

(f) Mr. Duce stated that there was currently a surplus of oil in the industry and that certain of the companies were not in favor of the recent price rise. With regard to Arab acceptance of any downward price movement in oil, Mr. Duce stated that on a basis of his company's study of oil demand over the next 25 years (Paley Commission Report) the company was confident that it could maintain expanding and healthy operations.

(g) There was considerable discussion of the SAG's ability to spend these additional revenues. Mr. Duce stated that the company had no illusions in this respect nor did he feel it was their "business". He referred briefly to precedents in "Texas" regarding lavish expenditures. Reference was also made to precedents in Venezuela where annual oil income is now five times greater than Saudi Arabia's while area and population are considerably smaller.

(h) Regarding the possibility that the increased Persian Gulf price might bring Iranian oil into the market, Mr. Duce did not express concern but stated that he "always had held the position that a solution to the Iranian oil question was essential to the health of the industry."

(i) Mr. Duce stated that the intercompany oil price had been originally placed at the discount level (\$1.43) primarily in order to provide the parents with the investment capital needed to develop the postwar refining and distribution end of business abroad. Now that this expansion in world-wide refinery and distribution capacity had taken place there was less need for the extra profit to be directed at that part of the business.

(j) When questioned regarding articles published in the area to the effect that cheap tanker rates were making the pipelines unprofitable, Mr. Duce stated "that must have been a planted article" and added "by someone other than us". He intended to diminish the proposition that the Middle East pipelines would lose business to tankers except under certain conditions principally involving currency and nonconcessionary companies.

B26A 2552/7-3153

No. 304

*Memorandum of Conversation, by the Deputy Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Jernegan)*

CONFIDENTIAL

[WASHINGTON,] July 31, 1953.

Subject: British Interest in Aramco-Saudi Price Negotiations

Participants: Mr. Harold Beeley, British Embassy

NEA: Mr. Jernegan

Mr. Beeley said a telegram just received from the Foreign Office expressed disappointment at the attitude of the State Department, which I had conveyed to him in our previous conversations on this