

No. 303

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Memorandum of Conversation, by the Officer in Charge of Lebanon-Syria-Iraq Affairs (Funkhouser)

SECRET

WASHINGTON, July 28, 1953.

Subject: Aramco Negotiation Plans

Participants: Mr. James Terry Duce, Vice President, Aramco
Mr. A. Chapman, Washington Representative,
Aramco
NEA—Mr. Jernegan
NE—Mr. A.D. Fritzlan
NE—Mr. Funkhouser

Mr. Jernegan stated that Mr. Beeley, Counselor of the British Embassy, had expressed his Government's concern that Aramco in its oil negotiations with the Saudi Arabian Government might seriously disturb existing contractual relations in Iraq and Kuwait. Mr. Jernegan added that he had replied to Mr. Beeley that he would discuss this matter with representatives of Aramco. It was for this purpose that he had asked Mr. Duce to visit the Department.

The subsequent discussion with Mr. Duce brought out the following points:

1. Aramco will shortly present the Saudi Arabian Government with a new approach to both price and pipeline problems. The Iraq Petroleum Company and Kuwait Oil Company as well as all Middle East producing and pipeline transit countries will be substantially affected by the recent decisions of the Aramco Board of Directors.

2. Aramco is prepared to offer to share profits on the basis of posted or "world" prices, now \$1.97 per barrel FOB Ras Tanura. This price represents an increase of \$0.54/bbl. over the present value of Arabian crude. Aramco and SAG will thus each earn a \$0.27/bbl. increase over the present \$0.56/bbl. share of profits (approximately). This 50 percent increase in income will give SAG a total of approximately \$220 million per year at the current production rate.

3. The impact on Kuwait Oil Company and particularly the Iraq Petroleum Company can be immediate and profound. It is apparent that demands for equal treatment will be made by the Iraq and Kuwait Governments. Iraq and Saudi Governments are now exchanging information on oil prices. Reports indicate that both are demanding "world prices" for their oil in place of the intercom-