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*Memorandum by the Deputy Director of the Office of International Materials Policy (Evans) to the Deputy Assistant Secretary of State for Economic Affairs (Linder)*¹

RESTRICTED

WASHINGTON, June 12, 1952.

Subject: Future MSA Financing of Crude Oil

Mr. W. John Kenney, Deputy Director of MSA, has advised the Department that MSA intends to take action this week with respect to future financing of crude oil shipments to participating countries. MSA is considering the following two possible courses of action:

(1) Notify the oil companies involved that shipments of Middle East crude oil priced in excess of a specified price per barrel (maximum price to be specified by MSA, probably \$1.43 per barrel f.o.b. Persian Gulf ports) are not eligible for MSA financing.

(2) Remove crude oil from the list of commodities eligible for MSA financing.

The need for MSA action along the lines indicated is the result of the Middle East crude oil price controversy between MSA and the American oil companies which export Middle East crude oil to participating countries at \$1.75 per barrel f.o.b. Persian Gulf ports and at the same time export the same crude to Western Hemisphere customers at \$1.43 per barrel. MSA contends that the price charged on shipments to the Western Hemisphere is the maximum price eligible for MSA financing of Middle East crude oil under MSA Regulation 1. A claim for reimbursement of the overcharge on past shipments has been turned over to the Department of Justice. MSA is now concerned with the course of action to be followed in the future in respect to the price of Middle East crude.

The possible courses of action indicated have been discussed with BNA, WE, CA and OFD who all agree that this is a decision for MSA to make after they have carefully considered the impact of their action on the participating countries.

There is a strong tendency, however, to favor the first course of action for the following reasons:

(a) The participating countries rely on Western Hemisphere sources for special types of crude which should continue to be financed by MSA;

(b) A reduction in Middle East crude prices is more likely to be achieved if MSA financing continues to be available in the event

¹ This memorandum was drafted by McMaster.