

## No. 373

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*Memorandum Prepared in the Department of State*<sup>1</sup>

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[WASHINGTON,] November 19, 1954.

Subject: Progress Report re Kuwait Oil Problem

The problem was fully discussed with the British during the Petroleum talks of mid-October and two follow-up sessions, the last on November 12.<sup>2</sup> Prior to the meetings Messrs. Whitefield and Rhodes of Gulf explained Gulf's position fully, and on November 9, Messrs. Rhodes, Hamilton and Proctor gave representatives of the two Bureaus a two-hour briefing.

The British position as set forth by them is that: 1) no retroactive payments are called for; 2) Gulf and AIOC are obligated under the 1951 contract to discuss pricing and tax problems with the Sheikh; 3) the companies themselves should handle the problem with the Sheikh; and 4) Gulf should not be too "inflexible". The British have continued to emphasize the last point. They are anxious that the ruler's income in Kuwait where they have responsibility is no less favorable than that of other rulers in the area. We agreed to first three positions; the implications of the fourth were fully discussed and the British view passed on to Gulf.

Throughout the discussions the soundness of Gulf's arrangement with the Sheikh and the fact that it incorporates true fifty-fifty profit sharing were stressed; doubt was expressed that AIOC was sharing on the same basis. We emphasized also our concern that Gulf have full opportunity to defend its position which it is confident it can do.

One possibility discussed for increasing the income of the Sheikh was, since Shell under long term contract with Gulf enjoys a large purchase discount that Shell set up in Kuwait a trading company which could be taxed 50% of its discount. The UK Treasury would of course lose the tax base; the plan would however be similar in principle to that existing in Iran, which has been accepted by the UK Government. The British group later reported a highly negative reaction on the part of the British Treasury to this proposal.

<sup>1</sup> This memorandum was drafted by Gay and sent by Kalijarvi and Byroods to the Under Secretary of State. Another copy was attached to a memorandum by Dorsey to Murphy, dated Dec. 3, which reported that there was no further information at that date on any developments mentioned in the Nov. 19 memorandum. (886D.2553/11-1954)

<sup>2</sup> Memoranda of these follow-up conversations not found in Department of State files.