extraordinary circumstances -- if the Western economies are weak but not on the brink of collapse -- and the oil market is soft, it is almost certain that the Saudis will cut back production to a level that will not undermine the December pricing decision, or divide the cartel.

As Yamani told the U.S. Ambassador after the Arab OPEC (OAPEC) meeting in early December, a split within OPEC over price is "something we have to avoid at all cost..." (emphasis added).

#### Technical Problems

The Saudis are genuinely worried about the physical state of their oil fields. Since the big push to increase

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\*They were shocked to discover at that time that their maximum sustainable capacity was some 2 mmbd lower than they had thought.



production in the early 1970's, Saudi fields have been consistently plagued by technical problems such as low pressure, salt water encroachment (too much salt in the oil), and equipment break-downs. These problems, which have been continuous and which the companies have been unable to solve, lead the Saudis to believe that their fields may have been over-produced and that this could reduce the amount of oil that is eventually gotten out of the ground (ultimate recovery).

In response to these problems, the Saudis have imposed a number of restrictions on production, including pressure levels below which a field may not be produced, and specific barrel per day ceilings on individual fields. In addition, the Saudis are concerned that the companies will exhaust the more valuable light crude reserves and leave the heavier, less desirable grades behind. Hence, they have specified that a ratio of 65% light to 35% heavy in total liftings per year must be maintained. Eventually they want production ratios to reflect the 50/50 reserve ratio.

The cumulative result of these constraints is an effective ceiling of 8.7 mbd. In fact the Saudis have imposed a flat 8.5 mbd overall ceiling on average annual production. If companies produce over that rate for part of a year, they have to cut back below 8.5 mbd the other part to make the yearly average. These restrictions have apparently been lifted temporarily during the Iranian crisis, but there will be a strong inclination to return to what, in Saudi eyes, is more prudent reservoir management, once Iranian production is restored.

#### Company Role

The four Aramco shareholders - Exxon, Socal, Mobil and Texaco are also important players. Even if the Saudis permitted production of up to 10 mbd, would the companies lift that much? Certainly the companies would wish to replenish the stocks depleted during the Iranian shutdown, particularly in anticipation of future price hikes. But once the shareholders have replenished their own stocks and met their own maximum refining and marketing requirements, it would not be in their interest to flood the market with surplus oil which would be bid down by the market. They have as much interest in a high price as do the producing governments.

Moreover, the present contractual arrangement in - Aramco is such that there are no financial incentives for - the companies to lift more than 8.5 mbd averaged out over a year. It appears that they would get no preferential price on any barrel over 8.5 x 365. Thus they could actually suffer a loss if they took more Saudi oil, at the full official price, and tried to dispose of it in the spot market where, because of over-supply, the price was being discounted.

Finally it should be noted that, according to CIA projections, even if Saudi Arabia continues to produce at 10 mbd after Iranian production comes back, inventories will not be built up to normal levels before September at the earliest, due to present stock draw-downs. Hence demand will remain firm and there would be no incentive for an OPEC price freeze before the fourth quarter, at the earliest.

C. Will Saudi Arabia continue to add production capacity to keep pace with world oil demand?

I have enumerated the short-term considerations which may influence Saudi oil policy. But there are more serious and perhaps uncontrollable factors which may determine not only their willingness to keep up production this year and next, but also their willingness to expand production capacity into the future sufficiently to keep pace with growing world demand.

The Saudis have imposed strict limits, not only on daily production rates, but also, since October 1977, upon Aramco's investment in additional capacity. Given recent investment rates and projected spending plans, Saudi Arabia will only reach 12 mbd sometime after 1985. With a 2-4 year lead time between investment and utilization of new capacity, a decision would have to be made soon to significantly alter that projection. The US Government is now considering what incentives it should offer the Saudis to induce them to increase production capacity. I frankly doubt that it is within our power to change their capacity plans.

Every oil field has a certain life expectancy - a certain maximum time span during which a given level of production can be sustained before an irreversible and

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rapid decline occurs (e.g. as is happening now with U.S. fields in the South and Southwest.) With the right data, the life expectancy, or "production profile" of a field can be predicted with a high degree of accuracy.

Despite extensive exploration, since 1970 less new oil has been found in Saudi Arabia than has been produced. Indeed, earlier reserve estimates are being written down, with the "possible" reserve figure being dropped altogether for planning purposes. The "proved and probable" figure, which is the basis for planning, given to the Saudi government is 177 billion barrels. The publicly announced figure of 150 billion barrels is being gradually raised each year, giving the misleading impression that substantial new finds are constantly being made. But as the oil companies believe that all significant fields in Saudi Arabia have been identified and that there is very little new oil to be found, the future oil production pattern for Saudi Arabia as a whole can also be predicted.

There is an inverse relationship between the level of production and the time period it can be sustained. Thus, while the decline is inevitable, the timing of its occurrence depends upon the rate at which the oil is produced and to some extent on the level of investment  $\pm$  3 years. Saudi Arabia could sustain a rate of 8.5 mbd for at most 40 years; but already at 10 mbd -- the rate at which they are now producing -- the horizon shrinks to 25 years; and if they push up to 12 mbd, which present investment plans call for, production would start to fall within 15 years; at 16 mbd it would be only eight to ten years before the irreversible and precipitous decline begins. (16 mbd is generally thought to be what Saudi Arabia would have to produce in order to prevent a supply crunch in the mid-1980's, at present rates of growth in demand, and if no great increase in production takes place elsewhere.)

Thus, if Saudi Arabia reaches a sustainable capacity of 12 mbd in 1985, and pumps at that level, Saudi production will begin to drop dramatically around the year 2000. That may seem remote to us, but for the Saudis it must be frighteningly near.

Moreover, as old fields become exhausted, new fields have to be brought on to make up the loss. Therefore, more and more investment is needed just to hold production constant until the drop-off. Over time, the per-barrel cost of existing capacity rises steadily, and the higher the production level, the greater the increase.

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