In the name of Allah
the most
Compassionate and Merciful
IN THE NAME OF GOD THE MOST COMPASSIONATE, THE MOST MERCIFUL.

"O ALL MUSLIM NATIONS, OPPRESSED NATIONS! ISLAMIC COUNTRIES! PRECIOUS NATIONS
OPPRessed by these who present your assets to America freely while you are leading a
difficult life, rise and resist the superpowers, because if you resist them, they
will not be able to do anything."

SHAM KHOMEINI

THE FIRST QUESTION THAT WOULD PERHAPS COME INTO ONE'S MIND, AFTER HAVING LOOKED AT
THE PRESENT COLLECTION OF DOCUMENTS, IS THAT, WHY IS THERE SO MUCH INFORMATION IN THE
AMERICAN EMBASSY IN TEHRAN, ON A SMALL COUNTRY LIKE KUWAIT? THE AVAILABILITY OF SO
MUCH INFORMATION AT THE DISPOSAL OF AMERICANS WOULD HAVE BROUGHT ABOUT THE SAME
QUESTION IF THE AMERICAN EMBASSY IN KUWAIT WERE TO BE TAKEN OVER. DESPITE THE LONG
DISTANCE BETWEEN THE U.S. AND KUWAIT, THE SIZE OF INFORMATION COLLECTED ON THE LATTER
IS NOT AT ALL COMPARABLE TO WHAT GATHERED ON OTHER NEIGHBOURS OF KUWAIT. THIS, ONE
COULD PERHAPS CLAIM THAT THE U.S. EMBASSY OPERATORS ARE THE REAL CONTROLLERS OF
VARIOUS CORNERS OF THE KUWAITI SOCIETY.

WHAT IS THE ROLE OF SO MANY U.S. INSTALLATIONS AND CENTRES HEADquartered BY AMERICAN
EMBASSIES THROUGHOUT THE WORLD, ARE THEY TO FUNCTION AS THE POINT OF CONTACT BETWEEN
THE GOVERNMENTS, OR THEY ARE THE EXTENTION OF ESPIONAGE AND MILITARY ACTIVITIES OF
AMERICA WITHIN HOST COUNTRIES, WHO ARE THE ACTUAL RULERS OF THESE COUNTRIES? THE U.S.
EMBASSIES DUTIES HAVE EMBRACED A REGULAR, SYSTEMATIZED AND COSTLY COLONIAL NETWORK
ALL OVER THE WORLD BY EXPLOITING THE EXPERIENCES OF THE RECENT HALF CENTURY. FORMER
DOCUMENTS AND THOSE PRESENT HERE, DEMONSTRATE THE EXTENSIVE ROLE OF THE U.S. EMBASSY,
TEHRAN, IN THE WHOLE REGION.

THESE DOCUMENTS ALSO EXPOSE THE REAL NATURE OF KUWAITI REGIME, THE EXPOSURE WHICH
IN THE RESULT OF NOW A MASTER (AMERICA) DESCRIBES A SUBSERVIENT REGIME. THEY ALSO
PROVE THAT LATTER OF THE SUPERPOWERS, ESPECIALLY THE "GREATER SATAN", HAS BEEN ACTIVELY
CONSPIRING AGAINST THE ISLAMIC REPUBLIC SINCE THE INCEPTION OF THE REVOLUTION. CLEAR
UNDERSTANDING OF THE NATURE OF KUWAITI RULERS, AND THE DEPTH OF U.S. INFLUENCE IN
THE SMALL COUNTRY EXPLAINS THE ANTAGONISTIC KUWAITI GOVERNMENT ATTITUDE TOWARDS THE
ISLAMIC REPUBLIC. RIGHT BEFORE THE VICTORY OF THE ISLAMIC REVOLUTION, IT REFUSED TO
PERMIT THE IRANIAN ENTRAP KUWAIT, AND PRESENTLY, IT IS ACTING AS A CHANNEL THROUGH
WHICH A HEAVY PART OF WEAPONS AND EXPORTED COMMODITIES ARE BEING DELIVERED TO THE
CRIMINAL BAATHIST REGIME OF IRAQ.

WHEN THE GRAND MASTER (THE U.S.) APPOINTED THE SHAH AS THE SCARE-CROW IN THE
PERSIAN GULF REGION, OPPRESSIVE KUWAITI RULERS NEVER OPPOSED THESE IRANIAN COUNTERT
PARTS WHO WERE SUPPLYING ISRAEL WITH OIL. WHEN THE ISLAMIC REVOLUTION BEGAN TO REAL
FINAL BLOWS ON SHAH'S REGIME, THE CORRUPT KUWAITIAN AMBASSADOR TO IRAN, WHO HAD BEEN
HAPPY TIME IN PARIS, RETURNED TO TEHRAN ON HIS PRIVATE PLANE TO EXTEND THE ENCOURAG
ING MESSAGE OF THE KUWAITI EMB TO THE SHAH. LATER ON, HE INFORMED HIS AMERICAN MASTER
OF THE SHAH'S SELF-CONFIDENCE. (THE SAME STORY IS PERHAPS BEING REPEATED FOR THE
CRIMINAL SADEAM ON THESE DAYS.)

PERSIAN GULF ARABS WERE NOT HAPPY WITH THE SHAH ACTING AS THE REGIONAL GOVERNMENT,
BUT THE "ISLAND OF STABILITY" IN THE SOUTHERN NEIGHBOURHOOD OF RUSSIA, WHICH
PROVIDED THEM WITH A DEADLY FEAR IN THE PERSIAN GULF REGION WAS PREVIOUSLY A
POPULAR REGIME WHOSE OBJECTIVE WAS TO REMOVE ISLAM AND THE ISLAMIC "IMPERIALISM."

FOR THE SAME REASON, PERSIAN GULF ARAB RULERS WHO SUPERFICIALLY SUPPORT THE PALES
TINIAN CAUSE AND OPPOSE THE OCCUPANTS OF QUDS, CONSIDER COOPERATION WITH AMERICA
NAMELY THE NUMBER ONE SUPPORTER OF THE REGIME OCCUPYING QUDS, HUMANLY IMPORTANT AS
COLLABORATING WITH THE DIRTY REGIME OF SHAH WHOSE CLOSE TIES WITH ISRAEL WAS
OBVIOUS.
AS IT IS EVIDENT IN DOCUMENT NO 11, THE KUWAITI GOVERNMENT GENEROUSLY DECLARES ITS READINESS TO COMPENSATE FOR THE SHORTAGE IN IRANIAN OIL EXPORTS TO AMERICA, TO HAVE ASSISTED THE U.S. AND THE SHAH, IN DOCUMENT NO 12, KUWAITI OIL MINISTER COMMEMORS THE EFFORTS UNDERTAKEN BY THE SHAH IN BRINGING BACK PEACE AND STABILITY TO IRAN. IN A MEETING WITH THE U.S. ENERGY SECRETARY, SHELZINGER, KUWAITI OIL MINISTER MINDED THE SHAH OF ALL MID-EAST COUNTRIES AND IRAQ, THAT THEY ALL HOPE FOR SHAH TO OVERCOME HIS DIFFICULTIES. THE VERY INTERESTING POINT IS THE COORDINATION THAT EXISTS BETWEEN ALL REACTIONARY ARAB REGIMES ON THE ONE HAND, AND THE RISING RADICAL IRAQ IN RENDERING SUPPORT TO THE SHAH, ON THE OTHER HAND. THE KUWAITI OIL MINISTER SUGGESTS THAT THE IRAQI SLOGANS, AS IN DOCUMENT NO 61, KUWAITI OIL MINISTER EXPRESS THAT IT IS NOT CORRECT FOR OIL TO BE EXPLOITED AS A WEAPON TO FURTHER POLITICAL ALIENS. IN THE SAME DOCUMENT HE DESCRIBES IRAQIS AS THOSE WHO TALK A LOT BUT ACT VERY LITTLE. LATER THE U.S. EMBASSY OFFICIAL RECALLS THE VISIT OF JAPAN'S COMMERCE MINISTER TO THE AREA, WHERE THE TRADE LOVING KUWAITIS HAD DEMONSTRATED THEIR CONCERN OVER AMBIGUOUS JAPANESE POLICIES WITH REGARDS TO PALESTINE, BUT THE SO-CALLED RADICAL IRAQIS HAD ONLY DISCUSSED COMMERCIAL ISSUES WITH THE JAPANESE OFFICIAL.

ON DECEMBER 12, 1979 OR THE FINAL DAYS OF THE PREVIOUS IRANIAN REGIME, SHAH DECIDES TO PURCHASE OIL FROM KUWAIT, AND THE KUWAITI OIL MINISTER POSITIVE, HE STATES THAT KUWAIT AND OTHER (PERSIAN) GULF COUNTRIES WILL DO ANYTHING IN EMERGENCY SITUATIONS TO SHOW THEIR SUPPORT FOR THE SHAH. THE GRADUALLY INCREASING WEAKNESS OF SHAH'S REGIME ALLOWS THEM AGAINST THE EXTENSION OF THE ISLAMIC REVOLUTION OF IRAN INTO OTHER REGIONS DOMINATED BY AMERICA. THEY BEGIN TO HAVE SECOND THOUGHTS ON THEIR OWN FUTURE IN A REGION WHERE ITS GENDARMES CAN SO EASILY COLLAPSE, THEN, THEY DECIDE TO FIGHT THE ISLAMIC REVOLUTION ON JANUARY 8, 1979. THE KUWAIT DEPUTY OIL MINISTER MEETS WITH HIS AMERICAN FRIENDS AND EXPRESSES THE IDEA THAT KUWAIT AND SAUDI ARABIA MUST FORGET THEIR TERRITORIAL DISPUTES, AND ON THE ISLAMIC REVOLUTIONARY FRONT, IS NOT SUPPORTING THE REVOLUTION, ALTHOUGH HE EXPRESSES HIS SENSITIVITY WITH REGARDS TO THE SHI'ITE COMMUNITY WORKING IN THE OIL COMPANY OF KUWAIT.

ONE OF THE OIL Companies also state that KUWAITIS SHARE U.S. CONCERN OVER THE VICTORY OF THE ISLAMIC REVOLUTION. IN HIS MEETING WITH FRENCH FOREIGN MINISTER, THE KUWAITI EMIR EXPRESSES HIS DEEP CONCERN OVER THE INFILTRATION OF SHI'ITE UNREST INTO IRAQ. THIS EXPRESSION OF CONCERN WAS MADE AT THE TIME WHEN THE ISLAMIC REPUBLIC HAD NOT YET SECURED ITS EXISTENCE, AND THE ISSUE OF EXPORTING THE ISLAMIC REVOLUTION WAS STILL NOT BROUGHT FORTH BY THE ISLAMIC REPUBLIC OFFICIALS. THEREFORE, THESE HOSTS OF KUWAITIS AND OTHERS RESIDING IN KUWAIT, AND TAKE ALL POSSIBLE DIPLOMATIC ACTIONS AGAINST THE ISLAMIC REPUBLIC. THEY AND THEIR IMPERIALIST MASTERS FIND THE ESTABLISHMENT OF THE STATES ON BEHALF OF OIL-PRODUCING SHI'ITE SUNNIS OF THE ISLAMIC REVOLUTION, THEREFORE, IN DOCUMENT NO 35, A KUWAITI OFFICIAL TELLS AN AMERICAN EMBASSY OFFICIAL THAT KUWAIT HAD INSTRUCTED AL-ANBA PAPER TO CRITICIZE IRAQ.


CURRENT OIL INCOME ($1.2 BILLION IN 1977) HAS CHANGED PRESENT DAY KUWAIT TO SUCH AN EXTENT THAT NO SIGN OF THE PRE-OIL PERIOD - KUWAIT IS OBSERVABLE TODAY. BUT IN ORDER TO UNDERSTAND BETTER THE REALITY BEHIND LUXURIOUS AND EXPENSIVE CARS AND MODERN BUILDINGS ONE QUESTION COMES TO MIND AND THAT IS IF JUST THAT'S THE PRICE OF THE BLACK GOLD EXPLOITED IN THAT SMALL COUNTRY.

THE ABUNDANT RICHES OF THE KUWAITI RULERS HAVE ABSORBED AN IMMIGRANT POPULATION WHICH COMPRISES 50% OF KUWAITI INHABITANTS AND 70% OF ITS WORK FORCE. THE U.S. MILITARY, PETROLEUM AND CULTURAL ADVISORS PREPARE PLANS AND PROJECTS THAT ARE TO BE CARRIED OUT BY IMMIGRANT ESPECIALLY THE NATIVE KUWAITIS ARE SUPPOSEDLY MANAGING THE SOCIETY IN BETWEEN THE ABOVE MENTIONED CLASSES BUT IF THE OIL PRODUCTION OVER LOSES ITS VIABILITY NEITHER THE AMERICAN ADVISORS NOR THE ASIAN WORKERS WOULD BE INTERESTED TO LIVE IN THE HOT AND HUMID KUWAIT.

RELATIVE WEALTH UNDOUBTEDLY EXISTS IN KUWAIT WHICH IS PERHAPS THE RESULT OF THIS GOD-GIVEN FORTUNE. THERE IS A DIFFERENCE BETWEEN THE KUWAITI RULING PROCEDURE AND THAT OF THE SAUDI WHICH IS POSSIBLY DUE TO THE SMALL KUWAITI POPULATION AND ITS GEOGRAPHIC LOCATION. UNLIKE THE SAUDI KUWAITIS CONSIDERED AT THE SAME MATTER, BUT NO CONSIDERATION IS GIVEN TO SHI'ITE COMMUNITIES THROUGHOUT THE WORLD. THE SAUDI CLAIM THAT THE HAVE ADOPTED QURANIC LAWS AS THE CONSTITUTION IN SAUDI ARABIA BUT IN KUWAIT THIS CLAIM HAS NO PRACTICALITY, THEREFORE BY FORMING A PARLIAMENT FOR THE PROVISION OF A KUWAITI CONSTITUTION ITS RULERS CLAIM TO BE STRIVING FOR ACHIEVING DEMOCRACY.

THE IMMIGRANT POPULATION, WHO PLACE NATIVE KUWAITIS IN MINORITY, HAVE ALWAYS BEEN CONSIDERED AS A THREAT TO THE RULING FAMILY. TO NEUTRALIZE THIS THREAT, THE GOVERNMENT OF KUWAIT HAS EMERGED FROM SOME WELFARE ACTIVITIES. ACCORDING TO THEM, ALL FOREIGN CITIZENS ARE TO COMPARE THEIR STATUS WITH THEIR LIVING CONDITION IN THEIR OWN COUNTRIES, THEREFORE AVOIDING AND DISCRIMINATION. TO CARRY OUT THIS THE RULERS CLAIM TO BE STRIVING FOR ACHIEVING DEMOCRACY.

Various documents are related to the possibility of political disruptions ESPECIALLY IN THE OIL SECTOR WHICH HAS ALERTED THE U.S. AND EUROPE, DUE TO THE ISLAMIC REVOLUTION.
OTHER THAN WELFARE PRIVILEGES, KUWAITI NEWSPAPERS AND MASS MEDIA BRAVELY CRITICIZE REGIONAL POLITICS ESPECIALLY THOSE RELATED TO PALESTIN- IANS. KUWAITI GOVERNMENT IS EXPLOITING ITS RICHES IN LIBERATING THE BELOVED QUDS. THIS IS DONE SO THAT THE KUWAITI RULERS’ BELIEF IN THIS PRINCIPLE IS NOT QUESTIONED BY PALESTINIANS.

THE REACTIONARY ARAB REGIMES WHO ARE AWARE OF MUSLIM ARAB SENSITIVI- TIES ON THE PALESTINIAN CAUSE, AND OF THE MALTABLE POLITICAL TRENDS OF KUWAITI GOVERNMENT, MEET DISSATISFACTION AMONG ARABS WHO ARE SUPPORTERS OF PALESTINIAN CAUSE. THE KUWAITI PRESS, IN PUBLIC AND IN PRIVATE, IS ENGAGING IN Rhetorical Arguments Brought Forth by Various PAPERS SOME PRINTED IN KUWAIT, OTHERS IN EUROPEAN CAPITALS IN ARABIC.

DOCUMENT NO 34 EXPLAINS THE CONTROL MECHANISM OF KUWAITI GOVERNMENT ON PRESS. ALTHOUGH THESE PAPERS CONTAIN POLITICAL VIEWS AND CRITIQUE ESPECIALLY ON ARAB WORLD ISSUES, THEY NEVER QUESTION THE LEGALITY OF AL-SABAH RULING FAMILY. DISCUSSING ARAB ISSUES THAT ARE SUBSTANTIALLY RELATED TO THE PALESTINIAN PROBLEM IS ANOTHER MEANS OF PREVENTING PALESTINIANS, RESIDING IN KUWAIT FROM DEMONSTRATING THEIR DISSATISFACTION WITH REGARDS TO THE EXISTING SOCIAL DISCRIMINATIONS. FOLLOWING THE TREACHERY OF SADAT TO THE PALESTINIAN CAUSE THROUGH THE SIGNING OF CAMP DAVID ACCORD, KUWAITI PRESS SUPERFICIALLY DECLARED THEIR OPPOSITION TO THIS TREACHERY. THE DOCUMENT JUSTIFIES THIS PRESS ACTION IN THE FOLLOWING WORDS: "EXPRESSIONS AS A FORM OF ESCAPE VALVE, A WAY FOR THE LARGE PALESTINIAN COMMUNITY TO BLOW OFF STEAM WITH MINIMUM DAMAGE DONE." THE SAME DOCUMENT FURTHER GOES ON THAT IF EVER A PAPER CRITICIZES AN INTERNAL PROBLEM IT IS CERTAINLY DONE UPON THE INSTRUCTION OF KUWAITI EMIR, WHERE AS, IF A MEMBER IS UNANITELY ATTACKED, EMIR WILL ORDER THE RAPID SUPPRESSION OF THAT PARTICULAR PAPER.

SO FAR, IT HAS BECOME CLEAR THAT THERE IS NO DIFFERENCE BETWEEN THE SAUDI ARABIA AND THE SO-CALLED KUWAITI DEMOCRACY, AS A MATTER OF FACT THEY ARE ONE AND THE SAME.

DUE TO SPECIFIC POPULAR AND TERRITORIAL CONDITIONS AND NOT THE KUWAITI RULING FAMILY’S MERCY ON THE PEOPLE, THEY HAVE SPENT PART OF THE OIL-REICH ON PUBLIC AFFAIRS, Establishing A WIDE GAP BETWEEN THE LEAST EXISTING WELFARE IN KUWAIT AND THAT OF THE DEPRIVED ARAB PENINSULAR MASSES.

IN OTHER WORDS THE GOVERNMENT OF KUWAIT IS TRYING TO PERPETRATE THE BOUNDARIES EXPENDITURES MADE BY UNRELATED BOUNDARIES, BY USING THIS BOUNDARIES FAMILY FOR THE SAME REASON THE FREE-WORLD MARKET MUST BE SUPPLIED WITH KUWAITI OIL, AND THE KUWAITI OFFICIALS BELIEVE THIS TREND TO BE IMPOSSIBLE WITHOUT THE PARTICIPATION OF AMERICA AND HER ALLIES. THE SAME IDEA SHAPES OTHER KUWAITI POLICIES.

IN THE FIELD OF FOREIGN POLICY KUWAIT TRIES TO GET ALONG WITH ALL OTHER COUNTRIES THAT ARE SOMEHOW COMPATIBLE OF DISRUPTING THE PRESENT INTERNAL SITUATION IN KUWAIT. DESPITE THE HISTORICAL GREED OF ALL GOVERNMENTS THAT CAME TO POWER IN IRAQ, FOR EXAMPLE, KUWAIT, SAUDI, AND SUDAN, TRIED TO MAKE FRIENDS WITH IRAQIS. ON THE OTHER HAND, KUWAIT IS THE ONLY COUNTRY ON THE PERSIAN GULF COAST WHICH HAS ALLOWED RUSSIA TO HAVE AN EMBASSY THERE, THEREBY ESTABLISHING DIPLOMATIC TIES WITH IT.

CONCERN OVER PROGRESSIVE AND RADICAL ARAB COUNTRIES' INTENTIONS ON THE EXTERNAL SECURITY SIDE, AND HORROR OVER THE INTENTIONS OF PALESTINIANS RESIDING IN KUWAIT HAVE CONCERNED IT TO SUPPORT THE PALESTINIAN CAUSE. IN THIS PERSPECTIVE KUWAITI RULERS WHO ARE AWARE OF THEIR OWN INCAPABILITY IN RESPONDING TO Prosperous MILITARY AGGRESSION, ENDEAVOR TO HINDER SUCH AGGRESSIONS UNTIL A FOREIGNER CAN COME TO THEIR RESCUE.

INVESTMENT ON INTERNAL INDUSTRIES WHICH IS COUPLED WITH AN INFLOW OF FOREIGN WORK-FORCE IS DIVERTED TO INVESTMENT OF KUWAITI FUNDS IN OTHER COUNTRIES, ESPECIALLY U.S.A. THE REASON IS THAT THE SHORTAGE OF SPECIALIZED MANPOWER, KUWAIT IS UNWILLING TO ALLOW ITS NATIVE COMMUNITY TO BECOME MORE AND MORE OF A MINORITY. IT MAKES ALL POLITICAL MOVES, MILITARY POLICIES, ARMS PURCHASES, AND ADOPTS ALL DECISIONS REGARDING THE TRAINING OF ITS ARMED FORCES AND THE SELECTION OF PLACES FOR INVESTMENTS, ALWAYS TAKING INTO CONSIDERATION AMERICAN ATTITUDES AND CONDITIONS. CONSEQUENTLY, KUWAIT CANNOT MOVE OUTSIDE THE JURISDICTION REGULATED FOR IT AND OTHER SUBORDINATE STATES BY AMERICA.

A GLANCE AT THESE DOCUMENTS PROVE THAT THEY ARE NOT SHORT-TERM REPORTS BUT RELATED TO KUWAITI OIL REVENUES, ITS RATE OF PRODUCTION AND SITUATION REPORTS ON PETROLEUM INDUSTRIES, AMERICAN AND BRITISH COMPANIES THAT DOMINATE KUWAIT. IT IS CLEAR THAT AMERICA DESIRES THE OILS THAT EXIST IN KUWAIT AND OTHER ISLAMIC COUNTRIES LIKE IT. TWO OF THE C.I.A DOCUMENTS DISCOVERED AT THE AMERICAN EMBASSY IN TEHRAN INCLUDE PETROLEUM ISSUES AND THE C.I.A CONTACTS IN THIS FIELD.

WHEN OIL PRICES INCREASE AS A RESULT OF WORLD ECONOMIC CONDITIONS PARTLY STIMULATED BY THE ISLAMIC REVOLUTION AND U.S. DOLLAR DEPRECIATES, GOVERNMENT OF KUWAIT IS THE LAST ONE TO ADJUST ITS PRICE OF OIL TO THAT OF OTHER OIL EXPORTING COUNTRIES.


MAY ALL ISLAMIC TERRITORIES BE LIBERATED FROM THE CLUTCHES OF THE EASTERN AND WESTERN WORLD-MONGERS.

"MUSLIM STUDENTS FOLLOWING THE "LINE OF THE IMAM."
Mr. El-Yagout said that Kuwait will be making a move for increased oil revenues. It is studying the situation for the moment, and “if the Iranians can do it so can Kuwait.” He shrugged off arguments used by the Shah that Iran needs the revenue for serious economic development projects and has a population exceeding those of her oil producing neighbors. He said Kuwait has its own development programs which have produced far better results than those of Iran. Moreover, Kuwait has only one oil while Iran has many other resources as well. Iran’s basic weakness has been its inability to utilize its resources skillfully.

Mr. El-Yagout is a painter who has exhibited his works a number of times before coming to Iran. He is also deeply interested in music (Mozart, Beethoven, and to some extent Brahms) and in poetry. He has studied in Salzburg and Vienna. He is strongly traditional-minded and looks down on anything that carries the label of “modern” in the field of art. He makes little effort to conceal his orientation toward the U.S. (We/Iraq/ are nothing without krypt”) and his antipathy toward Iran (except for the scenery).

POL: AHYergas/ias

GROUP 3
Degraded at 12-year intervals.
Not automatically declassified.

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P. Ending of Repulsions of Iranians from Iraq. I asked Al-Ateeq if he could explain why the Iraqi Government had suddenly stopped expelling Iranians from Iraq. He replied that he would first like to say that those persons who were forced to leave Iraq were not "refugees". They were, he said, Iranians who entered Iraq illegally, seeking work, many of whom without passports, entry visas, or work permits, and the Government of Iraq had a clear right to force them to leave. The same situation pertains to Kuwait, he said, where many Iranians go to seek work, most of them without documentation of any kind. The Government of Kuwait rounds these people up from time to time, he said, and forces them to leave. He gave the definite impression that his Government neither expects nor receives any reaction from Iran when these deportations from Kuwait occur.

Returning to why the flood of Iranians from Iraq -- whatever one labels them -- and suddenly stopped, Al-Ateeq replied that "Russian intervention" had brought about Iraq's reversal of its policy. He did not specifically rule out other factors, but he made it clear that he considered the Soviet role the dominant factor by saying that "no other country could have such influence on the Iraqi Government.

On January 17, I asked Al-Ateeq about his Ambassador's whereabouts, saying I had heard that he had gone to Kuwait. Al-Ateeq confirmed Al-Salhe's absence, adding he had gone to Kuwait on vacation. I asked a bit bitterly if the GOI had indeed ordered him home. Al-Ateeq insisted that his Ambassador's departure was a political decision, saying that "now is a good time to return" since the grudging in the Gulf is such more prevalent this time of the year than the weather of Tehran. Asked jokingly if the Ambassador's trip could be considered a "diplomatic vacation", he diplomatically denied that this was the case and claimed something to the effect that "the Iranians understand this". He refused to speculate how long the Ambassador will be away.
HE SAID, "THERE WILL BE DISCUSSION OF A PRICE RISE, IF NOBODY ELSE RAISES THE SUBJECT, I WILL."

3. MINISTER FELT IT WAS UNFAIR AND NOT TO THE ULTIMATE AMERICAN BENEFIT FOR THE US TO HOLD SAUDI ARABIA AND IRAN TO THEIR WORD REGARDING PRICE FREEZE. WHEN THEY MADE THEIR COMMITMENT, ALL KHALIFA SAID, THESE TWO COUNTRIES DID NOT EXPECT THE DOLLAR TO FALL AS BADLY AS IT HAD. HOWEVER, SAUDIS AND IRANIANS TO THEIR COMMITMENT WOULD NOT BE IN U.S. INTEREST FOR FOLLOWING THREE REASONS:

(a) Because of the decline of the dollar and the price freeze, all OPEC countries were feeling (辅助性) pinch. This would lead to inevitable pressure for a price rise. The reduction of revenue would likely have adverse effect on their foreign assistance levels.
(b) All indications were that the price rise was inevitable and, therefore, the longer it is delayed the more drastic it would be. Minister said the would accept the idea of freezing price in real terms but not in nominal terms. To do so, would merely be to provide disincentive against the development of alternative energy sources, which was not in oil consumers' interest.

4. AMBASSADOR POINTED OUT THAT, WHATEVER THE LONG TERM ARGUMENTS, THE FREEZE IN OIL PRICES NOW WAS VERY IMPORTANT IN ORDER TO GIVE THE WORLD ECONOMY A BREATHING SPELL. MINISTER RESPONDED THAT HE WAS QUITE FAMILIAR WITH THESE ARGUMENTS, BUT WAS CONVINCED FROM VARIOUS AMERICAN STUDIES HE HAD READ, INCLUDING THOSE FROM BROOKINGS, CITY CORP., CHASE AND OTHERS, THAT THE EFFECT OF A PRICE INCREASE ON THE WORLD ECONOMY WOULD BE MINIMAL AND ACCEPTABLE. EVEN WITHOUT CHANGES IN MONETARY OR FISCAL POLICY, HE CLAIMED OECD ECONOMIES COULD ABSORB AN OIL PRICE INCREASE.

5. NOTING THAT ECONOMISTS OFTEN DISAGREE, AMBASSADOR EMPHASIZED THAT USG FELT STRONGLY THAT A PRICE FREEZE SHOULD BE MAINTAINED FOR THE YEAR, OF WHICH, AFTER ALL, ONLY TWO MONTHS HAD PASSED. HOWEVER, THE LARGE U.S. OIL IMPORT BILL HAS HAD A NEGATIVE EFFECT ON US DOLLAR.

6. MINISTER THEN ASKED WHETHER USG INTENDED TO ASK IRAN AND SAUDI ARABI TO STICK TO THEIR PROMISE REGARDING PRICE FREEZE EVEN IN LIGHT OF THE DETERIORATION OF THE DOLLAR. AMBASSADOR REPLIED THAT IT HAD FELT STRONGLY THAT AN OIL PRICE FREEZE WOULD BE MAINTAINED FOR THE YEAR. HE BELIEVED SHAN WOULD STAND BY HIS COMMITMENT TO PRES. CARTER AND THAT THE SAUDIS WOULD CONTINUE TO SUPPORT SUCH A PRICE FREEZE. MINISTER ENDED DISCUSSION OF SUBJECT BY SAYING THAT, IN HIS VIEW, WHILE THE DOLLAR MIGHT IMPROVE SOMEWHAT BEFORE END OF 1979, IT WOULD PROBABLY THEN DECLINE TO ITS PRESENT LOW LEVELS LATER IN THE YEAR. THEREFORE, IT SEEMED FAIR TO SEEK PRICE ADJUSTMENT NOW.
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7. COMMENT: AS THIS AND SECTIONS INDICATE, MINISTER IS SINGING QUITE A DIFFERENT TUNE FROM HIS PREDECESSOR. HE BELIEVES THAT A DECLINING REAL PRICE FOR OIL DOES NOT MEAN THAT KUWAIT SHOULD INCREASE PRODUCTION AND SALES.

RIYADH, KUWAIT SHOULD INCREASE PRICES EVEN IF THIS MEANS DECREASING PRODUCTION AS FORMER OIL MIN FIN UNDERSECRETARY, HE IS INTENSIFY INTERESTED IN THE FINANCIAL SIDE OF OIL QUESTIONS AND HAS BEEN NAMED A MEMBER OF A NEW GOV MINISTERIAL COMMITTEE SET UP TO STUDY THE "DOLLAR PROBLEM," CONSISTING OF, AMONG OIL MINISTER, MINISTERS OF FINANCE, PLANNING AND COMMERCE. HIS VIEWS, REFLECTED BY CABCANT LEVEL DISCUSSION, COULD BECOME TEMPERED SOME

WHAT THE TIME OF THE LATE MARCH-EARLY APRIL OPEC CONSULTATIVE MEETING. KUWAIT $2 MILLION B/D PRODUCTION GIVES IT CONSIDERABLY LESS CLOUD THAN LARGER SAUDI AND IRANIAN PRODUCTIONS, BUT, IF THERE IS ANY SIGN OF WEAKNESS OF EITHER OF THESE TWO GIANTS ON THE PRICE FREEZE QUESTION, SHAikh ALI WILL TRY TO MAKE THE MOST OF IT AT THE NEXT OPEC MEETING.

MAESTRONE

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1.
KUWAITI OVER THIS PERIOD, A FACT THAT TWO-THIRDS $92.9 BILLION OUT OF TOTAL OF $65.5 BILLION IN BILATERAL LOANS AND GRANTS WAS GIVEN BETWEEN 1974 AND 1977. GROWTH IS UPWARD TRENDS IN ASSISTANCE SINCE 1973 TO LED VALUES IN LOANS TO NON-ARAB COUNTRIES FROM 55 PERCENT OF TOTAL LOANS IN 1975 TO 48.5 PERCENT IN 1977. INDICATED PROMINENT OF KUWAITI AID TO NON-ARAB WORLD. REPORT DOES NOT INCLUDE FIGURES PER "DEPOSITS" MADE WITH LDC CENTRAL BANKS WHICH ARE UNLIKELY TO BE WITHDRAWN, AND MAY NOT INCLUDE 790 MILLION CONTRIBUTION TO GULF ORGANIZATION FOR THE DEVELOPMENT OF EGYPT (CODEM). HENCE, FIGURES CITED ARE, IF ANYTHING, CONSERVATIVE, AND SHOULD BE CONSIDERED MINIMUM ESTIMATE OF KUWAITI FOREIGN ASSISTANCE.

END SUMMARY.

2. ECON CHIEF RECENTLY OBTAINED INTERNAL KUWAITI FINANCE MINISTRY STUDY, DATED FEB. 15, 1978, WHICH PROVIDES EXTENSIVE STATISTICS ON ALL KUWAITI ASSISTANCE FROM YEAR AFTER INDEPENDENCE WHEN SUCH AID BEGAN (1962) THROUGH DEC. 31, 1977. DETAILS AND COPY OF REPORT WILL FOLLOW BY AIRGRAM. SIGNIFICANT INFORMATION PROVIDED BY STUDY IS AS FOLLOWS.

3. TOTAL ASSISTANCE PROVIDED: SINCE 1962 KUWAIT HAS PROVIDED TO LDC'S APPROXIMATELY $2 BILLION IN LOANS AND $2.5 BILLION IN GRANTS. IT HAS CONTRIBUTED $5.2 BILLION TO MULTILATERAL AID INSTITUTIONS, FOR A TOTAL OF $6.2 BILLION IN FOREIGN ASSISTANCE. MOST OF THIS ($5.45 BILLION) WAS GIVEN IN THE PERIOD 1973-1977.


FOR CY 1977, TOTAL LOANS AND GRANTS IN AID AMOUNTED TO 7.5 MILLION, OR $1,500 PER KUWAITI. THIS FIGURE DOES NOT INCLUDE ASSISTANCE THROUGH MULTILATERAL INSTITUTIONS, WHICH BROUGHT TOTAL ASSISTANCE IN 1977 TO WELL OVER $1 BILLION, OR WELL OVER $2,000 PER CAPITA IN AID.
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6. EXHAUSTIBLE RESOURCES, THE FINANCE MINISTRY STUDY PIGHTLY POINTS OUT THAT KUWAITI'S AID IS BASED ON DEPLETION OF THE EXHAUSTIBLE RESOURCES ON WHICH KUWAITI'S ECONOMY IS BASED. OIL, HENCE THE COUNTRY'S GROWTH, IS GREATER THAN THAT FOR DEVELOPED COUNTRIES WHERE ECONOMIES ARE BITTERLY BASED ON RENEWABLE RESOURCES AND ECONOMIC ACTIVITY.

7. TRENDS, BECAUSE CONTRIBUTIONS TO MULTILATERAL INSTITUTIONS ARE NOT BROKEN DOWN BY YEAR IN THE STUDY, PRECISE FIGURES ON TRENDS IN AID PER YEAR ARE NOT AVAILABLE. HOWEVER, THE FACT THAT TWO-THIRDS (45.9 BILLION) OF THE TOTAL OF 54.5 BILLION IN LOANS AND GRANTS SINCE 1962 WERE GIVEN IN THE PERIOD 1974-1977 IS ILLUSTRATIVE OF AN UPWARD TREND IN ASSISTANCE SINCE THE 1973 OIL CRISIS. THE MODERATE INCREASE IN ANNUAL GRANTS AND LOANS FROM 555 MILLION IN 1975 TO 750 MILLION IN 1977 PROBABLY UNDERSTANDS THIS TREND, SINCE KUWAITI CONTRIBUTIONS TO MULTILATERAL AID FACILITIES HAVE INCREASED IN THE LAST 2-3 YEARS.

8. MORE AID TO NON-ARAB COUNTRIES. OF TOTAL LOANS AND GRANTS GIVEN IN THE PERIOD 1962 THROUGH 1977, THE REPORT INDICATES THAT 87.9 PERCENT WENT TO ARAB COUNTRIES, 4.5 PERCENT TO AFRICAN COUNTRIES, AND 7.6 PERCENT TO "OTHER" (MOSTLY ASIAN) COUNTRIES. GRANTS CONTINUE TO GO ALMOST ENTIRELY (98.6 PERCENT IN 1977) TO ARAB COUNTRIES. LOANS, HOWEVER, HAVE INCREASED GOM TO NON-ARAB COUNTRIES (48.5 PERCENT IN 1977 COMPARED TO 35 PERCENT IN 1975).

9. COMMENT. IN ITS TABLE ON "KUWAIT SUBSCRIPTION TO THE CAPITAL OF INTERNATIONAL AND REGIONAL INSTITUTIONS," THE REPORT MAKES NOT MENTION OF 570 MILLION KUWAITI CONTRIBUTION TO THE GULF ORGANIZATION FOR THE DEVELOPMENT OF EGYPT (GODE). THIS, AND FACT THAT NO FIGURES ARE GIVEN FOR "DEPOSITS" WITH LOCAL CENTRAL BANKS WHICH ARE KEPT TO BE WITHDRAWN, LEADS US TO THE CONCLUSION THAT FIGURES OF FINANCE MINISTRY REPORT ON KUWAITI FOREIGN ASSISTANCE ARE, IF ANYTHING, QUITE CONSERVATIVE AND SHOULD BE CONSIDERED A MINIMUM ESTIMATE OF KUWAITI FOREIGN ASSISTANCE FOR THE PERIOD 1962 THROUGH 1977.

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HAVING HANDLED ON BEHALF OF THE GOVERNMENT WHILE MINISTER OF INTERIOR THREE HIJACKING INCIDENTS INVOLVING KUWAIT.
I DREW HIS ATTENTION TO THE THREE HIJACKING CONVENTIONS AND TO THE FACT THAT KUWAIT HAD ONLY SIGNED THE HAGUE
CONVENTION SO FAR. SHAHID SA'AD WAS AWARE OF THE FACT THAT KUWAIT HAD SIGNED ONE CONVENTION BUT WAS UNCLEAR AS TO WHICH ONE AND TO THE STATUS OF THE OTHERS. I TOLD HIM IT WAS MY UNDERSTANDING THAT THE FOREIGN MINISTRY WAS PREPARED TO RECOMMEND THE SIGNING AND RATIFICATION OF THE THREE CONVENTIONS TO THE COUNCIL OF MINISTERS, BUT IT WAS AWAITING THE RESOLUTION OF CERTAIN TECHNICALITIES INVOLVED IN THIS PROCESS.

3. CONTINUING MY PRESENTATION, I POINTED TO THE IMPORTANCE OF ALL STATES RATIFYING THESE CONVENTIONS IN ORDER TO HELP REDUCE ACTS OF UNLAWFUL INTERFERENCE WITH INTERNATIONAL CIVIL AVIATION. I MADE REFERENCES TO THE UNGA RESOLUTION 32/8 AND TO THE FACT THAT THE US, UK, AND FRANCE WERE ASKED BY OTHER SIGNATORIES TO RAISE THIS MATTER WITH KUWAIT AND SEVERAL OTHER NATIONS. I NOTED THAT THE BRITISH AMBASSADOR HAD MET WITH FOREIGN MINISTRY UNDER-SECRETARY RASHID AL-RASHID ON MAY 2 ON THIS SUBJECT. I OBSERVED THAT, WHILE INITIALLY THERE HAD BEEN RESISTANCE TO SIGN THESE CONVENTIONS BECAUSE OF THE FEELING THAT THEY WERE ANTI-PALESTINIAN IN NATURE, I BELIEVED THAT THIS WAS NO LONGER A PROBLEM SINCE IT WAS CLEAR THAT THESE CONVENTIONS HAD A WIDER OBJECTIVE. IN FACT, PLO LEADER YASSER ARAFAT HIMSELF, ON A NUMBER OF OCCASIONS, CONDEMNED HIJACKINGS. I ALSO REMINDED SHAHID SA'AD THAT KUWAIT'S MAJOR NEIGHBORS, IRAN AND SAUDI ARABIA, HAD BOTH SIGNED AND RATIFIED ALL THREE CONVENTIONS AND THOUGHT THAT THERE SHOULD BE NO REASON WHY KUWAIT COULD NOT ALSO DO SO. IT WAS MY IMPRESSION THAT OTHER GULF STATES, WHICH HAD NEITHER SIGNED NOR RATIFIED THESE CONVENTIONS, WERE PROBABLY WAITING TO SEE WHAT KUWAIT WOULD DO IN THIS RESPECT.

4. THE PRIME MINISTER MADE NO SUBSTANTIVE COMMENT ABOUT THE MATTER, BUT DEMONSTRATED INTEREST DURING MY PRESENTATION. HE SAID THAT HE WOULD DISCUSS THIS MATTER WITH THE FOREIGN MINISTER THE FOLLOWING DAY ON WHICH THE COUNCIL OF MINISTERS MEETING WAS ALSO SCHEDULED TO TAKE PLACE. HOPEFULLY THIS SUBJECT WILL BE INTRODUCED INTO THE COUNCIL'S DELIBERATIONS.

5. THE BRITISH AMBASSADOR INFORMED US THAT UNDER-SECRETARY RASHID AL-RASHID HAD INDICATED GOVERNMENT SUPPORT FOR THE AIM OF
E.O. 11552: GDS
TAGS: EPLD, ENRG, KY, YE, YS
SUBJ: ARAB LEAGUE "BOYCOTT" OF PDNY: OIL SUPPLIES

REF: (A) KUWAIT 4193 (NOTAL), (B) KUWAIT 4938 NOTAL

1. DURING CALL OW KUWAIT OIL MINISTER SHAIKH ALI KHALIFA AL-SABAH JULY 25 CHARGE AN ECON CHIEF ASKED HIM WHETHER KUWAIT HAD CUTOFF OIL SUPPLIES TO ADEN PENDING TO THE JULY 2 ARAB LEAGUE FOREIGN MINISTERS' DECISION TO FREEZE RELATIONS WITH PDNY.

2. MINISTER EXPLAINED SITUATION AS FOLLOWING: FOR SOME TIME PRIOR TO ARAB LEAGUE MEETING, KUWAIT AND IRAQ HAD USED ADEN REFINERY FOR SOME OF THEIR CRUDE, WITH RESULTING PRODUCTS BEING SOLD TO YAR. PDNY EVER OWNED EITHER THIS CRUDE OR ITS PRODUCTS. THE ONLY ADVANTAGE TO PDNY WAS THAT KUWAIT'S PROCESSING OIL THERE RAISED THE PERCENTAGE OF REFINERY CAPACITY USED, THEREBY LOWERING COSTS FOR PDNY'S ADEN REFINERY. ARRANGEMENT WAS IN FACT LUCRATIVE FOR KUWAIT, MINISTER EXPLAINED, SINCE NORTH EGYPTIAN MARKET WAS A GOOD ONE AND REFINING CRUDE IN ADEN CUT TRANSPORT COSTS, WHICH WERE HIGHER FOR PRODUCTS THAN FOR CRUDE. FURTHER TWIST WAS THAT KUWAIT MARKETED PRODUCTS PRODUCED FROM ADEN REFINERY ON THE BASIS OF OIL IRAQ HAD AGREED TO SUPPLY THERE UNDER A SWAP ARRANGEMENT IN WHICH IRAQ WAS COMPENSATED BY PROVISION OF REFINED PRODUCTS FROM KUWAIT'S SHUAIJA REFINERY TO IRAQ.

3. ALI KHALIFA SAID THAT, SINCE THE ARAB LEAGUE COUNCIL DECISION, KUWAIT HAD "CONCEALED" ITS CRUDE SUPPLY RELATIONSHIP WITH ADEN, PENDING FURTHER REVIEW. THIS MEANT THAT KUWAIT IS NO LONGER SUPPLYING OIL TO THE ADEN REFINERY AND IS SHIPPING REFINED PRODUCTS FROM ITS SHUAIJA REFINERY IN KUWAIT DIRECTLY TO YAR AT A HIGHER COST TO KUWAIT. MINISTER'S UNDERSTANDING IS THAT IRAQ HAS ALSO SUSPENDED USE OF ADEN REFINERY FOR IRAQI CRUDE.

SUTHERLAND
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2. ARTICLE IN REF A, "SOUTH YEMEN: CUTOFF IN ARAB AID," WHILE HIGHLY USEFUL AND APPRECIATED, GIVES IMPRESSION THAT CUTOFF IN ARAB AID TO PDY HAS BEEN MORE DRAMATIC THEN WE BELIEVE HAS BEEN THE CASE AS FAR AS KUWAIT IS CONCERNED. STATUS OF AID EITHER PROVIDED BY KUWAIT OR THROUGH KUWAIT-BASED INTER-ARAB AID INSTITUTIONS SINCE JULY 2 ARAB LEAGUE RESOLUTION "FREEZING" RELATIONS WITH PDY IS AS FOLLOWS:

3. EMMIGRANT REMITTANCES TO PDY. ARTICLE STATES THAT "SAUDIS ARE MOVING IN CONCERT WITH KUWAIT AND THE UAE TO BLOCK TRANSFER TO WORKER REMITTANCES TO SOUTH YEMEN," WHICH "AMOUNTED TO ONE FOURTH OF SOUTH YEMEN'S GDP IN 1976." IF CUTOFF WAS IN FORCE HERE, FIRST ORGANIZATION TO KNOW WOULD BE KUWAIT'S CENTRAL BANK, QUERIED BY US ON SUBJECT JULY 26, CENTRAL BANK'S KNOWLEDGABLE DEPUTY GOVERNOR EXPRESSED SURPRISE, SAYING THAT HE KNEW OF NO STOPPAGE OF ANY KIND IN BANK RELATIONS WITH PDY. AS FAR AS HE WAS CONCERNED, TRANSFERS, TELEGRAPHS, ETC., WERE ON "BUSINESS AS USUAL BASIS."

4. ARAB FUND AID TO SOUTH YEMEN. ARTICLE TERMS KUWAIT-BASED ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT AS "LARGEST CONTRIBUTOR" OF ASSISTANCE TO PDY. SINCE ITS ESTABLISHMENT, ARAB FUND HAS APPROVED LOANS TOTALLING APPROXIMATELY $26 MILLION (7.1 MILLION KUWAIT DINARS -- KD) TO FINANCE TWO PROJECTS IN SOUTH YEMEN -- $14.3 MILLION (OR 3.9 MILLION KD) FOR ADEN PORT REHABILITATION AND $11.7 MILLION (OR 3.2 MILLION KD) FOR IRAQI WATER PROJECT. LAST YEAR FUND WAS CONSIDERING FINANCING TWO ADDITIONAL PROJECTS, APPROXIMATELY $37 MILLION (10 MILLION KD) FOR ELECTRICITY GENERATION IN THE HADRAMAUT AND $5.6 MILLION (1.8 MILLION KD) FOR AGRICULTURAL DEVELOPMENT IN WADI TURBAN. SENIOR ARAB FUND OFFICIAL TOLD ECON CHIEF JULY 26 THAT DESPITE JULY 2 ARAB LEAGUE DECISION, PAYMENTS FOR THE TWO ALREADY APPROVED PROJECTS CONTINUE. IN FACT, SOME PAYMENTS ON ONE WERE MADE ONLY A FEW DAYS AGO. HE COMMENTED THAT, GIVEN THE FACT THAT
DEALINGS WITH BOTH YEIMS TOOK A GREAT DEAL OF TIME AND THAT 
PROCESS LEADING TO FINIAL NEW PROJECT APPROVAL WAS VERY SLOW. 
THIS BEING THE CASE, THERE WAS NOT EVEN A NEED FOR ANY FORMAL 
"FREEZE" ON CONSIDERATION OF NEW PROJECTS NOW, AND HE KNEW 
OF NONE. AS FOR EXISTING PROJECTS, HE FELT THAT IT WOULD BE 
DIFFICULT TO STOP DISBURSEMENT OF FUNDS ALREADY LONG COMMITTED 
UNDER SIGNED LOAN AGREEMENTS.

(3) GENERAL AUTHORITY FOR THE SOUTH AND ARABIAN GULF. THIS 
KUWAITI ORGANIZATION WAS SET UP IN 1963 TO CHANNEL ASSISTANCE 
TO BAHRAIN, THE THEN SEPARATE EMIRATES OF WHAT IS NOW THE 
UNITED ARAB EMIRATES, OMAN AND THE TWO YEIMS. THE UAR WAS 
DROPPED FROM THE LIST UPON ITS INDEPENDENCE AND AID TO 
SOUTHERN SUDAN WAS ADDED IN 1972. OVER PAST FIVE YEARS, 
THE AUTHORITY HAS BUDGETED ANNUALLY ROUGHLY 9 MILLION (2.4 
MILLION KD) FOR ASSISTANCE TO SOUTHERN YEIMS, OF WHICH, ABOUT 7.5 
MILLION (2 MILLION KD) PER YEAR WENT FOR BUILDING OF SCHOOLS 
AND HOSPITALS AND 1.5 MILLION (418,000 KD) FOR THE PAYMENT OF 
SALARIES OF 100 TEACHERS, 10 DOCTORS AND MISCELLANEOUS 
TECHNICIANS, ENGINEERS AND ADMINISTRATORS IN SOUTHERN YEIMS. 
(THIS AUTHORITY MAINTAINS A SMALL OFFICE IN ADEN.) BECAUSE OF 
THE JULY 2 ARAB LEAGUE DECISION, THE AUTHORITY'S DIRECTOR 
TOLD US, THE USUAL ROUGHLY 7.5 MILLION FOR CONSTRUCTION HAS 
BEEN DROPPED FROM THE BUDGET FOR FISCAL 1979 (JULY 1, 1978 
JUNE 30, 1979). HOWEVER, THE 1.5 MILLION FOR TEACHERS, 
DOCTORS, AND ADMINISTRATIVE OVERHEAD WILL CONTINUE. AS THIS 
COMES UNDER THE EXCEPTION FOR "HUMANITARIAN" ASSISTANCE 
DECREED UPON BY THE GOVERNMENT OF KUWAIT.

6. PRESS REPORTS THAT FDIY FINANCE MINISTER, FADIL MUBIN 
ABDULLAH, CALLED ON KUWAIT'S AMIR JULY 28 AND LEFT KUWAIT FOR 
LIBYA JULY 31. WE ASSUME THAT HE WAS ASKING FOR ASSISTANCE.

7. COMMENT: AS DEPARTMENT IS AWARE, GOVERNMENT OF KUWAIT HAS 
FOR MANY YEARS ARGUED THAT THE CARROT WOULD BE MORE EFFECTIVE 
THAN THE STICK IN WEANING FDIY BACK TO TRUE ARABISM AND 
MODERNIZATION. AS A RESULT OF THE JULY 2 ARAB LEAGUE DECISION 
AGAINST FDIY, IT HAS MOVED AWAY FROM THE CARROT, BUT ONLY 
GOTTEN AS FAR AS THE TWIG. WE DOUBT THAT FDIY WILL EVER GO SO 
FAR AS BLOCKING BANK TRANSFERS TO ADEN, SINCE A CARDINAL POLICY 
FOR THIS MERCHANT CITY-STATE HAS ALWAYS BEEN FREE MOVEMENT OF 
CAPITAL IN AND OUT OF THE COUNTRY. THE TELEPHONE 
BT #4328
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1. KUWAITI OFFICIALS MAY RAISE WITH UNDER SECRETARY COOPER ISSUE OF PROPOSED IRS REGULATIONS CONCERNING TAXATION OF INCOME OF FOREIGN GOVERNMENTS FROM INVESTMENT IN UNITED STATES. FOLLOWING IS BACKGROUND TAKING DENTS, WHICH APPEARS KUWAITI MAY WISH TO SUPPLEMENT.

2. IRS HAS PROPOSED NEW REGULATIONS UNDER SECTION 892 OF INTERNAL REVENUE CODE. UNDER SECRETARY'S PARTY (MORE) HAS COPY OF PROPOSED REGULATIONS AND SECTION 892. IN SUMMARY, SECTION 892 EXEMPTS FROM TAXATION INCOME OF "FOREIGN GOVERNMENTS" FROM STOCKS, BONDS, BANK DEPOSITS "OR FROM ANY OTHER SOURCE WITHIN THE UNITED STATES." PROPOSED IRS REGULATION INTERPRETS THIS EXEMPTION TO APPLY ONLY TO "PASSIVE" INCOME (INTEREST OR DIVIDENDS) OR INCOME FROM CERTAIN GOVERNMENTALLY-ORIENTED ACTIVITIES (SUCH AS TRADE OR BUSINESS OF A NATIONAL BULLY COMPANY). INCOME FROM ENGAGING IN A TRADE OR BUSINESS IN THE U.S., E.G., OWNERSHIP OF A HOTEL, OFFICE BUILDING, OR REAL ESTATE LEASES WOULD NOT BE TAXABLE TO FOREIGN GOVERNMENT OR ANY OF ITS AGENCIES OR SUBDIVISIONS.

3. OVER THE PAST 13 YEARS KUWAITI GOVERNMENT HAS INVESTED IN CONSIDERABLE REAL ESTATE INTERESTS IN THE U.S., ACTING IN PART THROUGH CHASE MANHATTAN BANK AS AGENT OR BROKER. APPARENTLY ASSUMING SECTION 892 EXEMPTION APPLIED TO THESE INVESTMENTS, KUWAITI MAY NOT HAVE FILED INCOME TAX RETURNS. KUWAITI PLUS FACE POTENTIAL TAX LIABILITY GOING BACK THIRTEEN YEARS, IF REGULATION IS FINALLY PRO-

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MULCATED AS PROPOSED. WE DO NOT KNOW AMOUNT OF INVESTMENT OR TAX LIABILITY IN QUESTION.

4. AS EVIDENT IN REPLY, AND AS EMBASSY KUWAIT MAY ELABORATE, KUWAITIS ARE CONCERNED GENERALLY BY THE REDUCTION IN RETURN ON INVESTMENT AND PARTICULARLY BY POTENTIAL APPLICATION OF THE PROPOSED REGULATIONS TO INCOME FROM PAST YEARS. CHASE AND ITS APARTMENTS HAVE ARGUED TO DEPUTY SECRETARY GARWIN AND TO IRS, AND PRESUMABLY TOLD KUWAITIS THAT SECTION 107 ON ITS FACE, COULD REASONABLY BE INTERPRETED TO EXEMPT KUWAITI GOVERNMENT FROM TAX ON THE INCOME IN QUESTION. A SUGGESTED REPLY, KUWAITIS MAY BELIEVE USES HAS SOME ANTI-KUWAIT POLITICAL MOTIVATION IN PROPOSING REGULATION AT THIS TIME (BIS IS NOT BPT NOT THE CASE).

5. IF KUWAITIS RAISE THIS ISSUE, YOU MIGHT WISH TO DRAW ON ABOVE BACKGROUND AND THE FOLLOWING POINTS. MOTIVATION FOR PROPOSAL WAS IN FACT DESIRE TO CLARIFY APPLICATION OF GS2 WITH RESPECT TO ALL FOREIGN GOVERNMENTS. (F.Y.I. INTENT GENERALIS TO DISTINGUISH BETWEEN "COMMERCIAL" AND "GOVERNMENTAL" TYPES OF INVESTMENT) TREASURY HAS PROVIDED OPPORTUNITY FOR WRITTEN COMMENTS (INCLUDING THOSE OF CHASE MANHATTAN BANK). WE UNDERSTAND TREASURY INTENDS TO HOLD PUBLIC HEARINGS IN JANUARY ON THE PROPOSED REGULATION. REGULATION WOULD NOT BE PROMULGATED IN FITAL FORM BEFORE THEN. FURTHERMORE, TREASURY IS AWARE OF KUWAIT'S SPECIAL CONCERNS, INCLUDING PROBLEM APPLICATION TO LAST YEARS INCOME. FOR THIS REASON WE UNDERSTAND OFFICIALS PLANNING INTENTIONS TO BRING TREASURY'S DEPUTY ASSISTANT SECRETARY FOR TAX POLICY (EMIL SUNDERL) WITH HIM ON NOVEMBER VISIT TO KUWAIT.

6. DAVID ROCKEFELLER CALLED ON ASSISTANT SECRETARY KATZ CONCERNING THIS ISSUE. ROCKEFELLER POINTED OUT POTENTIAL HARM TO BOP AND TO U.S.-OPEC RELATIONS IF THIS REGULATION IMPLEMENTED. VANCE RESOLVED BIS IS NOT BPT NOT THE CASE.

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1. SUMMARY. TOTAL PRODUCTION (INCLUDING ITS SHARE OF PRODUCTION FROM 1944 PARTITION WITH SAUDI ARABIA) IS NOW RUNNING AT 2.1 MILLION B/D. EVEN IF OIL WANTED TO, THIS COULD NOT BE INCREASED TO MUCH MORE THAN 2.5 MILLION B/D DUE TO NUCLEAR WORK-OVERS WHICH WILL NOT BEGIN UNTIL 1976 AND WILL TAKE PERIOD OF YEARS. GULF OIL CO. SAYS BELIEVE THAT, KUWAIT, SAUDI ARABIA AND OPEC HAVE TACIT UNDERSTANDING NOT TO CONSIDER INCREASE IN PRODUCTION IN RESPONSE TO IRANIAN SHORTFALL OF AT LEAST 4,000 OR TWO, WHEN SITUATION SHOULD BECOME CLEARER. NO SUMMARY.

2. AFTER SENDIN ART B, WE CHECKED WITH OFFICIALS OF THE OIL MINISTER OF THE KUWAIT OIL COMPANY (KOC), KUWAIT'S LARGEST OIL PRODUCER AS WELL AS GULF OIL COMPANY REPS. INCLUDING VISITING SENIOR VP FOR MARKETING. RESULTS OF INQUIRIES AND DISCUSSIONS REGARDING POSSIBILITY OF KUWAIT INCREASING ITS PRODUCTION TO COMPENSATE PARTIALLY FOR IRANIAN SHORTFALL FOLLOW.

3. CAPACITY. KOC VP, GEN. MANAGER IN CHARGE OF OPERATIONS (KOC PNQ) TOLD US NOV. THAT ALTHOUGH EOG HAD PAST PLANS IN EARLY 70'S TO INCREASE 3 MILLION B/D PRODUCTION CAPACITY, THE RESULT OF NATIONALIZATION AND OF OIL CONSERVATION POLICY, FUNDS WERE NOT ALLOCATED FOR NECESSARY WORK-OVER AND MAINTENANCE. SITUATION IS THAT AT PRESENT KOC CAN NOT INCREASE PRODUCTION OF OVER 2.0 MILLION B/D. KOC EXPECTS TO BEGIN NECESSARY WORK-OVER PROGRAM IN 1979, BUT UNLESS FUNDING IS

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8. ACTUAL PRODUCTION. IN OCTOBER, ACCORDING TO LATEST AVAILABLE INTERNAL OIL MINISTRY FIGURES, TOTAL KUWAITI PRODUCTION WAS RUNNING AT 1.1 MILLION B/D - 1.65 MILLION B/D FOR AOC AND 0.50 MILLION B/D FOR KUWAIT'S SHARE OF PARTITIONED ZONE PRODUCTION. THE 1.1 MILLION FIGURE IS 4 PERCENT INCREASE OVER OCTOBER, 1976. FOR FIRST TEN MONTHS OF 1977 TOTAL PRODUCTION, INCLUDING KUWAITI SHARE OF PARTITIONED ZONE PRODUCTION, AVERAGED 1.2 MILLION B/D, UP 6.77 PERCENT OVER FIRST TEN MONTHS OF 1977. DETAILED PRODUCTION FIGURES ARE AS FOLLOWS (IN BARRELS PER DAY):

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<td>2,113,323</td>
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4. GULF OIL COMPANY OFFICIALS TELL US THEY AND THE TWO OTHER MAJOR OFF-TAKERS (SHOLL AND BP) HAVE ALL BEEN TO SEE KUWAITI OIL MINISTER REGARDING INCREASING OFF-TAKE BUT TO DATE THE MINISTER HAS SHOWN NO INTEREST. GULF, WHICH USUALLY MONITORS MARKET CONDITIONS, SAYING IT CANNOT MEET ITS MINIMUM CONTRACTUAL OFF-TAKE OBLIGATIONS, IS BUYING THE MAXIMUM LEVEL OF OIL ALLOWED UNDER ITS CONTRACT FROM KUWAIT (1.2 MILLION B/D). WE UNDERSTAND SHOLL AND BP ARE DOING SIMILARLY.

5. COMMENT. WE SERIOUSLY DOUBT THAT LITTLE KUWAIT WILL RISE TO OFFEND IRAN AN BY TAKING SHORT TERM ADVANTAGE OF IRAN'S HOPEFULLLY TEMPORARY OIL MISPURCHASE. ON THE OTHER HAND, IF THE SITUATION PERSISTS, WE BELIEVE THAT KUWAIT WOULD RAISE PRODUCTION TO THE LIMIT OF A LITTLE OVER 2.0 MILLION B/D IN CONJUNCTION WITH EFFORTS BY SWADI ARABIA, UAE, AND OTHERS TO MEET REASONABLY GLOBAL DEMANDS.
FELT THAT, EVEN IF LONG-TERM, FUNDAMENTAL TRENDS BODE WELL FOR DOLLAR, US HAD NOT YET ADDED TO SHORT-TERM CONCERN. IN RESPONSE TO APPEAL FOR MODERATION AT ABU DHABI OIL DIRECTOR-GENERAL, OIL MINISTER SAID HE WAS UNABLE TO ACCEPT FURTHER INCREASE OF LESS THAN 5 PERCENT. ALTHOUGH THIS MIGHT BE ACHieved IN STAGES, KUWAITI OFFICIALS EXPRESSED LITTLE CONCERN OVER PROPOSED CHANGES UNLESS SECTION 92 OF THE CODE WHICH WOULD MAKE KUWAITI GOVERNMENT INVESTMENT IN DIPLOMATIC ESTABLISHMENT SUBJECT TO TAXATION. RESIDENTS CONCERNED OVER POSSIBLE PROGRESSIVELY INCREASED TAXES ON FOREIGN INVESTMENT, BOTH OIL AND FINANCE MINISTERS DECRED SUCH DISCOURAGEMENT OF INVESTMENT, SINCE INVESTMENT IS LINKED CLOSELY TO COUNTRY'S OIL PRODUCTION POLICY. IN RESPONSE TO UNDER SECRETARY FOR ECONOMIC AFFAIRS' QUESTION ABOUT VARIOUS ISSUES, KUWAITI OFFICIALS EXPRESSED SKEPTICISM ABOUT VALUE OF PROJECTS AND EFFORTS RELATED TO THESE ISSUES. DIRECTIONS AND LEVELS OF AID POLICIES WERE SUBJECT OF VIGOROUS DISCUSSION WITH KUWAITI FUND. ARAB-AMERICAN RELATIONS DESCRIBED AS EXTENSIVE. DISCUSSIONS OF SECTION 92 APPLICABILITY TO KUWAITI GOVERNMENT INVESTMENT IN US. END SUMMARY

2. IN A BUSY 24-HOUR VISIT IN KUWAIT, OCT 31-Nov 1, UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS RICHARD N. COOPER PAID A ONE-HOUR OFFICE CALL ON OIL MINISTER SHAIB ALI KHALIFA AL-SABAH, ENSURING THE OIL'S PRICE STABILIZATION. DURING MEETING WITH FINANCE MINISTER AHMED AL-KHALIFA AND Size WITH AMIR'S FINANCIAL ADVISOR, KHALID ABU NAJMI AND THE DIRECTOR GENERAL OF THE KUWAITI FUND FOR ARAB ECONOMIC DEVELOPMENT, ABULLATIF AL-HAMAD, WHO GAVE A LECTURE IN HIS HONOR, AMBASSADOR ALSO HOSTED A DINNER ATTENDED BY ALI KHALIFA AND INFLUENTIAL KUWAITI INVESTORS AND BUSINESSMEN.

3. IN HIS CALLS ON ALI KHALIFA, AMER AND ABU SA'UD, UNDER SECRETARY COOPER (1) REVIEWED THE STATE OF THE WORLD ECONOMY AND PROSPECTS FOR A STRENGTHENED DOLLAR, (2) WITH AMER DISCUSSED NORTH/SOUTH ISSUES, AND (3) DISCUSSED THE ECONOMIC BALANCE AND OUR HOPE FOR STABILIZATION AT THE COMING OPEC MEETING. DISCUSSIONS OF OIL PRICES, UNDER SECRETARY'S PRESENTATIONS FOLLOWED CLOSELY THAT ALREADY REPORTED IN PARAS 4 AND 6 OF EFF C. DISCUSSION ON THESE ISSUES DEVELOPED ALONG FOLLOWING LINES.

1. THE WORLD ECONOMY AND THE DOLLAR. KUWAITI REACTION TO THE SECRETARY'S PRESENTATION WAS APPRECIATIVE BUT CRITICAL OF THE IMMEDIATE FALLS FOLLOWING THE DECREASE OF THE DOLLAR.

2. OIL MINISTER'S COMMENTS. ALI KHALIFA SAID HE WOULD ARGUE WITH UNDER SECRETARY COOPER'S ANALYSIS OF THE DOLLAR'S SHORT-TERM FUNDAMENTAL PROSPECTS, FOR KUWAIT, HOWEVER.
DOLLAR PROBLEM IS IMMEDIATE. KUWAIT'S INCOME IS IN DOLLARS, BUT IT MUST CONVERT THEM INTO INCREASINGLY EXPENSIVE MARES, YEN AND OTHER CURRENCIES TO PURCHASE THE IMPORTS ON WHICH THEIR COUNTRY DEPENDS. EUROPEAN AND AMERICAN BANKERS WHO THE TYPICAL REGION SEES EVERY DAY NO EVIDENCE THAT THE US ANTI-INFLATION MEASURES ARE "WORTH IT." THEIR PERCEPTION THAT THAT THEIR PLAN FOR THE SHORT TERM THE US GOVERNMENT DOESN'T CARE. ANOTHER PROBLEM IS THAT THE US COMPANIES ARE NOT AS INTERESTED IN PROMETING EXPORTS AS IN OTHER REGIONS. UNDER SECRETARY COHEN REPLIED THAT HE COULD NOT DO IT.

SECRETARY KHALID: KSA, KSA, BAHRAIN, ABU DHABI, 4254, DUBAI, KSA, ALGIERS, CSP.

KUWAIT 6289

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SECRETARY: KSA, KSA, BAHRAIN, ABU DHABI, 4254, DUBAI, KSA, ALGIERS, CSP.
F. ATTARD ON THE DOLLAR, IN RESPONSE TO UNDER SECRETARY COOPER’S PRESENTATION, FINANCE MINISTER ATTARD SAID THAT HE NOTED THAT PRESIDENT CARTER’S EFFORTS TO CONTROL INFLATION, BAN ON EXPORTS, AND REDUCE OIL IMPORTS ALL SUCCEEDED, BUT HE DOUBTED THIS WOULD PERSIST IN THE NEAR TERM. FOR EXAMPLE, THE UPCOMING OPEC NEGOTIATIONS IN THE US FOR THREE-YEAR LAND CONTRACTS WERE LIKELY TO ADD TO INFLATION, RATHER THAN REDUCE IT. ATTARD ADVISED THAT, DEPENDING ON THE OIL PRODUCERS, THE DOLLAR’S DEPRECIATION WOULD NOT HELP US EXPORTS. SINCE IT SIMPLY LOWERS THE COST OF OIL FOR GIANTS, OTHER EUROPEN COUNTRIES AND JAPAN, MAKING THEM MORE COMPETITIVE WITH THE UNITED STATES, NOT LESS SO. ATTARD WONDERED OUT LOUD WHETHER WHAT IS HAPPENING TO THE DOLLAR IS NOT THE RESULT OF SOME “POLITICAL INTENTION.” WHATEVER THE CASE, ATTARD SAID, “THE US WOULD PAY THE PRICE” SINCE THE US WAS AT THE HEART OF THE WORLD ECONOMY AND THE DOLLAR WOULD REFLECT THE WORLDS ECONOMY, WHAT THE US AND EUROPE WERE DOING WAS TOオー THE BODY TO FIT THE GARMENT, THE BODY BEING THE PRO-DISTRIBUTION OF RAW MATERIALS SUCH AS OIL AND OTHER COMMODITIES. THE OIL PRODUCERS SELL THEIR INEXCHANGEABLE ASSETS AND ALL THEY GET IN RETURN IS SOMETHING WHICH DISAPPEARS RAPIDLY. FOR YEARS, ATTARD SAID, IN DISCUSSION WITH FORMER TREASURY SECRETARY SIMON AND ASST SEC PARSEY, AND NOW SECRETARY ATTARD AT CENTRAL LAST YEAR, KUWAIT HAD BEEN TRYING TO GET FRIENDS IN HIGH PLACES TO REALIZE THAT THE OIL PRODUCERS AND THE CONSUMERS HAVE COMMON INTERESTS, BUT NO ONE IN WORLD MILITARY SYSTEM TO DEPEND ON. NOW THE G77 IS PUSHING FOR zeigt TO GET INVOLVED IN FINANCIAL MATTERS BECAUSE THERE IS A MORE FINANCIAL STABILITY, NEED FOR SAYS WANT TO PRODUCE, MINISTER COMPLAINT, TOO MANY OF THE OIL COUNTRIES HAVE NO
SAID WE HAVE BEEN TRYING TO FIT THE GARMENT TO THE BODY AND NOT CUT THE BODY. WHEN JIMMY CARTER BECAME PRESIDENT, COOPER SAID, THE WORD WAS IN A REJECTION, COMMODITY PRICES WERE DISENTERED. WE FELT IT WAS THE RESPONSIBILITY OF THE UNITED STATES TO PULL IT TOGETHER IN THE AUSTIN. JAPAN also wanted to do something, and at the London summit in May 1977 we got general agreement at the technical level. ONLY THE US AID IT EXPANDED ITS ECONOMY, FOR INTERNAL REASONS BUT ALSO BECAUSE IT WAS GOOD FOR THE WORLD, ESPECIALLY PRIMARY PRODUCING COUNTRIES. WE ALSO KNEW THERE WOULD BE PROBLEMS IF GERMAN AND JAPAN did not expand more, AFTER THE HON SUMMIT, GERMAN AND JAPAN will expand and we hope in this regard that 1979 will be better than 1978. NO DOUBT THERE ARE PROBLEMS NOW, BUT THE WORLD WOULD BE IN DESPAIR IF IT BECOMES UNEMPLOYMENT AND MORE PROTESTION IF WE HAD NOT DONE WHAT WE DID.

F. TURNING TO ATEBI'S COMMENT ABOUT OIL PRODUCTION AND POLITICAL RESPONSIBILITY, UNDER SECRETARY COOPER NOTED THAT WE Too, FEEL A RESPONSIBILITY, FOR EXAMPLE, WHEN WE REPORT

G. DESCENDING BY INVESTOR ADVISOR AND SAUDI, SAEED AL-SA'UD, FOR MORE THAN 22 YEARS A SET FIGURE DETERMINING THE PRICE OF OIL, THE PRICE IS PROBABLY THE MOST IMPORTANT SINGLE ITEM IN THE ECONOMY. SAUDI SAID THE INVESTMENT IS FOR THE FUTURE. OIL REVENUES ARE DEPENDENT ON THE FOODS'TRY AND THE DOLLAR.' BAHRAIN, ON THE OTHER HAND, IS MORE INTERESTED IN THE VALUE OF OIL. BAHRAIN said THE PRICE IS IMPORTANT.
ON 10/29, THIS IS NOT ACCEPTABLE. ANY OIL MINISTER WHO WOULD
ACCEPT SUCH A LIMITED INCREASE IS EITHER "UNAWARE OF NAIVETE."
I THINK ONE WILL ACCEPT WHAT THE IRANS HAVE PUBLICLY DEMANDED.
HOWEVER, WE WILL NOT ACCEPT AN INCREASE BELOW TEN PERCENT.
HOW IT IS DONE, AT ONCE OR IN STAGES, IS NOT OF CONCERN. WE
DO NOT ASK COMPENSATION FOR LOSSES OVER THE PAST TWO YEARS.

10/29

c. 10/29/79

AMBEASTY KUWAIT
RCPO/SECSTATE 7SHOE IMMEDIATE 2311
10 RCMBE/AMBEASSY ANU DHABI 4256
10 AMBEASSY A David 672
10 AMBEASSY BAGHDAD A DUC
10 AMBEASSY ROME 6293
10 AMBEASSY CAGRI 2133
10 AMBEASSY CARACAS 365
10 AMBEASSY CAYENNE 2620
10 AMBEASSY CARACAS 366
10 AMBEASSY JAMA 324
10 AMBEASSY JEMIA 5835
10 AMBEASSY LAGOS 341
10 AMBEASSY LIL-BERILL 163
10 AMBEASSY LONDON 3156
10 AMBEASSY MARINA 551
10 AMBEASSY MACTAN 2155
10 AMBEASSY MACAO 4233
10 AMBEASSY MEPC 557
10 AMBEASSY VIENNA 307
10 USTR/AMBEASSY WASHINGTON IMMEDIATE

FINDental section 4 of 5 KUWAIT 0240

I UNDERSTAND OUR RESPONSIBILITIES, BUT WE ALSO HAVE THEM FOR
OWN PEOPLE. IT WOULD BE POLITICALLY UNWISE FOR US TO
ACCEPT TOO SMALL AN INCREASE. IT WOULD NOT EVEN BE GOOD FOR
OUR STORES IN THE UNITED STATES BECAUSE OF THE NEGATIVE INTERNAL POLITICAL
AFFECTS FOR THE OIL PRODUCERS." UNDER SECRETARY COOPER
INCLUDED WHAT HAD BEEN A SPIRITED BUT FRIENDLY CONVERSATION
RATING THAT WE UNDERSTOOD THE POLITICAL AND OTHER CONSIDER-
ATIONS INVOLVED, BUT WOULD APPRECIATE THE MINISTER'S
EVERY EXERCISE OF RESTRAINT IN OIL PRICE DECISION.

STANFORD LINK TO TAX CHANGES TO OIL PRODUCTION.
PROPOSED REVISION BY IRS OF JS TAX REGULATIONS TO COVER
TAXES OF THE INVESTMENTS OF FOREIGN GOVERNMENTS IN THE US
(IRC. 802), REPORTED REF B, PRODID TO BE A MAJOR TOPIC OF
DISCUSSION DURING THE VISIT. BOTH THE OIL AND FINANCE
MINISTERS DISCUSSED THE SUBJECT AT LENGTH, WARNING THAT
ATION OF REGULATIONS UNDER IRC 802, BY DISCOURAGING
DI INVESTMENT IN THE US, COULD ALSO DISOURAGE KUWAIT
PRODUCTION. OIL MINISTER REMARKED THAT HE HOPED WE UNDER
stood the fact of any Diminishing Returns to Investment in the US, because of recent... that he was expanding, a number of large oil... Mohammed in the Office of Foreign Investment (OFD). Ali Khalifa said that the... revision of the Treaty on International Monetary Relations (IMF) that... Countries. Since the IMF was being written, oil ministers of OPEC surplus... be under increasing pressure to limit production even more if the... him, and concluded, "I believe this matter aside for a while. This is not the... FOCUS/SOUTH ISSUES: In response to Minister Ateq's... in UNCTAD/South Secretariat, must be considered in response to... South Dialogue as follows:

A. COMMON FUND: We are at a point where we can make a... to a negotiating session in two weeks' time. Our talks... industrial countries and the UNCTAD Secretariat of... that, on key elements concerning a common fund, we can work out the major... that the IMF's views on a common fund should be considered as a... certain that the intrinsic merits of some of the... countries with the IMF is determining, and it is difficult for a... UNCTAD Secretariat could not find its own role to promote... within the framework of the IMF on this issue.

B. UNCTAD meetings involving North/South issues include... meeting in April, May, June, July, and December. Within... Secretary encouraging a... role and to...
C. COMMITTEE OF THE WHOLE. THERE WAS A "PRACAS" IN SEPTEMBER
OVER PRECISE TERMS OF REFERENCE, BUT THIS APPEARS TO HAVE BEEN
RESOLVED. WE HOPE THAT WHEN THE NEGOTIATIONS BEGIN IN JANUARY
WE CAN DEAL WITH SUBSTANTIVE RATHER THAN PROCEDURAL ISSUES,
AS HAS HAPPENED UP TO THE PRESENT.
D. CODE OF CONDUCT. THERE ARE STILL IMPORTANT DIFFERENCES
BETWEEN THE UNITED STATES AND THE G77, BUT WHEN WE SIT DOWN
THESE MAY NOT BE AS SHARP, AS OUR BASIC VIEWS ARE NOT THAT
FAR APART/

9. COMMENTING ON UNDER SECRETARY'S PRESENTATION, ATEEQI SAID
THAT THE NORTH/SOUTH DIALOGUE, OF COURSE, COVERED A WIDE
RANGE OF ISSUES, SOME WITHIN HIS SCOPE AND SOME NOT. HOWEVER,
HE DECLARED: "I DON'T BELIEVE IN NORTH/SOUTH DIALOGUE AT
ALLO. I NEVER BELIEVED IN THE SO-CALLED ARAB/EUROPEAN DIALOGUE
BECAUSE THERE IS NOTHING IN IT ... AS FOR TECHNOLOGY
TRANSFER, I CAN'T PUT A USD MIND IN AN AFRICAN OR AN ARAB
HEAD/ IF I WANT TECHNOLOGY TRANSFER I HAVE TO PAY TO STUDY
AND TO SPEND FOR RESEARCH. I CAN'T INJECT WHAT IS IN MY MIND
TO YOU. TRANSFER OF TECHNOLOGY IS A FOOL'S SLOGAN."
ATEEQI STRESSES THAT TRYING TO REACH FORMAL AGREEMENT ON
"TECHNOLOGY TRANSFER" WAS A MEANINGLESS AND FUTILE EXERCISE
SINCE IT WAS HARD ENOUGH JUST TO REACH AGREEMENT IN NEGOSI-
ATIONS BETWEEN TWO COUNTRIES, MUCH LESS AMONG BLOCS OF THEM.

10. THE COMMON FUND, ATEEQI SAID HE HAD MANY RESERVATIONS
ABOUT A COMMODITY FUND, BUT KUWAIT COULD NOT TELL THE G77
NATIONS THAT IT DID NOT SUPPORT THEM. HE DID NOT BELIEVE
EITHER THE US OR THE G77 COMMODITY PROJECTS WILL WORK.

11. UNDER SECRETARY COOPER SAID HE AGREED WITH THE MINISTER
ENTIRELY ON THE QUESTION OF TECHNOLOGY TRANSFER -- WHICH HAS
MEANING ONLY IN TERMS OF BUILDING HUMAN CAPABILITY TO CREATE
NEW KNOWLEDGE. HE HOPED THAT AT THE INTERNATIONAL CONFERENCE
ON SCIENCE, TECHNOLOGY AND DEVELOPMENT (UPCSD) NEXT
SUMMER, THIS CENTRAL POINT WILL COME THROUGH -- WHAT NEEDS TO
BE DEALT WITH IS EDUCATION ABOVE ALL. HE SAID HE WAS INTERESTED
IN THE MINISTER’S SKEPTICAL VIEW OF THE COMMON FUND, FOR OUR PAST, WE SEE SOME VALUE IN IT. IT WILL NOT SAVE THE WORLD,
BUT IT COULD MAKE A MODEST IMPROVEMENT. AMERI INTERJECTED
THAT IT WOULD START MILDLY AND THEN END UP LIKE THE UNITED
NATIONS. UNDER SECRETARY COOPER REPLIED THAT THIS WAS JUST
WHAT WE WANTED TO AVOID. HE HOPED KUWAIT WOULD EXPRESS ITS
STRONG VIEWS AT THE CONFERENCE. THE MINISTER SAID HE PLANNED
TO DO SO THROUGH THE OPEC SECRETARIAT. UNDER SECRETARY
COOPER CONCLUDED THAT IT WOULD BE HELPFUL TO INTRODUCE REALISM
INTO THE NEGOTIATIONS. HE AGREED WITH THE MINISTER THAT
THERE ARE DIFFICULTIES ENOUGH WITH A ONE-ON-ONE NEGOTIATION,
BUT ADDED THAT WE LIVE IN A WORLD WITH 150 COUNTRIES AND NEED TO
TREAT GLOBAL ISSUES ON A GLOBAL BASIS, DESPITE THE
DIFFICULTIES.

12. DURING A WIDE RANGING DISCUSSION ON AID POLICY, KUWAIT
FUND DIRECTOR GENERAL ABDOULATIF AL-HAND ARGUED THAT US
SHOULD BASE AID LESS ON POLITICAL CONSIDERATIONS AND AT
LEAST SEGREGATE SOME OF ITS AID FOR PURELY DEVELOPMENTAL
PURPOSES. HE EXPRESSED FEAR THAT LACK OF US SUPPORT FOR
IDA VI WOULD DISCOURAGE THE OPEC SURPLUS AID/DONORS WHOSE
SPULUSES WERE DIMINISHING. USAID’S BASIC HUMAN NEEDS (BHN)
APPROACH WAS TOO DOMINIC. UNDER SECRETARY COOPER REPLIED
THAT THE RECENT AID BILL SHOWING SIGNIFICANT INCREASE IN US
ASSISTANCE; AS A DEMOCRATIC COUNTRY WE HAD TO BE
RESPONSIVE TO THE OPINIONS OF TAXPAYERS WHO PAID FOR FOREIGN
ASSISTANCE AND WHOSE SUPPORT WAS MORE POPULAR AND HAD MORE SUPPORT.
OPEC AID DONORS SHOULD NOT LOOK AT US PERFORMANCE ON IDA VI
AS A BELLWETHER SINCE THE SWING IN PUBLIC SENTIMENT WAS NOT
BACK TOWARD BILATERAL ASSISTANCE. IMPORTANT DEVELOPMENT WAS
THE OVERALL LEVEL OF US ASSISTANCE, WHICH HAD INCREASED
MARKEDLY SINCE THE PAST YEAR. UNDER SECRETARY ALSO NOTED THAT
DIFFERENT COUNTRIES HAVE DIFFERENT PREFERENCES IN ORGANIZING
ASSISTANCE POLICIES AND IT WAS MORE IMPORTANT THAT OVERALL
EFFORTS INCREASED THAN THAT ALL SUPPORTED THE SAME ENDS.

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FUNCTIONING. THE GOVERNMENT OF IRAN (GOI) HAS TAKEN A
STRONG STAND WITH STRIKE: IF THEY MUST RETURN TO
WORK OR BE FIRED, IF THEY ARE FIRED, THEY WILL LOSE THEIR
COMPANY HOUSING IMMEDIATELY.

3. MINISTER REPLIED THAT LAW AND ORDER MUST BE RESTORED
NOW AND THAT HE SEE NO ALTERNATIVE TO THE GOI’S RECENT
ACTIONS. SINCE THE SITUATION IN THE OIL SECTOR IS A
FUNCTION OF THE GENERAL SITUATION IN IRAN, IT FOLLOWs
THAT OIL PRODUCTION WILL NOT BE FULLY RECOUPED UNTIL
PEACE AND LAW AND ORDER ARE RESTORED.

4. COOPER RECALLED
THAT DURING HIS VISIT TO KUWAIT, THE QUESTION OF IN-
CREASED LIFTING HAD BEEN RAISED; HE NOTED THAT IF THE
PRESENT SITUATION CONTINUES FOR ANOTHER FEW WEEKS IN
IRAN, IT MAY BE NECESSARY TO ASK THE KUWAITIS TO INCREASE
THEIR LIFTING. ALI KHALIFA STATED THAT HE HAD BEEN
INFORMED THAT THREE TO FOUR DAYS PRODUCTION WORTH OF
PETROLEUM HAS BEEN LOST AS A RESULT OF THE IRANIAN STRIKE.
THIS IS NOT A SERIOUS SITUATION YET BUT WILL HAVE TO BE
COMPENSATED FOR NEXT YEAR WITH INCREASED PRODUCTION, IN
ORDER TO MAKE UP THIS AMOUNT AS WELL AS TAKING INTO
CONSIDERATION THE ANTICIPATED INCREASED DEMAND. COOPER
NOTED THAT SAUDI ARABIA HAS BEEN PRODUCING WELL ABOVE
ITs “NORMAL” LEVEL FOR THE PAST FEW SEVE’ERAL DAYS.

5. MINISTER STATED FLATLY THAT IF THE USG WERE PLANNING
TO ASK KUWAIT TO INCREASE ITS LIFTINGs. “I CERTAINLY
HOPe THE TAXATION ISSUE CAN BE SETTLED,” HE NOTED THAT
FOLLOWING THE COOPER VISIT TO KUWAIT HE HAD RAISED THE
QUESTION OF POSSIBILITY OF INCREASING PRODUCTION WITH
THE CABINET AND THAT IT WAS “NOT RECEPTIVE” AS LONG AS THE
TAXATION ISSUE WAS UNEPEL Solved. ALI KHALIFA HOPED THAT
SECRETARY BLUMENTHAL WOULD BE IN A POSITION TO REASSURE
THE GOI DURING HIS UPCOMING VISIT. THE MINISTER NOTED
THAT HE UNDERSTOOD THAT THE IRS IS “INDEPENDENT,” BUT HE
HOPe THAT THE USG UNDERSTOOD HOW IMPORTANT HIS GOVERNMENT
TREATED THIS ISSUE.

6. COOPER RECALLED HIS LONG CONVERSATION WITH KUWAITI
FINANCE MINISTER ATEEOI ON THIS ISSUE (OF THE PROPOSED IRS
REGULATION RELATING TO SECTION 882 OF THE IRS CODE).
COOPER NOTED THAT THE PROPOSED DRAFT REGULATION HAS BEEN
PROMULGATED AND THAT HEARINGS ARE SCHEDULED TO BE HELD AT
THE END OF JANUARY. SECRETARY BLUMENTHAL IS THE
AUTHORitative VOICE IN THE USG ON THAT SUBJECT AND HE WILL
CERTAINLY BE INTERESTED IN THE VIEW OF THE GOI.

7. ALI KHALIFA SWITCHED THE SUBJECT TO THE STATE OF
THE DOLLAR. COOPER STATED THAT THE RATES HAVE HELD UP
IN THE PASTE FEW DAYS AND THAT USG IS HOPEFUL THAT THEY
WILL CONTINUE TO DO SO. THE MARKETS ARE SOMEWHAT
JITTERY, THERE HAS BEEN SOME PROFIT-TAKING AND CONTINUING
DIVERSIFICATION BUT THAT ON THE WHOLE WE ARE PLEASED
WITH WORLD REACTION TO OUR NEW POLICY. THE FUNDAMENTALS
OF THE U.S. ECONOMY ARE ALL RIGHT AND A COMBINATION OF
THIS FACT PLUS THE NEW PROGRAM SHOULD CREATE AN ENVIRONMENT
OF THE WORLD MARKET.
THE COMPLIANCE CLAUSE. THE MINISTER WONDERED HOW EFFECTIVE THIS CLAUSE WOULD BE, HOW MUCH OF THE U.S. ECONOMY IS SUBJECT TO USG CONTROL IN THAT MANNER. COOPER REPLIED THAT THIS SEGMENT OF THE U.S. ECONOMY IS COMPOSED OF USG PURCHASES OF GOODS AND SERVICES, INCLUDING PAYROLLS. MANY U.S. FIRMS ARE NOT DIRECTLY EXEMPTED BUT ALL MAJOR FIRMS ARE AND THEY WILL SET THE TONE FOR PRICING FOR OTHER FIRMS. SEVERAL IMPORTANT SECTORS OF THE ECONOMY ARE NOT UNIONIZED, INCLUDING HIGHER EDUCATION, BANKING AND INSURANCE. THESE SECTORS WILL LOOK TO THE GUIDELINES AND PROBABLY ADHERE TO THEM.

11. ALI KHALIFA ASKED COOPER ABOUT THE FUNCTIONING OF THE VARIOUS JOINT COMMISSIONS WHICH THE U.S. HAS ESTABLISHED WITH VARIOUS COUNTRIES OVER THE PAST SEVERAL YEARS. COOPER REPLIED THAT HE WAS LEAVING THAT EVENING FOR INDIA TO CHAIR THE ANNUAL MEETING OF THE INDO-U.S. JOINT COMMISSION. INDIA HAD DECIDED AT THE POLICY LEVEL THAT IT WAS MORE INTERESTED IN FOREIGN INVESTMENT THAN IN THE PAST. BUT AMERICAN BUSINESSES REPORT THAT AT THE BUREAUCRATIC LEVEL, INDIAN ATTITUDES APPEAR TO HAVE CHANGED. COOPER SAID THAT THE VARIOUS JOINT COMMISSIONS HAVE PRODUCED MIXED PATTERNS OF RESULTS; SOME ARE VERY USEFUL, THE MORE OR LESS MORIBUND. VANCE

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A Oil price freeze with the United States or any other country behind the back of OPEC, when asked by the press to comment on the visit of Treasury Secretary Blumenthal to the Middle East, he insisted that a decision on prices was one that could be taken only within the membership of OPEC, together with his host, Energy Minister Alberto. Heーズ, Ali Khalifa denied knowledge of a reported secret agreement between the United States and Saudi Arabia on prices, with Alberto adding that if it were a secret agreement he would have no reason to know about it and even less to talk about it. The two ministers also expressed doubts about the accuracy of recent press reports that Saudi Minister Yamani publicly supported a price freeze, but declined to comment specifically on this point.

2. Ali Khalifa reportedly did express his support for a pricing mechanism involving quarterly increases of between two and five percent, saying that Kuwait would take such a proposal to the December OPEC meeting, and expected it to be adopted by the other members, while he again declined to specify the amount of increase Kuwait would seek in the December meeting. He said an increase was necessary to partially compensate for the losses suffered by the producing countries due to inflation and currency devaluations. He was quoted as saying that if Secretary Blumenthal knows of no reasons in favor of an increase, we certainly do.

3. Ali-Khalifa is clearly proving much more accessible to the local press than Yamani, both because of his own personality and the absence of the large contingent of bodyguards which surrounded Yamani, and Kuwait has thus already received much more coverage than Yamani in the local press. His reported support for a system of quarterly oil price increases coincided here with press reports from that Yamani had also come out in favor of gradual increases; this position is certainly in keeping with the views of Minister Alberto that OPEC's tradition of discussions over twice a year on the price question only serves to divide the organization and postpone decisions on other important matters.
4. MINISTER KHALIFA MAINTAINED THAT AN HONEST GOVERNMENT AND BETTER DISTRIBUTION OF THE COUNTRY'S WEALTH WAS THE LONG-TERM SOLUTION FOR IRAN. SECRETARY SCHLESINGER COMMENTED THAT THE SHAH'S "WHITE REVOLUTION," WHICH KHOMEINI ATTACKS AIMED AT REDISTRIBUTION OF INCOME.

5. AT THE ABU DHABI PRICE MEETING, KHALIFA SAID THAT HE EXPECTED A "MORATORIUM" INCREASE (10-15 PERCENT) TO BE THE FINAL OUTCOME. HE SAID NO DECISION HAD YET BEEN MADE AND INTENSE LOBBYING WOULD NOT BEGIN UNTIL DECEMBER. HE SAID THE OPEC MINISTERS WOULD CONSIDER TWO POSSIBLE SCENARIOS: (1) A SINGLE PRICE INCREASE VALID FOR ONE YEAR, AND (2) AN INITIAL INCREASE (E.G., 5 PERCENT) FOLLOWED BY SMALLER INCREASES (E.G., 2-3 PERCENT) EACH QUARTER OVER THE NEXT TWO YEARS. TO SECRETARY SCHLESINGER'S QUERY, KHOMEINI MAINTAINED THAT THE MARKET WOULD SUSTAIN PERIODIC PRICE INCREASES EVEN IF IRAN RETURNS TO FULL PRODUCTION AND GROWTH RATES IN THE INDUSTRIAL COUNTRIES ARE REDUCED. HE PROJECTED DEMAND FOR OPEC OIL IN 1979 AT 31.5-32 MBBL, UP FROM 29-30 MBBL IN 1978.

6. MINISTER KHALIFA SAID THAT HE WAS CERTAIN PRACICAL OPEC PRODUCTION CAPACITY WAS DRAMATICALLY LESS THAN THE 38 MBBL THAT IS SOMETIMES REPORTED. USING KUWAIT AS AN EXAMPLE, HE SAID THAT ITS OFFICIAL CAPACITY WAS 3.8 MBBL BUT PRACTICAL CAPACITY WAS ONLY 2.5 MBBL. HE NOTED THAT SAUDI ARABIA, WHILE CURRENTLY PRODUCING OVER ITS CEILING BECAUSE OF THE IRANIAN SITUATION, COULD NOT OBJECT TO A PRODUCTION LEVEL OF LESS THAN THE 8.5 MBBL CEILING.

7. SECRETARY SCHLESINGER SUGGESTED THAT THE IAEA WAS ENGAGED IN SOME ACTIVITIES -- PROMOTING CONSERVATION, DEVELOPING AN EQUITABLE ALLOCATION SYSTEM FOR SHARING OIL IN TIMES OF SHORTAGE -- THAT WOULD ALSO HOLD BENEFITS FOR OPEC. HE SAID THAT THE IAEA NO LONGER WAS A CONFRONTATIONAL ORGANIZATION AND CONSIDERED IF IT COULD BE USED TO FACILITATE BETTER PRODUCER/CONSUMER COOPERATION. MINISTER KHALIFA SAID THAT MOST OPEC NATIONS WERE ON PUBLIC RECORD IN OPPOSITION TO IAEA. NO FORMAL IAEA/OPEC DIALOGUE WAS NOW POSSIBLE, ALTHOUGH INFORMAL INFORMATIONAL EXCHANGE AT STAFF LEVEL COULD BE USEFUL. ACCORDING TO MINISTER KHALIFA, THE PRODUCERS AND CONSUMERS SHOULD SPEAK THE NEXT TWO YEARS DECIDING AMONG THEMSELVES THEIR OWN NEEDS AND PRIORITIES (AS THE OPEC MEMBERS WOULD DO IN THE NEW STRATEGIC COMMITTEE) AFTER WHICH TIME SOME TYPE OF REPRESENTATIVE PRODUCER/CONSUMER DIALOGUE MIGHT BE POSSIBLE. IN SUCH A DIALOGUE, ONLY NATIONAL MINISTERS WOULD SPEAK, BUT OPEC AND IAEA COULD ATTEND AS OBSERVERS.
8. Secretary Schlesinger assured the minister that the new US energy program would be rigorously implemented and would be effective. He said he would use the authority to the maximum to force the burning of coal in industrial and utility boilers. The conservation provisions of the legislation will have a substantial impact. The provisions on natural gas pricing should produce considerable quantities of new gas and in themselves ensure a reduction in US oil imports by more than one million by 1985. The impact of all the new legislation will be to reduce oil imports in 1985 by 2.5-3 million below the level they otherwise would have been. The Secretary said that we now expect 1985 oil imports to be around 30 million.

9. Responding to Minister Khalifa's query, Secretary Schlesinger admitted that some of the administration inflation fighters were exerting pressure against raising US domestic oil prices to world levels. The decision on this issue will be taken next year. The Secretary expressed a strong view that the prices should be raised.

10. Secretary Schlesinger briefed Minister Khalifa on oil prospects in China and Mexico. He placed Chinese total (proved and unproved) reserves at 100 billion barrels (citing a CIA publication), half of which was onshore and the remainder offshore. He expected the Chinese to use Western firms to explore for oil in the offshore areas. He noted that the Chinese are over optimistic about the amount of revenues they could expect in the next few years from oil exports.

11. Secretary Schlesinger cited Mexican estimates of 60 billion barrels of proven reserves and said Mexico probably had more than an additional 125 billion barrels in reserves. He anticipated Mexican production of 5-6 million by 1985, 3 million of which could be exported.

12. Secretary Schlesinger mentioned that he was tentatively planning a trip to the Middle East in either January or the early spring. He responded positively to the Minister's invitation to visit Kuwait at that time. Vance BI #2417 CONFIDENTIAL

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MEMORANDUM OF CONVERSATION

DATE: November 29, 1978

PLACK: Political Officer's Residence

SUBJECTS: Kuwaiti University Students; Iran and Kuwait; Opposition to Ruling Family; Moslem Conservatism; Shi'ites; Biographic Information

PARTICIPANTS: Mohammad Al-Rumaihi, Kuwait University Professor and Editor-in-Chief of Arab Times; Peter A. Sutherland, DCM, American Embassy, Kuwait; James L. Clunan, Political Officer, American Embassy, Kuwait

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(U) Background

(U) During a reception held by the Ambassador for visiting Treasury Secretary Blumenthal and his delegation, Rumaihi told the Secretary that he shouldn't be talking to the people at this reception; if he really wanted to know what was going on in Kuwait and who would be in charge in a few years, he should be looking elsewhere. We followed up on these remarks by inviting Rumaihi to lunch. Over the course of three hours' discussion, the following emerged.

(U) Rumaihi, who teaches at the University, told us he devotes the early part of the morning to lectures and classes. Later in the day he goes about his business around town but is not compelled to spend a fixed number of hours at his newspaper. Close supervision there is exercised by others. This regime gives Rumaihi time to contemplate Kuwait society and its defects.

(U) Kuwaiti University Students

(U) Rumaihi said that a number of students are suffering hardships because of the rapid rise in the cost of living. Of course, the Government provides free education, but the student is on his own as

Drafted: DCM Clunan (email: DCM Eric) 12/17/78

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tary as housing and meals are concerned. A majority of students are taking part-time jobs to make ends meet. None of this stirred us as particularly troublesome, in view of the number of Americans who have to work their way through college. Rumaihi acknowledged this point, but went on to note the important factor for the students is the appearance of hardship in comparison to others. In contrast to the wealthy and well-to-do, a number of students classify themselves as "poor."

There are also social pressures on the student brought by the great wealth displayed by some members of the student body. Some female students come to class with a brand new outfit every third day but most do not. More and more of the latter, who cannot keep up with the competition in clothing, are taking to the traditional costume of Kuwaiti women, veil and all.

Sutherland cited the study by Tawfic Farah which concludes that Kuwaitis in the University place their religion ahead of other allegiances, including their family, country, and race. The study is to appear in the December 1978 issue of the Journal of Social Psychology. Rumaihi agreed that students are showing greater interest in Islam. It serves as a mask for rebellion, he said. In this regard, Rumaihi addressed himself to the notion of "sharing power." The ruling family does not do this, and students resent it, as well as their relative "poverty." The conventional outlets for this resentment do not exist: There are no student organizations that matter; the press is controlled; there is no National Assembly. About these, the students join Moslem groups and vent their dissatisfaction under cover of exhorting the Government to be more zealously Moslem in its conduct.

**Iran and Kuwait**

Events in Iran are the central topic of conversation. Rumaihi thought the events there boded ill for Kuwait, in that history would not precisely repeat itself here but that some of the disabilities of the regime in Iran are also present here.

**Opposition to Ruling Family**

He referred to corruption. "The Shah is in his twilight. His authority has been undermined by the corruption of those around him, those he trusted. I have analysed these in my recent article in al-Siyassa." Rumaihi said: "In former times the rulers of Kuwait and their family were not vulnerable to charges of corruption." The Sabahs had remained aloof from business, but in the middle 60's the family entered commerce and finance in a big way. Traditionally, the Sheikh of an Arab tribe did not directly involve himself in the business of the tribe so that he could remain impartial; he relied on the members of the tribe to provide for his livelihood, which they did for so long as he deserved it. The Sabahs traditionally

And this role in Kuwait even as the society evolved from a tribal one to a mixed commercial and desert community. When in the old days the men of the great commercial families and the captains and sheikhs went away for months, the Sabahs were left behind to look after the town and the welfare of the women. In short, they were the judges, but now the Sabahs have abandoned this tradition and people are beginning to say they thereby have lost their Sheikhs claim to authority.

Rumaihi also alluded to discontent with the Sabahs among the wealthy merchant families who resent the inroads made by the Sabahs into business areas where the profits traditionally would have been observed to such families.

Clunan said Kuwaitis had assured him that Kuwait would not go the way of Iran because of its attention to the welfare of all its people. Elaborating this thesis, which we have heard most recently from the Chief of Staff, Kuwait Armed Forces, Clunan explained that the extensive social welfare schemes in Kuwait are said to delay the possibility of discontent such as that which has arisen among the Indian middle class who are afflicted with inflation and the poor people who are left out of the modernization process. Rumaihi scoffed at this notion. For one thing, he noted it leaves out half the residents of Kuwait who, not being Kuwaitis, get fewer social benefits as well as lower pay for doing the same job as Kuwaitis who work alongside them.

**Moslem Conservatism**

Rumaihi's sharpest comments centered not on the defects of Kuwait's elaborate social welfare scheme but on the flaws of the leadership. Besides corruption, Rumaihi spoke of hypocrisy. The introduction of stricter law in accordance with Moslem tradition would not affect the scofflaw attitude of Establishment Kuwaitis. He cited such examples as the prohibition on alcohol and modesty in bathing costumes, both already introduced, and most recently the proposed application of Sharia Law to criminal punishment which is proposed in the new Penal Code. Rumaihi voiced the usual criticisms of this proposed measure, namely the likelihood that it would be enforced according to a double standard, its unsuitability in the modern world, and the lack of thorough modern and psychological studies into the situations for gauging the impact of its use.

Rumaihi predicted that, after all the debating, the arguments in the press and the rest of the uproar, the Government will introduce the Code without important changes, just as they had done last year with the Rent Law. He said that, without Parliament and discussion into the situations for gauging the impact of its use, the Government will be able to claim great public support for the measures by citing selected statements in the newspapers.
(C) While the hypocrisy and the anachronism associated with the new Penal Code are troubling, Rumahi was more worried that conservative religious pressures would get out of control. As in Iran, they arise in many cases from an emotional, rather than a reasoned, reaction to the modern world. The real danger in it all lay in the leadership's failure to see clearly where the revival of religious conservatism would lead. "What is next?" he asked rhetorically.

After the criminal code we could see the enforcement of the Zakah (Islamic taxation) and then why not the prohibition of insurance and the taking of interest? For Kuwait, which intends to rely increasingly on such income as a major national resource, such a proposition is ludicrous. Moreover, full application of Islamic law would challenge the legitimacy of the rule by the Sabahs, who after all have no claim to the Caliphate.

(C) Shii'ites

(C) Gluanz asked about Shii'ites. Rumahi did not seem well informed but offered these points. There are no important Shii'ite Imams here. Some Shii'ites have circulated leaflets. "I have seen some of them; they are critical of the Shah and the Amir as well."

(C) COMMENT

(C) Despite his tantalizing remarks to Secretary Blumenthal, Rumahi did not ever clearly say who he expected would be running Kuwait in a few years time.

(C) Biographic Information

(C) Rumahi said he was not popular with the authorities; he gave examples. He had had his passport lifted for two months at the end of the summer after returning from London where he had made public statements which the Government did not like. Also, he has been stripped of editorship of the Journal of the Gulf and Arabian Peninsula Studies, a scholarly quarterly.
TO ALL MEMBERS. THE OIL MINISTER DID NOT EXPECT THE CURRENCY BASKET QUESTION TO RECEIVE MUCH DISCUSSION AND HOPED TO AVOID ANY DETAILED CONSIDERATION OF THE MATTER. END SUMMARY.

2. I WAS UNABLE TO MEET WITH OIL MINISTER SHAIKH ALI KHALIFA AL-SABAH UNTIL DEC 11, BECAUSE OF HIS UNAVAILABILITY DUE TO REGULAR SUNDAY CABINET MEETING DEC 10. BY THE TIME I MET HIM, HE HAD ALREADY RECEIVED HIS PECAL INSTRUCTIONS FROM THE AMIR PRIOR TO HIS DEPARTURE TO AND SHARI THE SAME EVENING WHERE HE WOULD FIRST ATTEND OPEC MEETING BEGINNING DEC 12 AND THEN STAY ON FOR THE OPEC MEETING DEC 16.

3. I OPENED MY DISCUSSION WITH THE MINISTER BY NOTING HE HAD A FULL DAY OF MEETINGS WITH SECRETARIES ELMENAL AND SCHLESINGER UNDER SECRETARY COOPER DURING HIS NOV 11 WASHINGTON VISIT. HE OBSERVED THAT HE HAD A GOOD EXCHANGE OF VIEWS WITH SCHLESINGER AND COOPER, BUT THAT HIS MEETING WHILE SECRETARY ELMENAL WAS A BIT "TENSE." (WHICH I RECEIVED REPORTS OF THE SCHLESINGER AND COOPER MEETINGS) RECIDENTIALITY I HAD NO INFORMATION CONCERNING THE BILATERAL MEETING DESPITE MY REQUEST FOR THIS TO THE TREASURY DELEGATION VISITING KUWAIT. ALI KHALIFA WENT ON TO NOTE THAT HE FOUND THE TWO PAPERS GIVEN BY TREASURY TO FINANCE MINISTER AL-AJEEI EMONDY OF THE LEVEL OF FINANCIAL EXPERTISE REPRESENTED IN KUWAIT.

4. FOLLOWING THIS LESS THAN SATISFACTORY OPENING TO OUR CONVERSATION, I TOLD THE OIL MINISTER THAT I DID NOT WANT TO REVIEW THE POINTS MADE BY SECRETARY ELMENAL DURING HIS VISIT HERE BECAUSE I WAS SURE HE WAS ALREADY FAMILIAR WITH THEM. I DID, HOWEVER, WANT TO EMPHASIZE WHAT I CONSIDERED A SIMPLE AND INCONTESTABLE FACT, NAMELY THAT ANY INCREASE IN THE PRICE OF OIL WAS BOUND TO HAVE A PROFOUNDLY UNFAVORABLE EFFECT ON WORLD ECONOMY. ALL KHALIFA CHOSE TO DISAGREE EVEN ON THIS POINT, STRESSING HIS VIEW THAT FAILURE TO INCREASE THE PRICE OF OIL WOULD DO BOTH US AND KUWAITI INTERESTS A GREAT "DISFAVOR." HE MAINTAINED THAT WITHOUT THIS KIND OF INCENTIVE, EFFORTS TO DEVELOP ALTERNATIVE SOURCES OF ENERGY WOULD NOT BE STIMULATED. IN REPLY, I SUGGESTED THAT TECHNOLOGY COULD NOT BE REWARDED JUST AS A FUNCTION OF FINANCIAL INCENTIVE.

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AMIR HAD SAID THAT KUWAIT DID NOT WANT TO HURT THE WORLD ECONOMY AND IT RECOGNIZED INTERDEPENDENCE. I CONCLUDED THESE COMMENTS BY NOTING THAT THE OIL MINISTER HAD ALREADY MET WITH THE AMIR THAT MORNING AND PRESUMABLY HAD CLARIFIED KUWAIT'S POSITION FOR THE OPEC MEETING.

7. AMIR AL-KHAILA STATED THAT KUWAIT'S POSITION WAS QUITE CLEAR, AS PRESIDENT OF OPEC HIS OBJECTIVE WAS TO PRESERVE OPEC UNITY IN THIS MEETING. HE WOULD, THEREFORE, SEEK TO ACHIEVE A "REASONABLE COMPROMISE" AGREEABLE TO ALL OPEC MEMBERS.

8. I EXPRESSED THE HOPE THAT ANY PRICE INCREASE WOULD BE A MODERATE ONE, NOTHING I DID NOT CONSIDER 10 PERCENT MODERATE. I SUGGESTED THAT, IF THERE WAS ANY THOUGHT OF ESTABLISHING A SYSTEM OF PERIODIC PRICE INCREASES, IT WOULD BE SUBJECT TO REVIEW BEFORE ADDITIONAL INCREASES BEYOND THE FIRST ONE WERE PUT INTO EFFECT. AMIR AL-KHAILA REJECTED THIS SUGGESTION, NOTING THAT HIS CREDIBILITY AS PRESIDENT WOULD BE JEPPEAIZED IF HE TOOK THIS POSITION. HE EXPLAINED THAT, DURING THE OCTOBER OPEC MEETING EARLIER IN THE YEAR ON THE SUBJECT OF A CURRENCY BASKET, HE HAD DROPPED ANY ACTIVITY CONSIDERATION OF THIS MATTER BY USING THOSE PRECISE TACTICS. AS A RESULT, HE WAS ABLE TO FORESTALL ANY CONSIDERATIONS OF THE CURRENCY BASKET. (FYI: THIS STORY CERTAINLY DOES NOT CONFORM TO REPORTS AND CONVERSATIONS WHICH I HAD WHICH CONFIRMED THAT AMIR AL-KHAILA WAS A PROONENT OF THE CURRENCY BASKET. END FYI) IN RESPONSE TO MY QUERY, THE OIL MINISTER SAID HE DID NOT EXPECT THE CURRENCY BASKET QUESTION TO BE CONSIDERED DURING THIS OPEC MEETING AND THEREFORE, HOPEFUL THERE WOULD BE NO DISCUSSION OF IT.

9. CONCLUDING OUR DISCUSSIONS, I THANKED THE OIL MINISTER FOR RECEIVING ME AT SUCH A BUSY MOMENT ON THE DAY OF HIS DEPARTURE.

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ANY BLUMENTHAL SAID THAT CLEARLY U.S. COULD NOT AND WOULD NOT WANT TO SELL WHAT THE OPEC OIL PRICE WOULD BE. ALSO IT WAS OBVIOUS THAT OIL IS A KEY ELEMENT AFFECTING WORLD ECONOMY. THERE WAS GOING TO BE EVIDENCE THAT OIL PRODUCERS HAD INCREASED THEIR DOLLAR BASED ON THE DOLLAR AND INFLATION. HOWEVER IT WOULD NOT BE REALISTIC TO TRY TO GO BACK TO THE BEGINNING OF 1977 TO MAKE UP EQUITY FOR WHAT EVEN LOSES TAKEN THERE. TRYING TO MAKE UP FOR A HYPOTHETICAL 25 PERCENT OR 24 PERCENT LOSS IN REAL OIL PRODUCER REVENUE WOULD JUST ACCELERATE THE WHOLE VISCIOUS CYCLE OF INFLATION.

For the minister's question regarding the base on which a 10 percent increase in the value of the dollar or 10 percent increase in oil price would be estimated, it would be on the situation as it is now, not that in previous years (such as 1973 or 1974 as minister Ateeqi had suggested).

4. TAX EXEMPT STATUS OF FOREIGN GOVERNMENT INVESTMENT IN U.S. (SEC. 832). MINISTER ATEEQI SAID KUWAIT APPRECIATES THE MOVES PRESIDENT CARTER HAD UNDERTAKEN TO TRY TO CURB INFLATION. KUWAIT BELIEVES IN THE STRENGTH OF THE AMERICAN ECONOMY. IT KNOWS THAT THE DOLLAR'S DECLINE HAS BEEN EXAGGERATED AND IS MOSTLY A RESULT OF SPECULATION. HOWEVER, WHAT HAS HAPPENED TO THE DOLLAR IS VERY SMALL IN RELATION TO THE GIANT ECONOMY OF THE UNITED STATES AND THE STRENGTH OF THE UNITED STATES. THEREFORE, THERE MUST BE SOMETHING IN THE DECLINE OF THE DOLLAR THAT THE U.S. CAN DO ABOUT IT. THE MATTER IS ESSENTIALLY INTERNAL AND NOT EXTERNAL. KUWAIT VIEWS THE UNITED STATES AS A MARKET IN WHICH IT WOULD CONTINUE TO INVEST, AND AS A COUNTRY WITH INTEGRITY IN WHICH IT CAN TRUST. KUWAIT HAS INVESTED IN THE UNITED STATES FOR MANY YEARS AND THAT ASSUMPTION THAT CARNABY'S WERE APPLICABLE IN PAST, FOR 25 YEARS, SINCE, 1938. NOV. IT IS SUDDENLY FACED WITH THE TROUBLING PROSPECT OF NEW

OFFSHORE INVESTMENTS OF THE LAW ARE TO BE APPLIED RETROACTIVELY.

A COUNTRY LIKE KUWAIT CANNOT CARRY OUT AN INVESTMENT POLICY IF FACED WITH ADHOC CHANGES WHICH HAVE A VERY DAMAGING EFFECT ON INVESTOR CONFIDENCE. THERE HAS BEEN A NEW INTERPRETATION THIS YEAR, WILL THIS BE THAT THERE WILL BE ANOTHER NEW INTERPRETATION NEXT YEAR, AND SO ON?

5. MINISTER OBSERVED THAT, WITH RESPECT TO THE DIFFERENCE BETWEEN "PASSIVE" AND COMMERCIAL INVESTMENT, SHE COULD AGREE THAT THE STOCK MARKET IS COMMERCIAL. WOULD THE DEAN THAT ALL KUWAIT STOCK MARKET TRANSACTIONS WERE ALSO TAXABLE? UNITED STATES IS A SOVEREIGN COUNTRY, AS IS KUWAIT. OBVIOUSLY THE U.S. COULD DO WHAT IT PLEASURES REGARDING INVESTMENT WITHIN THE U.S. BUT IF IT DID, KUWAIT WOULD HAVE TO DECIDE WHETHER TO STAY IN OR GET OUT. AT LEAST THE U.S. WOULD HAVE TO GIVE KUWAIT APPRECIABLE TIME TO DEFINE ITS POLICY IN LIGHT OF THE NEW SITUATION REGARDING FOREIGN GOVERNMENT INVESTMENT.

This was too bad, since such investment was not only good for KUWAIT but also the United States. IF KUWAIT HAD TO CHANGE ITS INVESTMENT LE...
POLICY it might have to review its oil production policy. Kuwait could not interfere in whatever interpretation the United States government finally made, but it would not be just for such an interpretation to be applied retroactively. Furthermore, Kuwait would have to be given time to change its investment strategy accordingly. Unfortunately, this might lead to a situation of retaliation, something which K'ayat wished to avoid.

6. Oil prices. Ateegi, who was also acting oil minister, said that, in reaching an oil price decision, OPEC will look for one that will not cause a "political mess", since Kuwait does not want to repeat 1973. Although the OPEC economic committee is currently reviewing the oil price question in order to make a recommendation, luckily the decision will not be left to these experts, but will be the concern of ministers. Kuwait will not recommend a price designed to recover all its losses due to the dollar decline and inflation, but is letting others know it is interested in a price "correction". Such an increase will be necessary because the government needs to meet its requirements in terms of salary raises for civil servants and also with respect to foreign aid, which it must be repaid, is given at the generous rate of more than 7 percent of its GNP. OPEC should not be forced to accept an oil price freeze. Since the real price of oil has been cut drastically because of inflation and the decline of the dollar, there should be a correction, but one in which wisdom has to rule. As matters stand, Germany and Japan are the only ones who are benefiting from the low "real" price of oil.

7. Secretary Blumenthal said that he would first address the tax section issue, but only briefly, since the Amdo's financial advisor (Khaled Abu Sa'ood) had already had an opportunity to discuss the matter informally with deputy assistant secretary for tax analysis Sunley. Secretary Blumenthal noted that there will be public hearings (on section 892) and said "I will personally see to it that we come out with a result that is as positive as possible. However, GOK should be aware that the question of interpretation of 892 had been around for a long time. For example, bank of America has asked for preliminary ruling in 1976 but had withdrawn this request after being told that the ruling might be a negative one. Question of differentiation between investment and "commercial" investment.
REACHING PRICE DECISION, SECRETARY WAS SURE KUWAIT WOULD LOOK AT THE DEMAND/SUPPLY SITUATION FOR OIL IN 1979.


POLICY, WOULD HAVE SOME EFFECT ON OIL PRICING. WHILE IT WAS TRUE THAT A CONTINUED OIL PRICE FREEZE HELPED WEST GERMANY AND JAPAN BUT VIS-A-VIS THE U.S., IF THE PRICE OF OIL WERE RAISED, THE DOLLAR WOULD WEAKEN AGAIN AND THIS WOULD SIMPLY PERPETUATE THEIR ADVANTAGE IN THIS RESPECT.

COMMENTING ON THE KUWAITI BUDGETARY NEED FOR AN OIL PRICE INCREASE, SECRETARY BLUMENTHAL NOTED THAT KUWAIT ENJOYS A LARGE CURRENT ACCOUNT SURPLUS AND SHOULD HAVE NO PROBLEM RAISING CIVIL SERVANTS' SALARIES.

10. CONCLUDING HIS COMMENTS ON OIL PRICES, MINISTER ATEEQI OBSERVED THAT OPEC IS, IN FACT, A USEFUL ORGANIZATION, DIALOGUE WITH OPEC MEMBERS IS ALWAYS WORTHWHILE, ESPECIALLY WHEN THERE WAS ONLY AGREEMENT ON 50 TO 60 PERCENT OF THE MATTERS INVOLVED.

11. EFFECT OF AN OIL PRICE RISE ON THE UNITED STATES. IN ELOQUENT PRESENTATION, CONGRESSMAN CAVANAUGH NOTED THAT MUCH HAD BEEN SAID ABOUT THE EFFECTS OF AN OIL PRICE RISE ON THE WORLD ECONOMY, SOMETHING NOW NEEDED TO BE SAID ABOUT ITS EFFECT ON THE AVERAGE U.S. CITIZEN. MINISTER DID NOT SEEM TO RELATE OIL PRICES TO THE WAGE FACTOR TO THE UNITED STATES. THE UNITED STATES MIGHT HAVE A LARGE ECONOMY, BUT FACT REMAINED THAT FOR THE UNITED STATES, EACH OIL PRICE RISE WOULD HAVE A MAJOR EFFECT BECAUSE ALL THE LARGE INDUSTRIES AND LABOR UNIONS WOULD REACT TO IT BY RAISING SALARIES AND PRICES. ANY OIL PRICE RISE WOULD BE LIKELY TO HAVE A TREMENDOUS PSYCHOLOGICAL IMPACT, AND THIS WOULD COME JUST AT A TIME WHEN PRESIDENT CARTER HAS WITH GREAT COURAGE TAKEN STEPS TO CURB INFLATION BY VETOING PUBLIC WORKS BILLS AND IN SOME CASES THE ACTIONS OF HIS OWN PARTY. THE GREAT PSYCHOLOGICAL MOMENTUM AGAINST INFLATION THAT PRESIDENT CARTER HAD CREATED WOULD BE GREATLY IMPR-ranging BY ANY ADVERSE OIL PRICE DECISION MADE BY OPEC.

IMPACT OF ANY OIL PRICE DECISION BY THE MEMBERS OF OPEC SUCH AS KUWAIT WOULD BE VERY DRAMATIC ON THE UNITED STATES ECONOMY. ALSO, THE MINISTRY SHOULD CONSIDER THE POLITICAL IMPACT ANY OIL PRICE DECISION WOULD HAVE ON THE PRESIDENT CARTER HIMSELF, AT A TIME WHEN HE HAD TAKEN SOME POLITICAL RISK


13. ATEEQI REPLIED THAT FROM THE KUWAITI POINT OF VIEW, THE SITUATION OF THE PRESIDENT OF THE UNITED STATES WAS A VALID CONCERN IN THE UNITED STATES BUT NOT IN KUWAIT. WHAT CONCERNED KUWAIT WAS ITS OWN INTEREST. SITUATION OF THE TWO COUNTRIES WAS SIMPLY ENTIRELY DIFFERENT. UNITED STATES WAS FLYING TO THE MOON WHILE KUWAIT WAS STRUGGLING TO GROW GRASS. IT WAS NICE TO TALK ABOUT NORTH/SOUTH DIALOGUE, AND FOR THAT MATTER, THE EURO/ARAB DIALOGUE, BUT THIS WAS NOT TALKING ABOUT THE MINISTER. WE COULD ALL SPEAK AS CITIZENS OF ONE COUNTRY, BUT "YOU IN THE UNITED STATES SPEAK OF NEUTRON WEAPONS WHILE WE SPEAK HERE OF GRASS".

14. ON THIS NOTE OF LEVITY, SECRETARY BLUMENTHAL CONCLUDED MEETING BY SAYING THAT, HOWEVER SHORT, HIS TIME IN KUWAIT HAD BEEN WELL SPENT. HE ASKED THAT MINISTER ATEEQI CAME TO THE UNITED STATES AND SPEND AT LEAST AN EQUAL AMOUNT OF TIME AS HIS GUEST. END TEXT.

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3. ON THE LONG STANDING PROBLEM OF DEMARCATING THE SAUDI/KUWAITI BOUNDARY OFF THE OFFSHORE PORTION OF THE NEUTRAL ZONE, DISCUSSIONS WERE "FROZEN LIKE OIL PRICES" THE MINISTER SAID. HOWEVER, HE EXPRESSED THE HOPE THAT THE TWO SIDES WOULD MEET IN ABOUT A MONTH TO DISCUSS THE MATTER. UNDERSECRETARY ADASANI NOTED THAT IT WOULD BE MUCH BETTER IF THE SAUDIS AND KUWAITIS HAD RESOLVED THEIR OFF-SHORE BOUNDARY QUESTION SO AS TO HAVE A "COMMON FRONT" IN ANY MEDIAN LINE DISCUSSIONS WITH THE IRANIANS. KUWAIT, KAZIMI ALSO ADMITTED, WOULD VERY MUCH LIKE TO RESOLVE THE BOUNDARY QUESTION SO AS TO BE ABLE TO EXPLOIT THE LARGE GAS DEPOSITS IN THE OFFSHORE DORRA FIELD IN THE NON-PARTITIONED PART OF THE NEUTRAL ZONE, AS ANOTHER REASON FOR KCOC'S NOT TAKING OVER KWOC, UNDERSECRETARY ADASANI SAID THAT OIL MINISTRY STUDIES REVEALED THERE WOULD BE VERY LITTLE SAVING INVOLVED.

4. COMMENT. ONE REASON NEITHER KUWAITI OFFICIAL MENTIONED, BUT WHICH IS GIVEN WIDE CREEDENCE HERE, IS THAT MINISTER, WHO DOES NOT EXERCISE EFFECTIVE CONTROL OVER GOVERNMENT-OWNED OIL/PETROCHEMICAL COMPANIES (KOC, KUWAIT NATIONAL PETROLEUM CO. AND PETROCHEMICAL INDUSTRIES CO.) WOULD LIKE TO HAVE HIS "OWN" OIL COMPANY. MOREOVER, KAZIMI HAS APPOINTED HIS NEPHEW, FAHAD AL-MATROUK, AS KWOC HEAD, BUT LATER IS NOT REGARDED AS PARTICULARLY COMPETENT. ANOTHER FACTOR IS RELIGIOUS ONE, SINCE BOTH ARE SHI'TA MOSLEMS AND NEW KWOC SENIOR STAFF INCLUDES HIGH PROPORTION OF SHI'TAS.

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CONCERN ABOUT THE SPREAD OF SHI'ITE TROUBLES TO IRAQ, AND PERHAPS BEYOND, IN HIS CONVERSATION WITH FRENCH FOREIGN MINISTER FRANCOIS-PONCET (REF A). IN THE SAME VEIN, AN OFFICIAL IN THE POLITICAL DEPARTMENT OF THE FOREIGN MINISTER TOLD US THAT HE DID NOT EXPECT A GOVERNMENT RUN BY A RELIGIOUS MAN SUCH AS KHOMEINI COULD LAST VERY LONG. THIS SUNNI MUSLIM SAID HE THOUGHT AN ATTEMPT TO ESTABLISH AN ISLAMIC STATE UNDER SHI'ITE LEADERSHIP WOULD ONLY PRODUCE CHAOS IN IRAN AND ATTENDANT TROUBLES IN THE SHI'ITE COMMUNITY IN IRAQ. DESPITE THESE CONCERNS KUWAIT HAS NOT GONE ON THE RECORD EITHER FOR OR AGAINST ANY PURPORTED KHOMEINI PRONOUNCEMENT, EVEN ON THE RELATIVELY PERIPHERAL ISSUE OF GEOGRAPHIC TERMINOLOGY. DEPARTMENT WILL RECALL OCCASIONS WHEN DISPUTE OVER THE NAME OF THE GULF BROUGHT STRONG KUWAITI ASSERTION THAT GULF AS, IS, AND SHALL BE FOREVER, ARABIAN. THE KUWAIT POST OFFICE REFUSED MAIL WHICH INCLUDED "PERSIAN GULF" IN THE ADDRESS AND FLIGHT CLEARANCE REQUESTS WERE REJECTED ON THE SAME GROUNDS. AL-MUBARAKI'S CAUTIOUS COMMENTS AVOID REVIVING THIS TERMINOLOGICAL DISPUTE. THIS CAUTION IS ALL THE MORE EVIDENT WHEN ONE REGARDS THAT KUWAIT TURNED DOWN KHOMEINI'S REQUEST TO COME HERE AFTER IRAQ EXPELLED HIM IN OCTOBER.

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ACTION

SUMMARY: KUWAIT OIL MINISTER REVEALED TO ME CONFIDENTIALLY JAN 21 THAT SOH WOULD PURCHASE ADDITIONAL CRUDE OIL PRODUCTION AVERAGING SLIGHTLY OVER 200,000 BPD IN ORDER TO CONTRIBUTE TO OFFSETTING THE LOSS OF IRANIAN OIL. ACCORDING TO OIL COMPANY REPRESENTATIVES, A REQUIREMENT FOR THIS ADDITIONAL OIL IS CONSIDERED TO BE IN THE INTERESTS OF THE OIL MINISTER, WHO WAS NOT SPECIFICALLY NAMED IN KUWAITI TANKERS WERE INCLUDED AMONG OTHERS CONSIDERING THE SITUATION. IN FUTURE, AN ADDITIONAL OIL BASIS OFFERED TO THE OIL MINISTER FOR PURCHASE WAS DETERMINED TO BE FOR THE PURPOSE OF SATISFYING AN INCREASED NEED FOR OIL. THE OIL MINISTER, WHEN PROVIDING THIS INFORMATION, STATED THAT THE ADDITIONAL OIL WAS BEING TAKEN FOR "POLITICAL REASONS" AND THAT, OTHERWISE, THE OIL COMPANY POLICY OF RESTRICTING ITS OIL PRODUCTION TO 0.2 MILLION BPD AVERAGE WOULD REMAIN, END SUMMARY.

AT A RECEPTION GIVEN BY BRITISH PETROLEUM (BP) CHAIRMAN JOHN DAVID STEEL JAN 20, OIL MINISTER ALI KHALIFA AL-SABAH REVEALED TO ME "VERY CONFIDENTIALLY" THAT KUWAIT WOULD INCREASE ITS CRUDE OIL PRODUCTION SLIGHTLY OVER 200,000 BPD IN ORDER TO TAKE A CONTRIBUTION TO THE WORLD SHORTAGE WHICH RESULTS FROM THE STOPPAGE OF IRANIAN OIL PRODUCTION. THE MINISTER STATED THAT THIS INFORMATION WOULD BE HELD VERY CLOSELY bombs no SHORTAGE OF KUWAITI PRODUCTION IS EVER INCREASED IN THE BENCHMARK OR THE BENCHMARK. (I REQUEST THAT HIS WISHES BE RESPECTED UNTIL THIS INFORMATION EVENTUALLY IS REVEALED BY OTHER SOURCES.) ALI KHALIFA INDICATED THAT THE PRODUCTION HAD BEEN APPROVED BY THE SUPREME OIL COUNCIL ON JAN 03 AND THAT IT WOULD BE ANNOUNCED ON THE CABINET AT ITS JAN 21 MEETING, WHICH I WAS.

THIS ACTION REPRESENTS A REVERSAL OF AN Earlier REFUSAL BY THE CABINET TO APPROVE A PROPOSAL BY THE OIL MINISTRY WHICH WOULD HAVE PERMITTED THE SALE OF ADDITIONAL CRUDE OIL, I.E. BP, GULF AND SHELL, OF PURCHASE 50,000 BPD EACH FOR THE FIRST, SECOND, AND FOURTH QUARTERS OF 1979 AND 100,000 BPD EACH DURING THE THIRD QUARTER. THE OIL MINISTRY'S REASON FOR RECOMMENDING THE HIGHER AMOUNT FOR THE THIRD QUARTER WAS BASED ON A RESPECTED DEMAND ENOUGH ASSOCIATED GAS TO RUN THEIR LPG PLANT AT FULL CAPACITY UNDER THE SEVERE CLIMATIC CONDITIONS AS A FINAL TEST BEFORE ITS ACCEPTANCE FROM THE CONSTRUCTORS.
C.E. السنوات ماتزوجة وهو متمثلاً في هذه الوثيقة.

7. CERTAIN CONDITIONS HAVE BEEN ATTACHED TO THIS OFFER FOR THE MAJOR OFF-TAKERS. FIRST, THEY MUST TRANSPORT THIS ADDITIONAL OIL IN KUWAIT OIL TANKER COMPANY (KOTC) VESSELS AND, SECOND, THE THREE COMPANIES ARE REQUIRED TO TAKE ITS SHARE OF ONE MILLION BARRELS OF EXTRA HEAVY CRUDE PRODUCED IN THE NEUTRAL ZONE WHICH IS PRESENTLY HELD IN STORAGE BECAUSE IT IS DIFFICULT TO SELL. ADDITIONALLY, BOTH SHIP AND SHIPPER WILL HAVE TO PAY THE NORMAL CREDIT TERMS. IF 365 DAYS' CREDIT IS ISSUED, BOTH SHIP AND SHIPPER WILL HAVE TO PAY THE NORMAL CREDIT TERMS, AND SHIPPER WITH THE ADDITIONAL AMOUNT AS A RESULT OF THE CUTOFF OF IRANIAN OIL PRODUCTION, APPARENTLY WILL HAVE NO PROBLEM WITH THESE TERMS AND ARE EXPECTED TO SIGN CONTRACTS FOR THIS ADDITIONAL QUANTITY.

8. AN ADDITIONAL CONDITION HAS BEEN APPLIED TO THE OFFER TO GULF FOR THIS ADDITIONAL OIL PURCHASE. THE OIL MINISTRY IS DEMANDING THAT GULF SIGN A 10-YEAR AGREEMENT TO PURCHASE 200,000 TONS OF LPG. THIS CONDITION WAS ADDED BECAUSE GULF CANCELED A CONTRACT LATER IN DECEMBER TO PURCHASE 1,000,000 TONS OF LPG WHEN ITS INTENDED CUSTOMER, TSUBISHI, SUFFERED A Sudden CRUDE SHORTAGE DUE TO AN ORGANIZATION TO PURCHASE AN ADDITIONAL 14,000 TONS OF LPG ANNUALLY FOR THIS CUSTOMER AND HAS INCREASED THE AMOUNT TO 200,000 TONS IN ANTICIPATION OF AN INCREASED REQUIREMENT. HOWEVER, ACCORDING TO THE GULF REGIONAL REPRESENTATIVE IN KUWAIT, THE LPG MARKET IN JAPAN IS PRACTICALLY SATURATED AS A RESULT OF THE AVAILABILITY OF PRICE-COMPETITIVE ALTERNATE FUELS, FULLY ENABLING USERS TO SHIFT TO OTHER SOURCES OF ENERGY.

9. GGF ALSO HAS DIFFICULTY WITH THE CONDITION REQUIRING TRANSPORT IN KOTC TANKERS DUE TO THE DAMAGE TO SHIP FACILITIES IN IRELAND. IT HAS A SURPLUS OF TANKER CAPACITY. SINCE THE MINISTRY OF OIL CONTRACT REQUIRED THAT THE PURCHASERS ANNUALIZE THE TANKER CHARGES WITH KOTC, GULF IS CONCERNED THAT IT MIGHT FIND ITSELF IN A POSITION OF MARKETING ITS ADDITIONAL OIL AT A LOSS. ACCORDING TO ITS REPRESENTATIVE, GULF IS CURRENTLY CAREFULLY REVIEWING THIS OFFER.

10. WHEN PROVIDING THIS INFORMATION TO ME, THE OIL MINISTER DECLARED THAT THIS Decision WAS BEING TAKEN BY THE GCF FOR "VITAL REASONS," NAMELY TO MAKE A CONTRIBUTION TO THE ADDITIONAL SUPPLIES OF OIL THAT WILL BE NEEDED TO MAKE UP THE LOSS OF IRANIAN OIL PRODUCTION. HE ASSERTED THAT, OTHERWISE, THE KUWAITI POLICY TO MAINTAIN A STRONG CEILING ON ITS CRUDE PRODUCTION AT 2 MILLION BPD AVERAGE WOULD REMAIN UNCHANGED.
3. Ali Khalifa explained that the offers to the three major off-takers included certain conditions tailored to each one of the three companies (BP, Shell and Gulf), particularly with reference to the use of Kuwaiti oil tankers. He said that BP and Shell would take the amounts offered under the conditions prescribed, but it was unlikely that Gulf would take advantage of the offer. When I pressed him on whether the conditions included in the Gulf offer were basically different from the other two, Ali Khalifa replied, somewhat evasively, that the conditions were related to its previous purchases of both oil and gas, but would add no more details. He maintained Gulf's decision was related to the fact that the use of Kuwaiti tankers would increase their costs to such a point that it would not be profitable to market this additional crude under the conditions stated.

4. Gulf Regional Representative confirmed this fact, stating that Gulf, because of its current oversupply of tanker capacity, would incur a cost of additional $1 per barrel by using Kuwaiti tankers which it could not recuperate from its contractual customers. He noted that BP and Shell would be using the additional crude in their own refineries and could presumably retrieve the additional cost through the anticipated higher product prices.

5. Ali Khalifa said that the amount originally offered to Gulf would now be offered to other purchasers of Kuwaiti oil. In concluding our discussion of this matter, he again requested that this information be held very closely within the government, indicating that there would be no release of this information to the Kuwaiti press. He maintained, that, if it became public knowledge, the government and particularly he as oil minister would be criticized for this increase above the normal 2 MEOPD ceiling.
... (U) ON JANUARY 26 MOST KUWAITI ARABIC LANGUAGE NEWSPAPERS HAD FRONT PAGE TREATMENT TO US SECRETARY OF DEFENSE BROWN'S JANUARY 25 TESTIMONY TO THE SENATE ARMED SERVICES COMMITTEE. TWO NEWSPAPERS (AL-ANBA AND AL-RAI-AL-AM) HEADLINED US "FEARS" OF US-SOVIET CONFRONTATION IN THE GULF. AL-HADA, AL-WATAN AND AL-QABAS SAID THE SECRETARY STATED THE PROBABILITY OF HIS CONFRONTATION, THUS, MAKING SAME DISTINCTION AS SOME CAIRO PAPERS (REF B). WHILE ALL PAPERS SAID THE US HAS BEGIN "PREPARATIONS FOR THIS PROBABILITY", THEY ALSO MADE CLEAR THAT US INTERVENTION WAS CONTEMPLATED ONLY IN RESPONSE TO SOVIET MOVES.

... (U) ON JANUARY 29 ARABIC NEWSPAPER AL-SIYASSA REPORTED(Resource: 1986) COMMENTS MADE IN RESPONSE TO SECRETARY BROWN'S STATEMENT BY MINISTER OF STATE FOR CABINET AFFAIRS ABDUL AZIZ HUSAINI, WHO SERVES AS GOV SPOKESMAN. HUSAINI SAID THE GOVERNMENT REJECTS ANY KIND OF FOREIGN INTERVENTION IN THE GULF, IRRESPECTIVE OF THE TYPE OR DEGREE OF INTERVENTION. HE NOTED THAT THE STATES OF THE GULF AND THE ARABIAN PENINSULA ARE UNITED IN OPPOSITION TO FOREIGN INTERVENTION. HE SAID THAT KUWAIT AND THE GULF STATES NOT INTEND TO GET INVOLVED IN THE STRUGGLE AMONG THE GREAT POWERS. AS REGARDS KUWAIT, HE SAID HIS COUNTRY DOES NOT SEEK SECURITY GUARANTEE -- EITHER IN THE FORM OF AN EXPEDITIONARY FORCE OR THROUGH INCLUSION OF KUWAIT IN A REGIONAL DEFENSE PACT -- WITHOUT ANY OTHER STATE.

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4. (C) COMMENT. HUSEIN IN'S COMMENTS REPRESENT THE STANDARD GULF REACTION THAT IS AUTOMATICALLY MOOTED OUT IN RESPONSE TO COMMENTS OF SENIOR AMERICAN OFFICIALS ABOUT THE US INTERESTS IN THE SECURITY OF THE PERSIAN GULF. THE ACTUAL CONTENT OF ANY AMERICAN OFFICIAL'S REMARKS IN THIS RESPECT, AND ANY NUMBERS IN THEIR STATEMENT, ARE DISRELEVANT AND KUWAITI REJECTION OF "FOREIGN INTERVENTION" IN THE GULF IS TRUMPETS LOUD AND CLEAR. ESPECIALLY PUBLICLY REASSURING THE WAR AS KUWAITI PREDICTION, TO RELY ON US SECURITY SUPPORT, THE GOV'S STATEMENT SERVES THE PURPOSE OF REASSURING THE BENEFIT OF PEACEFUL DAYS KUWAIT'S ADHERENCE TO ARAB SOLIDARITY. WHILE THESE COMMENTS MAY APPEAR TO BE IN CONTRADICTION TO HUSEIN'S REMARKS REPORTED IN #4354, IN FACT THEY ARE NOT. THE LATTER INSTANCE, HUSEIN WAS NOT REACTING BUT RATHER GIVING KUWAIT'S VIEWS ON THE SECURITY SITUATION IN THE AREA IN THE LIGHT OF THE IRANIAN CRISIS. THESE WERE DEVOID OF THE POLICEMIC INVOLVED IN HIS LATEST STATEMENT AND REPRESENT, WE BELIEVE, A MORE ACCURATE REFLECTION OF THE GOV POSITION. THUS, THESE TWO STATEMENTS SHOULD BE SEEN AS PART OF THE CONTINUING POLICY BALANCING ACT WHICH THE KUWAITITE SEEK TO PERFORM AMONG THEIR LARGER NEIGHBORS AND BETWEEN THE SUPER POWERS. ESTIMATED

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1. (C - ENTIRE TEXT)

1. SUMMARY: EMBASSY CONTACTS IN BANKING AND BUSINESS CIRCLES IN KUWAIT:

1.1. There has been a marked increase during recent weeks in the

1.2. trading activity of banks here. These increased

1.3. Currency exports are said to be comprised mostly of private

1.4. UNs DEPENDS FOR DOLLAR MARKETS IN EUROPE AND IN THE US.

1.5. Increased capital flows from neighboring KUWAIT TO WESTERN

1.6. THROUGH KUWAIT'S PREP AND RELATIVELY EFFICIENT BANKING SYSTEM.

1.7. However, there are indications that at least part of the increase

1.8. Traceable TO MOVEMENTS ABROAD OF KUWAITI MONEY. THE

1.9. MANAGING DIRECTOR OF ONE OF KUWAIT'S LARGEST BANKS INSISTS

1.10. WHILE KUWAITI SHORT-TERM FLOWS ARE SOMEWHAT ABOVE NORMAL

1.11. AT PRESENT, THE INCREASED OUTFLOW IS NOT IMPORTANT IN

1.12. SOLUTE TERMS. HE ADMITS, HOWEVER, THAT A SPOILSHOW

1.13. KUWAITI'S IDEAS INTO THE ARAB SIDE OF THE GULF--PARTICULARLY

1.14. IRAQ--COULD TRIGGER MAJOR CAPITAL FLOW FROM KUWAIT.

1.15. SUMMARY.

4. MOST OF OUR OTHER CONTACTS LIKEWISE MAINTAIN THAT IRANIAN CAPITAL FLOW THROUGH KUWAIT IS THE PRINCIPAL CAUSE OF THE CURRENT PHENOMENON. KUWAIT, THEY NOTE, IS THE NEAREST FREE TRANSFER POINT TO IRAN HAVING A RELATIVELY EFFICIENT BANKING SYSTEM CAPABLE OF HANDLING THE LOAD. THUS FAR, EVEN APPROXIMATE FIGURES OF THE AMOUNTS INVOLVED HAVE BEEN IMPOSSIBLE TO OBTAIN, BUT OUR SOURCES PRESCRIBE THAT THE MAJORITY OF THESE TRANSFERS ARE DESTINED FOR EUROPEN DOLLAR MARKETS AND FOR THE UNITED STATES, WITH DESIRABLE DEUTSCHMARK, SWISS FRANC, AND JAPANESE TEN PLACEMENTS MORE DIFFICULT TO OBTAIN.

5. RUMORS HAVE NOT BEEN CONFINED TO IRANIAN CAPITAL FLOW. OUR CONTACTS ALSO REPORT A LOCAL MONETARY SQUEEZE THAT HAS SEVERAL BANKS SHARPLY REDUCING OVERDRAFT LEVELS GRANTED—PARTICULARLY ON EXPATRIATE ACCOUNTS—AND EVEN TAKING THE UNPOPULAR STEP (USUALLY AVOIDED) OF BOUNCING CHECKS OF DEFICIENT KUWAITI DEPOSITORS.

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IN DISCUSSING KUWAIT MONETARY FLOWS WITH THE MANAGING DIRECTOR OF ONE OF KUWAIT’S LARGEST BANKS, WE NOTED THAT EVEN THOUGH THE US HAS JUST ANNOUNCED A LARGE TRADE DEFICIT FOR NOVEMBER, THE DOLLAR REGISTERED GAINS ON VARIOUS MARKETS LAST WEEK. HE ADMITTED THAT THE POLITICAL SITUATION IN THE GULF WAS CURRENTLY CREATEING HIGHER THAN NORMAL CAPITAL FRACTION AND THAT THIS COULD HAVE INFLUENCED WESTERN MONEY MARKET ASSES. IT WAS NOTED, WHILE MOST OF THE FLOW WAS FROM IRAN, IT WAS DESCRIBED THE LOCAL MONEY MARKET AS “NERVOUS” BUT INSISTED THAT THIS WAS NOT AN EXAGGERATED OUTFLOW, GIVEN THE USUAL HIGH LEVEL OF FOREIGN PLACEMENTS FROM KUWAIT. HE PROVIDED FIGURES, BUT SAID THAT, IN ABSOLUTE TERMS, THE AMOUNT OF MONEY OVER NORMAL LEVELS WHICH HAD LEFT KUWAIT SINCE LAST NOVEMBER WAS “NOT IMPORTANT.” HE CONTINUED THAT, AS A RESULT OF EVENTS IN IRAN, KUWAITI BANCS HAD BECOME LESS SURE WITH THEIR MONEY, WITHE THIS CHANGING FROM NERVOUSNESS TO WHICH HE HAD REFERRED, HE BELIEVED THAT REALY DISRUPTIVE FLOWS OF KUWAITI CAPITAL WERE UNLIKELY TO BE TRIGGERED IN THE ABSENCE A SPILL-OVER OF THE IRANIAN CRISIS ON THE ARAB SIDE OF THE GULF. HOWEVER, IF THERE WERE TROUBLES IN BAGHDAD, HE SAID KUWAITI MONEY WOULD FLOOD OUT OF THE COUNTRY.

COMMENT: THE CENTRAL BANK HAS JUST RELEASED CONSOLIDATED LENDING STATISTICS FOR THE FIRST QUARTER OF 1976. THE FOREIGN AIDS OF KUWAITI BANKS INCREASED BY 275 MILLION DINARS
(1 KD EQUALS $3.78) OVER THE THIRD QUARTER. PRIOR QUARTERLY INCREASES DURING 1979 WERE 38 MILLION DINARS FROM THE FIRST TO THE SECOND QUARTER AND 49 MILLION DINARS FROM THE SECOND TO THE THIRD QUARTER. WHILE THIS MUSCLE OF AN INCREASE COULD SIGNIFY CAPITAL FLIGHT, WE NOTE THAT SIGHT, TIME, AND SAVINGS DEPOSITS OF KUWAITI RESIDENTS IN KUWAIT ALSO INCREASED STEADILY DURING THE ENTIRE YEAR; BY 110 MILLION DINARS FROM THE FIRST TO THE SECOND QUARTER; BY 52 MILLION DINARS FROM THE SECOND TO THE THIRD QUARTER; AND BY 120 MILLION DINARS FROM THE THIRD TO THE FOURTH QUARTER. MAESTRO

MEMORANDUM OF CONVERSATION

DATE: February 12, 1979

SUBJECT: Kuwait Oil Production Policy; OPEC Pricing Policy; Iranian Crisis; Regional Security in the Gulf and the Linkage to Arab/Israel Affairs, Iraq/Syria Union

PARTICIPANTS: Mr. Mahmoud K. al-Adasani, Under Secretary, Ministry of Oil, Kuwait
            Mr. Quincey Lumsden, Economic Section (TDY), Amembassy, Kuwait

PLACE: Ministry of Oil, Kuwait City


I began by asking Mahmoud about an item I had seen in the Petroleum Trade Press in France prior to my arrival in Kuwait at the end of January. I said it had been reported that Kuwait was authorizing increased off-take to its traditional customers (BP, Gulf, and Shell) above the 2 million bpd total limit currently imposed. I added that the Trade Press report indicated that each of these companies was to be permitted about 40,000 bpd of extra oil this year. Mahmoud responded that the report was "about right." He said that Kuwait would not adhere strictly to a flat 2 million bpd limit. This limit, he said, is a self-imposed indicative planning target in any event, since the National Assembly has been dissolved. Further, he continued, since Kuwait lost a number of important sales while the Doha two-tier pricing system was in effect, a little bit of over production would simply permit average liftings to rise to the 2 million bpd authorized limit for the overall 1977 through 1979 period.

Mahmoud continued that since Kuwait has a balanced budget and no major financial problems face the government, the 2 million bpd limit would remain the guideline for the foreseeable future. He explained that any small, temporary increases above 2 million bpd, which might be authorized from time to time—such as the current ones—were motivated principally by domestic economics. (n.b. The

By: J. W. Lumsden (TDY) bcn

[Signature]

[Redacted]

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correctness of this statement is arguable in light of statements by impeccable Embassy sources that the increase was motivated by international political considerations.) The 1979 production increases, Mahmoud maintained, are gas oriented. He said the staggering growth of Kuwait City, which showed no signs of slowing up, plus the upcoming inauguration of the Kuwait Oil Company's new 1 billion dollar LPG plant would produce in 1979 a sharp increase in local demand for associated gas. For the time being, he said, the only way to meet this demand was through an increase in oil production. Since free non-associated gas could not be counted upon over the near term, Mahmoud said that the Ministry of Electricity and Water had been instructed by the government to allow for dual-firing of its power and water installations. "We are preparing to use more heavy fuel oil and even straight crude to make electricity and water," he said, but potential "savings" in time of short supply have now been offset with the huge LPG project coming on stream. This had been designed to operate on the surplus associated gas produced when Kuwait had a 3 million bpd national oil production limit.

Mahmoud granted that Kuwait's decision to increase oil production did have important international ramifications. Nevertheless, he again insisted that the primary reason for the decision was domestic. He emphasized this point by citing two non-domestic factors which he said operated as constraints upon increased oil production from Kuwait. First, he said, Kuwait had been "burned" and had lost customers during the two-tier price system. Thus, since its heavy crude made it a continuing target for this sort of thing in a soft market situation, Kuwait did not now wish to utilize the customer-stealing precedent at the expense of other OPEC members, even though the market is tight. Secondly, the fact that in this particular instance the affected OPEC member was Iran made Kuwait doubly cautious. It was at Iran's expense, he noted, that Kuwait first became a major oil exporter back in the early 1950's. Now, however, given the nature of Khomeini's movement and its possible implications for Arab oil producers, Kuwait would not wish to add any "irritant" to its relations with Iran's new leaders.

I asked Mahmoud if he could confirm press reports that the ministers of the Arab oil producing states in the Gulf were re-examining crude oil pricing schedules in the light of the effects of the Iranian crisis. He replied in the affirmative and said that a decision would be made momentarily on prices to be charged for amounts of oil lifted above the national production limits established by these producing states. For example, he said, Kuwait is currently selling its crude to traditional customers at a price of $12.83 per barrel, but this oil in today's market has an immediate resale value of $15.00 per barrel, and lighter crude will bring about $17.00 per barrel. I asked if the ministers were focusing their price discussions upon the already-established OPEC price schedule for the 4th quarter of 1979, or upon the prices apparently being contracted for in the volatile spot market. He replied "actually, neither," and said that the producers were concentrating upon the excess profits companies currently could make by "rolling over" contract oil purchased under current OPEC prices. I asked if this meant that the decision would be likely to fall somewhere between the $15 and $17 he had mentioned and he replied that he did not know where the ministers would set the price.

Mahmoud agreed with my estimate that the current shortfall in free world oil production was between two and three million barrels per day as a result of the Iranian crisis. He added his view, however, that with some upward price revisions, there should be little difficulty in making up this shortfall. OPEC, he continued, was already making up for about 3 million bpd of Iran's former 5 to 6 million barrel production. In addition to OPEC, non-OPEC sources such as Mexico were in good position to assist in filling the gap.

Iran was discussed next. Mahmoud was of the opinion that the Shah had been a victim of indecision among western leaders. He admitted that over the past three months the situation had deteriorated to the point where there was little or nothing that the United States could have done to maintain the Shah in power, but he said he could not understand why it had not helped the Iranian government much earlier on, "while there was still time." He continued, "you did nothing, so France has come off as the big winner. They even brought the hero home in one of their airplanes."

Mahmoud continued that he thought it would be a mistake for the United States to try to connect the Camp David Agreements with the situation in the Gulf. He said the Gulf situation was a separate affair, having its own independent set of dynamics. The one phenomenon connecting the Levant and the Gulf, he said, was that of Islamic revivalism. He added that this was unlikely to work to the advantage of the Camp David Agreements, because overall Islamic opinion was now going to be more disapproving than ever of accommodations to Israel.

The direct effect of the Iranian crisis in Kuwait would be limited, Mahmoud thought. There would surely be some pressure from conservative, religious elements and some activity by the younger generation. But he felt that the government could avoid domestic trouble by complementing Kuwait's prevailing atmosphere of material well-being with a return to parliamentary democracy. Noting local media reports that, in any new National Assembly, the ruling family might wish to appoint a significant number of deputies, Adasani said the Sabah should limit themselves to appointing ministers who automatically also serve as Assembly delegates. Excessive dependence upon appointed delegates, he said, would incur the dissatisfaction and disapproval of the electorate and offset many of the stabilizing benefits of a return to democracy.

The conversation then focused on the proposed union between Iraq and Syria. The Under Secretary thought that it was very unlikely the union would actually be achieved at any time in the near future. But he said that, while neither Assad nor Saddam Hussein was prepared to relinquish and of his powers to the other, the Arab cause would be served if the
present atmosphere induced them at least to stop working against each other. The Baghdad Summit was a great success in Adasani’s eyes. “The Iraqis are much more self-confident now and they want to play a responsible inter-Arab role.” The crisis in Iran, he said, was as much or more responsible for this new attitude in Baghdad than was the continuing Arab confrontation with Israel.

Finally, Mahmoud noted that Kuwaiti PM Shaikh Saad’s recent trip to neighboring Arab states was another direct result of the Baghdad Summit. He termed Saad’s trip a plus for Kuwaiti diplomacy. This aims at the maximum cooperation among littoral states, in order to avoid regional tension which could stimulate unwanted intervention in the area by outside powers.

I explained to Hamza Abbas that, after over three years away from daily contact with Gulf affairs, my visit to Kuwait was mostly a listening one and I would be happy to hear any comments he might have on monetary matters and how he saw the crisis in Iran affecting the Gulf area in general. He began his response by commenting that he was happy to see that the dollar was doing much better on the exchange markets than it had been several months ago. “None of us believes that we are out of the woods,” he said, “but our monetary policies are more credible now.” USG efforts in coming months to control inflation and its balance of payments, will tell the story, Hamza continued. He added “it is in our interest in Kuwait to see a strong dollar.” Hamza Abbas said Kuwait was not going to act responsibily on oil prices for this reason, but that we should realize the monetary policy that the U.S. had been practicing in recent months presented Kuwait with a dilemma. He said that for a while he had the impression the USG regarded exchange rate policies as unrelated to OPEC and solely a tactical weapon in its tug-of-war with Germany and Japan to get these two countries to stimulate their economies. The falling dollar which resulted, however, presented OPEC with real economic and political problems. Even Saudi Arabia, he said, was unable...
to maintain support for a continuing price freeze when oil was
decreasing rapidly in value in respect to imports from the industrialized
world. The dilemma, he continued, is that we know that
increased oil prices will bring the dollar under pressure and hurt
both our purchasing power and the value of our investments. However,
when the US lets the dollar fall anyway, we simply do not have the
ability to stand by and watch our principal resource lose value.
"We are caught in a balancing act."

Hamza Abbas continued that the real price of OPEC crude oil was
still too low in comparison with other economic indicators. The
Abu Dhabi price schedule for 1979, he maintained, was "very conserva-
tive." With the Iran crisis again pressuring the world market, it
had become clear that oil companies were now able to reap unexpec-
ted profits on the "cheap" contract oil they were obtaining from the
producing states. Thus, Hamza Abbas said, there will undoubtedly
soon be another slight increase announced to compensate for these
current market conditions. We said some price increase now would
be preferable to holding off too long and then having the price take
a quantum jump upward which would really wreck havoc in the inter-
national money markets.

Hamza Abbas took a calm-and-collected approach to the Iran crisis.
(n.b. Our conversation took place the day before the attack on the
American Embassy in Tehran.) He said that the crisis in Iran was
producing such a dramatic atmosphere in the area that it was
becoming difficult for most people to make clear and logical analyses.
Nevertheless, Hamza Abbas continued, we should all try to look beyond
the day's headlines and glean out what elements of truth we can from
the present situation. In spite of all of Iran's revolutionary fervor,
he insisted, Khomeini will need to get his economy going again, and
this means that he will have to reach a working agreement with the
United States. One thing is certain, he said, and that is that
Khomeini is not a leftist. This being the case, the United States
should now concentrate on finding matters of mutual economic interest
with Iran. The U. S. should play down the political/military aspect
of the situation as much as possible. "Go into them with economic
suggestions," he said, since these ought to be easier to come up
with than political ideas for the time being.

Hamza Abbas continued that the Arab states too were going to have
to work out a new set of relationships with Iran. If Khomeini stays
in power, he said, it appears as though Iran will steer a course
closer to the Arab world than was the case under the Shah. Every
foreign policy position taken by Khomeini and his supporters since
they assumed power, Hamza said, shows that they want amicable relation-
ships with their Arab neighbors. He cited declarations of support
for Palestine, relinquishment of the Shah's assumed role as guardian
of the Gulf, and the possible return to Arab hands of Abu Musa and
the Tunbs. Even so, he continued, an effect of the revolution in
Iran has been to alert the governments of Arab states in the Gulf
to the need for constant pulse taking with regard to their own
domestic political situations. In Kuwait, he concluded, the ruling
family is popular and the vast majority of the people--both Kuwaitis
and non-Kuwaitis--in the country were well-off and happy. "Egypt,
he said, is the Arab country with domestic conditions most similar
to those which had prevailed in Iran, and "Egypt is the most likely
candidate for the next Islamic revolution."
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3. MINISTERIAL REACTION. ABU SA’UD TENDED TO DISMISS MINISTERIAL AND PRESS REACTION ON THIS MATTER AS SOMewhat EXAGGERATED AND ILL-INFORMED. HE POINTED TO AMIR’S STATEMENT, CONVEYED BY THE OIL MINISTER TO PRESS MARCH 1 (GEF 5), AS CAREFULLY DRAFTED POSITION OF GOV AND CONTINUOUS SLIPPAGE OF DOLLAR. OIL DEPARTMENT ASKED FOR EMERGENCY OPEC MEETING TO CONSIDER POSSIBLE OIL PRICE INCREASE TO COMPENSATE FOR DOLLAR DECLINE WHICH WOULD BE CARRIED BY GOVERNMENT IN ORDER TO PREVENT DETERIORATION. AMIR’S EMBASSY EMPIRED DIRECTLY BY AMIR (WITH ABU SA’UD’S ADVICE).


5. SHORT-TERM BUDGETARY CONCERN. ACCORDING TO ABU SA’UD, OIL RECEIPTS WHICH KUWAIT RECEIVED IN NEW YORK TO PROVIDE THE FOLLOWING EXPLANATION, ALL KUWAIT OIL RECEIPTS ARE PAID IN DOLLARS IN NEW YORK. THESE FUNDS ARE DEPOSITED INTO AN ACCOUNT AND A RESERVE ACCOUNT, THE LATTER LARGELY CHANNELED INTO LONG-TERM INVESTMENTS. THE BUDGET ACCOUNT IS KEPT IN SHORT-TERM INSTRUMENTS OF SEVEN DAYS TO A YEAR’S MATURITY. THIS AMOUNTS TO THREE TO FOUR BILLION DOLLARS. THE ONLY PLACE WHICH HAS INSTRUMENTS LARGE ENOUGH TO HANDLE SUCH AMOUNTS IS NEW YORK. EACH MONTH KUWAIT RECEIVES FROM THESE FUNDS THE ROUGHLY 500 MILLION DOLLARS FOR CONVOLVING SOME OF THE DOLLARS TO KUWAITI INVESTMENTS. THE CURRENT AND DEBENTURE GOVERNMENT EXPENDITURES, LAST TWO MONTHS THE DOLLAR DEPRECIATED AGAINST THE BACK OF THE MUCH OF GOVERNMENT EXPENDITURES ARE FOR IMPORTS, WITH 17 PERCENT OF KUWAIT IMPORTS COMING FROM THE IEC, COMPARED TO 21 PERCENT. THE DOLLAR DEPRECIATED 15 PERCENT AGAINST THE MARK AND 20 PERCENT AGAINST THE SWISS FRANC. FOR A WEIGHTED AVERAGE BASIS—ROUNDBY 12 TO 15 PERCENT, THUS, OIL DECREASES

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6. Need for assured oil revenues. Abu Sa'ud emphasized that the Amis was convinced of the strength of the U.S. economy and felt that the administration would take the necessary steps to cope with the U.S. energy problem. Consequently, there was no need for concern about Kuwait's long-term assets in the U.S. However, something needed to be done to protect Kuwait's oil revenues. There were two ways to do this: (a) to raise the price of oil, or (b) to work out some kind of arrangement with the dollar-dominated price of oil. Abu Sa'ud indicated a preference for the latter.

7. Adverse effect of oil price increase. Ambassador pointed out that whenever alternative were selected, it would result in an increase in the cost of oil and thus have an overall adverse effect on world economy. Moreover, it would probably further depress the value of the dollar, which was certainly not in the interest of those OPEC countries which maintained their investments in dollars. The dollar had its ups and downs, and Kuwait had, in effect, made money on the former. Abu Sa'ud thought that the dollar had never been overvalued, but he did agree with the ambassador that floating scheme described above would post many complications and would be difficult to work out.

8. Advertising to the ambassador's comments on the global impact of an oil price increase, Abu Sa'ud commented that others did not share this American concern, noting that even though dollar decline meant Germans would pay less for oil, they preferred to see dollar appreciate. Ambassador pointed out that Germans had always been overly concerned with threat of inflation and of short-term financial problems. This was not the case of most other Western countries, for whom oil price freeze was providing a respite during which efforts were being made to stabilize their economies. Another factor was that the burden of maintaining a reserve currency, which U.S. carries, was a heavy one. Those who used the dollar and invested in its instruments should not take steps which could further damage the dollar, what is needed now is cooperation to ensure that reasonable steps are taken to restore monetary stability.

9. Protection of value of oil revenues. Abu Sa'ud repeated that problem now was to protect real value of oil revenues. However, there would be no need to adopt either of the above-mentioned measures (para 6) if the dollar were to regain strength and stabilize. This was clearly indicated in the Amis's statement. Abu Sa'ud

10. Conservative practices. Abu Sa'ud explained that, even though there were many occasions when Kuwait could have more considerable amounts of money by foreign exchange speculation, it had assiduously avoided such practices and had banned all government entities or companies in which the government had an interest, from engaging in speculation.

Kuwait's only concern, he repeated, was to maintain stable oil revenues. There were many ways the U.S. could help this situation, such as by supporting the dollar through raising interest rates, more active use of swap arrangements, etc. U.S. Kuwait could cooperate on this problem.

11. Abu Sa'ud also commented that, while a cheap dollar would promote U.S. exports and eventually strengthen dollar, this would not be reflected immediately, since substantial purchases require long lead time. Therefore, this would not solve Kuwait's problem now.

12. Ambassador thanked Abu Sa'ud for his explanation of Kuwait's position on this matter. He expressed hope that Gok would review carefully any steps which it might take with respect to the oil price and any other action which could impact unfavourably on the current monetary situation.

13. Comment: Abu Sa'ud clearly plays important role in Amis's decision-making on oil price/dollar problem and may have some influence on his views through his connections in Abu Dhabi. He is clearly a conservative professional who has a balanced view of the current monetary problem. However, he shares other concerns, such as in the short-term financial stability. Minister Al-Ateiki have led Kuwaiti chorus for reevaluation of situation, which essentially stimulated by Gok unhappiness over oil price freeze imposed on others OPEC nations by Saudi Arabia and Iran. While Abu Sa'ud's remarks indicate sympathy to this view, during the talks tends to take more cautious approach, thus, some delay is possible before Kuwait pushes formally for an emergency meeting in order to see whether dollar can recover. Such a delay would probably not last beyond a couple of weeks.
14. While telephonic discussion between Treasury officials and the Oil and Finance Ministers would underline U.S. interest in current OPEC concerns, it is doubted this would serve to allay them, because of key role played by Khalid Abu Salem in this matter, however, Ambassador believes that Treasury contact with him in some fashion might be helpful. If a visit by a middle-level official, well versed in monetary affairs to the area were organized or a meeting arranged elsewhere, presentation of U.S. views and description of possible U.S. moves to stabilize monetary situation might influence potential OPEC actions directed toward increase in oil price. It would also serve as demonstration of U.S. cooperation with Kuwait. Visit by higher level official, on other hand, would place focus of effort at ministerial level where less moderation and sympathy toward U.S. with respect to present situation prevail.  

MAESTRONE
3. I MET APRIL 14 WITH OIL MINISTER SAIKH ALI KHALIFA AL-SABAH IN ORDER TO REVIEW DEVELOPMENTS WHICH HAVE TAKEN PLACE IN THE OIL FIELD DURING MY ABSENCE ON CONSULTATIONS IN WASHINGTON. I OBSERVED THAT THE MARCH 26 OPEC CONSULTATIVE MEETING IN GENEVA ACTUALLY DID RESULT IN PRICE DECISIONS. OIL MINISTER AGREED THAT THIS WAS NOT ORIGINAL INTENTION, BUT NOTED THAT MARKET SITUATION FORCED CONSIDERATION OF PRICE LEVELS. I REVIEWED USG POSITION WHICH REGARDED THE OPEC PRICE INCREASE, PARTICULARLY THE SURCHARGES, AS UNHELPFUL, NOTING THE UNFORTUNATE IMPACT IT WOULD HAVE ON THE US AND WORLD ECONOMY NOT ONLY WITH RESPECT TO OUR ANTI-INFLATION PROGRAM BUT ALSO AS A DETERRENT TO THE DEVELOPMENT PROGRESS OF LDC’s (REF A).

4. OIL FOR SUDAN, SAIKH ALI KHALIFA SHARED MORE CONCERN OVER QUESTION OF OIL SUPPLY FOR LDC’s THAN FOR THE PRICE IMPACT ON THEIR ECONOMIES. HE NOTED THAT FORCE MAJEURE DELAY ON THE PART OF THE KUWAIT NATIONAL PETROLEUM COMPANY (KNPC) IN PROVIDING REFINED PRODUCTS TO THE SUDAN RESULTED IN A SERIOUS SUPPLY SHORTAGE THERE. HE SAID HE HAD INSTRUCTED KNPC TO SHIP THE PRODUCTS WHICH WERE DELAYED AS QUICKLY AS POSSIBLE AND TO ENSURE THAT THEIR DELIVERY SCHEDULE TO THE SUDAN WAS MAINTAINED PRECISELY. I CALLED HAVING HEARD OF SUDAN’S DIFFICULTIES WITH OIL SUPPLIES AND COMMENTED THAT THIS SEEMS TO HAVE ARISEN BECAUSE OF IRAQ'S FAILURE TO MAINTAIN ITS DELIVERIES TO THE SUDAN—BECAUSE OF POLITICAL REASONS I OPINED. ALI KHALIFA SAID THAT THIS APPLIED ONLY TO CRUDE OIL SUPPLIES AND NOTED THAT SAUDI ARABIA HAD AGREED TO ASSURE THAT CRUDE OIL SUPPLIES FOR SUDAN’S REFINERY WOULD BE PROVIDED. HOWEVER, HE NOTED THAT THE REFINERY WAS SCHEDULED TO SHUT DOWN FOR OVERTURNED WITHIN A FEW WEEKS—MOST REGRETTABLE TIMING HE THOUGHT.

5. KUWAIT PRICING. SAIKH ALI KHALIFA CONFIRMED THE NEW SURCHARGE OF $1.00 PER BBL FOR KUWAITI CRUDE AS WELL AS THE PROPOSAL OF $.40 PER BBL TO BE ADDED TO THE FOURTH QUARTER OPEC PRICE FOR KUWAITI OIL PURCHASED OVER AND ABOVE CONTRACTED QUANTITIES. WHEN ASKED TO EXPLAIN THE RATIONALE FOR THIS SPECIAL PREMIUM, ALI KHALIFA SAID IT WAS DESIGNED TO MAKE UP IN PART FOR THE LOSSES THE GOV WOULD SUFFER BY NOT PROCESSING THIS OIL THROUGH ITS OWN REFINERIES. HE CLAIMED THAT, IN ORDER TO MAKE THESE INCREASED AMOUNTS OF CRUDE AVAILABLE, HE HAD CUT THE SUPPLY TO KUWAITI OIL COMPANY (KOC) REFINERY FROM 220,000 BDDS DAILY TO 130,000 BDDS. THE EQUIVALENT INCOME FROM REFINED BARREL OF OIL COMES TO $20-21 PER BBL. THUS, THE GOV STOOD TO LOSE AT #1771

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## 103 ##
6. KUWAIT PRODUCTION. ALI KHALIFA CONFIRMED THAT KUWAIT WOULD MAINTAIN ITS INCREASED CEILING OF 2.2 MILLION BPD (INCLUDING PRODUCTION FOR ALL OF 1979, STATING THAT THE ADDITIONAL 200,000 BBL PRODUCTION WOULD HAVE LITTLE EFFECT ON THE OPPORTUNITY FOR IRAN TO REGAIN ITS SHARE OF THE OIL MARKET. IN REPLY TO A QUERY, HE SAID THAT THE ADDITIONAL AMOUNTS FORESEEN FOR THE THIRD QUARTER WOULD BE AVAILABLE IF THE COMPANIES WISHED TO PURCHASE THEM. HOWEVER, THE REQUIREMENT FOR AN INCREASED QUANTITY IN ORDER TO PROVIDE SUFFICIENT GAS TO TEST THE NEW LPG FACILITY, WHICH THE GOVWas SCHEDULED TO TAKE OVER FROM THE CONTRACTORS IN THE THIRD QUARTER, WAS NO LONGER CURRENT. IN FACT, THE TEST WOULD PROBABLY BE RUN IN OCTOBER SINCE A DELAY IN THE TAKEOVER HAD BEEN NEGOTIATED WITH THE CONTRACTORS.

7. IRAN. I INQUIRED ABOUT THE IRANIAN ATTITUDE DISPLAYED AT THE GENEVA OPEC MEETING, ASKING WHETHER IT WAS THE OIL MINISTER'S IMPRESSION THAT THEY WOULD ABIDE BY THE OPEC RULES. ALI KHALIFA THOUGHT THEY WOULD. HE NOTED THAT THEY WERE INITIALLY THINKING OF ADDING A SUBURCHARGE OF $2.50 PER BBL, BUT AFTER KUWAIT, QATAR AND ABU DHABI HAD INSTITUTED THEIR $1.50 CHARGE, THE IRANIANS WENT ALONG WITH IT. HE COMMENTED THAT HE HAD RECENTLY HEARD UNCONFIRMED REPORTS THAT IRAN HAD ASKED ITS JAPANESE CUSTOMERS TO TAKE A 25 PERCENT CUTBACK IN THEIR SUPPLY. THIS WAS PRESUMABLY IN ORDER TO ENABLE THEM TO SELL TO THE CONTRACTORS.

8. IRAQ. THE OIL MINISTER BELIEVED THAT THE IRAQIS WERE STILL MAINTAINING THE LEVEL OF OIL PRODUCTION AT SLIGHTLY OVER 3 MBPD. HE CONFIRMED THEY WERE STILL CHANNELING ONE-THIRD OF THEIR PRODUCTION TO THE SPOT-MARKET.

9. BOYCOTT OF EMBASSIES. ALI KHALIFA WAS CONSIDERING REQUIRING OIL TANKERS TO STOP AT KUWAIT AND NOT TO USE THE SUEZ CANAL (REF C). HE OBSERVED THAT THE BAGHDAD FOREIGN/ECONOMIC MINISTER'S MEETING RESOLUTIONS DID NOT REQUIRE THIS. I ASKED WHETHER THIS SUBJECT WOULD BE DISCUSSED AT THE OPEC MEETING SCHEDULED TO BEGIN IN KUWAIT APRIL 16. THE OIL MINISTER SAID THAT IT WAS NOT ON THE AGENDA. ALTHOUGH, OBVIOUSLY, ANY PARTICIPANT COULD RAISE THE MATTER DURING THE MEETING, IN ANY EVENT, THE KUWAITI POSITION ON THIS QUESTION WAS FIRM. HE EXPECTED THAT THE OPEC MEETING WOULD REACH THE CONCLUSION TO EXPUL EGYPT, ALTHOUGH IT WAS HIS POSITION THAT THIS EXCLUSION SHOULD NOT APPLY TO THE OPEC-ASSOCIATED COMPANIES. HE EXPRESSED THAT OPEC HAD SOME TO CONSIDER EFFORT TO OBTAIN A PRIVATIZATION IN ITS ASSOCIATED COMPANIES AND TO TAKE SUCH AN ACTION WOULD INTRODUCE AN ELEMENT OF UNCERTAINTY INTO THE SITUATION WHICH COULD HAVE A DISCOURAGING EFFECT ON FUTURE PRIVATE INVESTMENT IN SUCH VENTURES.

10. VENEZUELAN MEETING PROPOSAL. THE OIL MINISTER INDICATED THAT KUWAIT WOULD PARTICIPATE IN THE MEETING OF OPEC AND NON-OPEC PRODUCERS WHICH THE VENEZUELAN ENERGY MINISTER WAS TRYING TO ORGANIZE IN LONDON. HE THOUGHT THAT IT WOULD ...

#1771
3. On April 9, Financial Times foreign editor taped two-hour deep background interview with Kuwait oil minister Shaikh Ali Khalifa al-Sabah. Following are high points on economic subjects from rough transcript of interview which editor provided to us. (Minister’s comments on Gulf security related subjects reported in refTel.

4. March 26 Geneva OPEC meeting discussion of production levels - at the OPEC meeting, “There was no attempt at production programming as such or production sharing. There are certain countries which have increased their production for the purpose of relieving the shortage that was on the market. Other countries have tried to do their best in relieving the crisis in the market. The Iranians are unjustifiably worried that these high levels would stick and they would not be able to produce as much as they wanted. They were assured by the others that they were not trying to take Iran’s share of the market. On the contrary (these countries) were quite willing to accommodate Iran to go back to the levels it (Iran) felt desirable...There was...an understanding that...as the Iranian production gradually increased, other OPEC countries would be entitled to go back to their original targets. I am surprised that the Western press turned this around to make out that the OPEC countries’ intentions were to starve the world of oil. The idea is quite contrary to what we have done, which is to relieve the shortage.”

5. Oil prices. Q - ISN’T CUTTING PRODUCTION A PLOY TO FORCE UP PRICES? A - IF THE WEST CRITICIZES THE PRODUCERS WHO HAVE UPPED THEIR PRODUCTION TO MEET THE SHORTAGE FOR RETURNING TO NORMAL AFTERTHE CRISIS IS OVER, THEN EVERYBODY IS GOING TO THINK TWICE WHEN THE NEXT CRISIS COMES AROUND BEFORE INCREASING HIS PRODUCTION TO MEET WORLD NEEDS.

6. The dollar. Q - ARE YOU IMPRESSED WITH THE STABILIZATION OF THE DOLLAR AND IN ITS EFFECT IN REDUCING THE EROSION OF YOUR PURCHASING POWER? A - “WE DON’T PUT UP (OIL) PRICES FOR THE SAKE OF IT. WE ARE SIMPLY CONCERNED WITH PRESERVING THE PURCHASING POWER OF OUR REVENUE. IF THIS CAN BE ACHIEVED THROUGH A HIGHER VALUE OF THE DOLLAR, THIS WOULD DEFINITELY HAVE AN EFFECT ON PERSUADING US TO KEEP OUR PRICES DOWN...I HOPE THAT THE DOLLAR’S STRENGTH WILL CONTINUE, BUT WHAT I HOPE AND WHAT I THINK DO NOT ALWAYS COINCIDE. I AM NOT IN THE BUSINESS OF PREDICTING CURRENCY TRENDS BUT, IF INFLATION IN THE US IS NOT HELD DOWN, YOU CANNOT BE...”
9. USSR OIL SHORTAGE. Q: "There have been reports that the Soviet Union will face a shortage of oil in the medium term. Do you see them entering the oil markets?" A: Many of the socialist countries in Eastern Europe have been in the market for some years. They are increasing their imports from OPEC countries. This is because their demand is increasing and the USSR is not increasing its supplies, because it can't. The Soviet bloc is most strongly coming onto the market; their dependence on oil is increasing and will have an effect on overall supplies."

10. IRANIAN PRODUCTION. "I don't think Iran will be interested in going back to their previous levels of production. It was expected that in the 80s Iran's exports would have fallen anyway. Iran's internal demand for oil will continue to rise and, on the other hand, the oil fields' abilities to produce will decline. In my view the Iranian situation has not changed matters dramatically - it has only brought forward the inevitable.""
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TAGS: EIRG, KU
SUBJECT: KUWAIT OIL PRODUCTION FOR APRIL, 1979

REF: (A) KUWAIT 2036, (B) KUWAIT 1726

1. (C-ENTIRE TEXT).


3. DETAILED AVERAGE DAILY PRODUCTION BREAK DOWN FOR APRIL WAS AS FOLLOWS:
   - KUWAIT OIL COMPANY 2,252,566 B/D
   - WAFRA PRODUCTION 86,368 B/D
   - KUWAITI SHARE OF PARTITIONED ZONE
   - ARABIAN OIL COMPANY PRODUCTION 212,283 B/D
   - TOTAL 2,351,217 B/D

4. RELIABLE OIL MINISTRY OFFICIAL (PROTECT), WHO PROVIDED FIGURES, SAID CAUSE OF KOC APRIL PRODUCTION DECLINE (BOTH WAFRA AND PARTITIONED ZONE PRODUCTION INCREASED SLIGHTLY) WAS BAD WEATHER CONDITIONS (REP A) WHICH CONTINUED TO HAMPER TANKER LOADING THROUGH END OF THE MONTH. OFFICIAL EXPLAINED THAT KOC ONLY HAS STORAGE CAPACITY FOR ABOUT 4 DAYS OF CRUDE PRODUCTION. ACCORDINGLY WHEN WEATHER (OR OTHER FACTORS) INHIBIT TANKER DOCKING AND LOADING, KOC DECREASES PRODUCTION SO THAT STORAGE TANKS ARE NEVER FILLED TO CAPACITY. FILLING THE TANKS TO CAPACITY WOULD FORCE A SHUTDOWN IN CRUDE PRODUCTION MEANING THERE WOULD BE NO ASSOCIATED GAS AVAILABLE TO POWER KUWAIT'S ELECTRIC POWER GENERATORS AND OTHER INDUSTRIES. LAST YEAR, AVERAGE DAILY KOC PRODUCTION DECLINED FROM 1.91 MILLION B/D IN MARCH TO 1.78 MILLION B/D IN APRIL DUE TO BAD WEATHER, GIVING CREDENCE TO OFFICIAL'S STATEMENT TO US THAT PRESENT DECLINE IN PRODUCTION IS DUE TO SEASONAL AND TECHNICAL FACTORS RATHER THAN BEING IN RESPONSE TO INCREASED IRANIAN PRODUCTION.

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