

help, in getting official support for the view that we should support profit division on an honest realization basis rather than on a fictitious basis, whether this results from underpricing or assumed realizations which are not attained.

Sincerely,

ED

P.S. I have just heard that the British are inclined to support Gulf in not making retroactive payments. They are inclined to believe also that if Iraq gets an increase in payments as a result of renegotiation soon that Kuwait should do likewise, though not necessarily to the same extent. They also think the company might wish to consider whether there was value in making additional per unit payments now if they are going to have to cut back the volume to make way for Iranian oil. I believe they could be persuaded to support the view I am advocating in the above letter on true realizations honestly achieved and fully explained.

No. 363

886D 2552/8-2954: Telegram

*The Secretary of State to the Embassy in the United Kingdom*¹

CONFIDENTIAL

WASHINGTON, August 20, 1954—8:23 p. m.

1029. Following discussions with Swensrud (reported Deptel 809)² and Whiteford of Gulf who called at Dept August 18 we have been giving further thought Kuwait problem. Essential elements seem to be:

1. Gulf can use only small proportion Kuwait crude for its own markets and considers it must therefore be in position adjust its sale prices to competitive conditions in order obtain and keep crude outlets. At present it has long term contract with Shell providing outlet for 275,000 barrels per day (about two-thirds its total share Kuwait production) and other lesser contracts with American and foreign companies. If forced raise prices on these contracts company claims it would, in view over supply oil and high sulphur content Kuwait crude, lose them and be unable find other customers. On other hand it contends that to maintain contracts at present price levels while paying tax to Kuwait on posted price basis would not only cause serious financial loss but would be radical departure from 50-50 principle and expose it and all other companies to further similar demands. Precedent would also be set for other conces-

¹ Drafted by Jernegan and cleared in draft by NE, S, PED, and OMP.

² Document 359.