

Saudis would push them to lift more, and so the Iranians couldn't sell more or they couldn't undertake to lift more from Iran because they were lifting more from Saudi, and vice versa. They played one off against the other very nicely over the years.

Q: I had the impression that the companies had their own arrangements among themselves that the Shah didn't know about for some time, whereby they could control production, prevent over-production and falling prices.

Mr. Lehfeldt: Well yes, they could do that all right. Sure, they managed the supply--no question about it. Because you know left alone, Saudi Arabia and Iran and the Gulf states and Libya would have been flooding the market with oil if there hadn't been some controls. That's why they got in trouble later on when OPEC really was in control--they didn't control very well.

Q: Back to the time of the Irwin mission. According to one of the documents that I saw, the Shah threatened to MacArthur an oil embargo by the Gulf producers if the companies played what he called any "dirty tricks." Did you ever hear anything about that.

Mr. Lehfeldt: Yes, I heard that. But nobody really believed him. Nobody really believed him. He couldn't afford it. He was engaged in a military build up, domestic military build up. He was engaged in an extensive development program. They were already having trouble managing their resources in a way that provided for all of

their needs, and the money tree hadn't started blooming yet. So at the time that threat was made, it was viewed as an empty threat. But again, that was as much MacArthur's reporting and his failure to understand and handle the Shah, as anything else.

Q: What kind of options did MacArthur have, do you think, at that point?

Mr. Lehfeltdt: What kind of options did he have? I don't know that he had any real options. But had Julius Holmes been there, Julius would have said, "Hey. [pounds on desk] Your majesty, calm down. It's in all of our interests to make sure this works out well. Threatening us like that isn't going to do you any good, it isn't going to do us any good." MacArthur simply reported. Didn't remonstrate, as far as I recall. Phil Talbot would have done the same thing.

Q: Back to this joint approach idea. Apparently the oil companies, were they hoping that Irwin would push this approach to the Shah?

Mr. Lehfeltdt: I don't know.

Q: You didn't get any sense from talking to--

Mr. Lehfeltdt: No.

Q: Okay. In any case, after Irwin's visit the companies agreed to

separate negotiations in Tehran with the Gulf states on the one hand, and in Tripoli--

Mr. Lehfeldt: Yes. That was part of the same effort to keep them separated.

Q: The company team in the Gulf was led by Lord Strathalmond.

Mr. Lehfeldt: That's right. Willy Fraser.

Q: Do you moderate negotiations pretty closely?

Mr. Lehfeldt: Yes! Practically every night, with Willy and Al DeCrane, Bill Tavoulareas, Chuck Pearcy.

Q: People you mentioned earlier.

Mr. Lehfeldt: Yes. Donald Murray. Sometimes the Dutch ambassador would join us when he was not out of the country. But when I say every night I meant we'd meet them at one or two or three o'clock in the morning.

Q: Did the companies seek any advice or direction from the embassy, from Washington?

Mr. Lehfeldt: No. No no no no. Indeed, had we tried to instruct them they would have told us to go peddle our papers. [laughs]

Q: They didn't seem to need diplomatic assistance at all?

Mr. Lehfeldt: No, they didn't want us meddling. That was their point of view all along. This was not a diplomatic matter for "you amateurs in the oil business" to meddle in.

Q: The policy makers in Washington saw it the same way? I mean, they approved that separation?

Mr. Lehfeldt: Well, that was the way that it'd always been.

Q: They accepted it?

Mr. Lehfeldt: Yes.

Q: Under the Tehran agreement, which was signed I guess February 14, 1971, the companies and the governments agreed to fairly modest price increases, compared to later on.

Mr. Lehfeldt: Yes. What did it go to? You don't have the figures.

Q: I don't have the figures.

Mr. Lehfeldt: It seemed to me we kept arguing about the equivalent cost of producing a barrel of synthetic or shale oil, which was then estimated to be about seven dollars or something like that. Seven

forty-one.

Q: Somewhere in that range, yes. But in any case, the agreements were supposed to last until 1975. I think the Shah also agreed that Persian Gulf prices would be stable even if Libya raised prices.

Mr. Lehfeldt: Right.

Q: Was there any doubt at the time that the Shah would stick to the agreement? How did people assess its durability?

Mr. Lehfeldt: I don't think any of the oil companies ever felt comfortable that anybody was gonna stick with the agreement. In the event, of course, we never really were able to tell whether they were gonna stick by the agreement because of the things that happened, then, in 1973. After all it was only, what, a year and a half later that the whole thing fell apart.

Q: The Tehran agreement meant a major step in the direction of national control over petroleum resources. Did oil companies generally accept this as a fact? Was there some resistance?

Mr. Lehfeldt: Oh there was a great deal of resistance. There was always a lot of argument over interpretation of terms. When gas became an important factor--supplying gas, for instance, for the Soviet pipeline and for the projected pipeline through Turkey to Europe, and the major gas deposits that were discovered down in the

Persian Gulf, absolutely mountain-sized--then a lot of discussion took place, a lot of argument took place, over the interpretation of what exactly those agreements meant, and what if any rights the Consortium had over these gas deposits. When they started using the gas for reinjection, for secondary recovery purposes, there was the question of, "Well who pays for that?". There was always the argument over who was going to fund the investment in added capacity. Of course the Iranians didn't want to invest in any of that. They felt the oil companies should invest almost all of it. So that, you know, there was a good deal of dubiety abroad as to the reality of the agreements, and how well you could make the Iranians stick to them, or the rest of the OPEC members.

Q: How did the State Department assess these developments? Was it something that they thought that they should try to accept and try to moderate, or something that they should try to reverse if possible?

Mr. Lehfeldt: No. There was never any thought, at least not in my mind or I never head anybody express the thought, that we might be able to turn the clock back. No way. Nor was there any real effort at the time, until 1973, to inject US government muscle in to the oil patch. Then it became a matter of life or death, of very great strategic value. That's when the US government became much more active in trying to affect national policies on the local level of the individual OPEC states.

Q: Did any of the oil companies come around and, say, complain? Say

maybe the State Department should be helping to push this?

Mr. Lehfeldt: Never. You know, these were all old fashioned international oil folk. They'd grown up in the tradition of, "We don't need you guys, and we don't want you meddling in our business." You had people like Jan van Raven and Chuck Percy, and let's see. Who was the--

Q: van Raven?

Mr. Lehfeldt: The Dutchman who was head of the Consortium at one time. Some of the British Petroleum people, especially, and certainly the French CFP--Compagnie Francaise des Petroles--guy. They had no interest whatever in especially having the US government get in to it.

Q: Okay. Now around the same time, the Shah was talking about going downstream, so to speak. Like getting the NIOC involved in refining and marketing of oil around the world. How much did the companies worry about that as a--

Mr. Lehfeldt: Because, as I told you, they pushed all the profits to the well head they were quite willing to sell them. You recall, NIOC did buy some of our Gulf's--Gulf I believe it was, or Getty stations here in the United States. I forget what exactly. They were prepared to buy much more. The oil companies were quite prepared to let them run those non-profit operations. The Iranians and the other

oil producers had the mistaken impression that that's where the great profit was. That how they could control the off-take of crude supplies, was by increasing refinery run through sales at the station and so forth and so on. They had very little real understanding of the basic economics of petroleum business around the world.

Q: So the companies were not really worried about a competitive threat.

Mr. Lehfeldt: Not really. They were happy to take their money for those things.

Q: In early 1972 the Shah made another step towards national control with the Saint Moritz agreement to turn over policy making and operational responsibility of the Consortium to the NIOC. Did the companies discuss these negotiations with the embassy while they were going on? They were fairly protracted, apparently.

Mr. Lehfeldt: They were fairly protracted. No, not to my knowledge. The St. Moritz agreements were almost totally negotiated in the air there with senior oil company guys. It was, you know, it really was more window dressing than reality anyway.

Q: The companies still kept the privileged position in terms of--

Mr. Lehfeldt: Absolutely. They still had their offtake agreements and their cross purchasing agreements and so forth and so on. They



weren't worried about that. If a little ego salving and massaging was necessary, I'm sure it didn't cause them very much pain.

Q: That's interesting.

Around the same time in 1972, 1973 the Shah and companies, I'm sure the Shah and OPEC were starting to stress the idea of unilateral national control for prices as a closed negotiations with the companies, whereby OPEC members would set prices themselves rather than bargaining with the companies. Did this move cause much concern, this announcement?

Mr. Lehfeldt: This was all posturing in a long line of posturing. These were all ploys in a negotiating game. If you stopped to get concerned about one or another of them, you would lose a lot of unnecessary sleep.

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Q: Now of course in the fall of 1973, the oil price explosion came.

Mr. Lehfeldt: The Arab boycott of the US.

Q: How did the State Department respond to this development?

Mr. Lehfeldt: The immediate concern, of course, was military related, so that the efforts to keep the US Navy supplied, and we

were of course in the throes of--had we withdrawn from Vietnam by then? I guess we had.

Q: In the midst of it.

Mr. Lehfeldt: We were right in the midst of it.

Q: It may be over.

Mr. Lehfeldt: It gets fuzzy because my concerns were immediate in Iran, but I believe we were still in the throes of withdrawing, in any case, and concerned about the possible spread of war in South Asia. We were of course concerned for Japan, and its continued well being. We were concerned with the resupply of our own fleet in the Indian Ocean and Diego Garcia and COMIDEASTFOR [Commander, Middle East Forces] and all the rest of it. So that the efforts at the time were directed towards assuring that oil was available to us in whatever way. The Shah cooperated. He did not observe the boycott. Indeed, there are some Arabs who feel that he conspired to keep Israel supplied. I suspect there may be something to that, I don't know.

Q: Did he supply Israel?

Mr. Lehfeldt: Always. Yes. Iran was one of the major suppliers of Israel for years.

Q: Did he increase production at the same time the boycott was going on to compensate for some of the oil?

Mr. Lehfeldt: Well he promised the Arabs that he would not increase production, as I recall. He was not going to take advantage of it. By that time he was beginning to be concerned about conservation, himself. About how long in the future his oil supplies would last.

Q: In terms of the actual price increases he took a fairly hawkish position, though.

Mr. Lehfeldt: Indeed, indeed. He felt that it's a scarce commodity, and was gonna get scarcer. So let's make up for all past sins against us and put the oil price where it belongs, truly.

Q: How much of an effort was there, in a diplomatic sense, to try to moderate the Shah?

Mr. Lehfeldt: I never had the sense that we were trying to moderate the price from a price point of view. We were always grateful to him, and willing to go along, because he made supplies available. That was the utmost consideration.

Q: Stability in that aspect.

Mr. Lehfeldt: Right. Yes.

Q: Now, before the price explosion--I think in September, 1973--I think Libya had gone, raised some prices at this point. Nixon gave a speech where he said that the West could treat OPEC like it had treated Mossadegh in 1952, 1953, by denying OPEC countries markets for oil. Now, did anybody take that seriously?

Mr. Lehfeldt: If they did, it was very momentary. Because by then it was clear we didn't have control of OPEC. I frankly don't remember the speech! [laughs] It was a great ho-hummer, I would think. Because by then Mr. Nixon was in deep yoghurt himself. His leadership was nonexistent.

Q: Was there any kind of an effort made to find ways to bring prices °down or check price increases by banks?

Mr. Lehfeldt: No, none that I could see. They wouldn't have worked in the event. I think we were dealing with a fait accompli, and we were dealing with the need to try to make the best of it. That was, again, that's when the episode I recounted about going to the Central Bank occurred. You know, finding ways to recycle these vast numbers of dollars that we're suddenly getting. That was our major diplomatic effort.

Q: I've gotten the sense that Nixon and Kissinger had some hope that they could bring oil prices down by somehow dividing OPEC countries among themselves. Did you get any sense that that was a desire?

Mr. Lehfeldt: If they had that sense it certainly wasn't imparted down to the embassy, at least down to my level. I think had we been asked for a view on that as a policy effort, I would have tried to discourage it. We really had to deal with the immediate effects rather than trying to roll back the clock.

Q: Was there much concern at the embassy or in Washington that the US and Western Europe and Japan might somehow start competing for access to energy supplies?

Mr. Lehfeldt: Oh indeed! Indeed. There was some of that. There was great concern that Japan was--well let me back up. In the heady days for Iran, of those vast oil price increases, there are a number of court cases still going on resulting from efforts to sign long-term agreements with NIOC and Ashland Oil. The Japanese signed long-term agreements at great prices. Yes, there was concern that oil would not be available, that there would be shortages, that the arab boycott would be reinstated--a whole variety of fears came along, that have proven groundless, but at the time it was real. Because Japan after all controlled the majority of the tanker fleet, Japan and the Greeks. In order to keep Japan, Incorporated going you had to have tankers going every day. So it was to their interest to sign long-term agreements. So they went ahead and did it. There were people coming to Iran in 1974, in early 1974 from the damndest places in the United States trying to sign up long-term agreements, trying to bribe people. Trying to do all kinds of silly things in order to assure themselves of oil supplies. Some of the joint

projects that were under way, especially utilizing gas, foundered because of the increase in prices. One was Transco, for instance, in the United States. It was going to be a major developer in the "C" structure down in the Persian Gulf. They had to back off.

Q: Now I read that during the first energy crisis some of the Europeans were concerned that the US might use its political clout to negotiate bilateral agreements with key Mid East oil sources, which would effectively preempt supplies that otherwise would have gone to Europe or Japan. Was there any discussion about bilateral agreements by the government?

Mr. Lehfelddt: No, there was none. This was not in the American tradition. To my knowledge, if it was considered it was considered in the abstract in Washington--not as a reality. The Shah was quite willing to sign long-term agreements. But no, we preferred to let the market play.

Q: Okay. Now, in the long-term Kissinger supported a policy of cooperation, the US supported the development of the International Energy Authority to bring Western countries into a cooperative stance. This is 1974 also. Did State Department officials see the IEA as sort of the potential counter cartel to OPEC? Was it seen in that way, or--you said that you weren't involved in that at all.

Mr. Lehfelddt: My involvement was minimal because by that time I was withdrawing from Iran. I left Iran in the summer of 1974, and went

to Barcelona as Consul General. So that, you know, my involvement during the greater part of 1974 was simply not there. I did talk to a lot of oil people when I came back to Washington, before I went off to Spain and so on down the line. But I just don't recall any serious discussion of IE or whatever as being viewed as a counterpoise to OPEC.

Q: Okay. This might have occurred before then, I'm not sure. But I read that Robert McNamara and Hollis Chenery at the World Bank believed that the US would fail, in any case, to get OPEC to lower prices and that instead the US should encourage OPEC to organize the recycling of oil revenues to assist countries that could not pay for oil on their own.

Mr. Lehfelddt: That's right.

Q: Do you recall any discussion of this proposal?

Mr. Lehfelddt: Oh yes! Well that was part and parcel of what I was doing. Yes. We pushed hard around the world for the oil countries to recycle their gains that they couldn't immediately use, into ways that would make it possible for the less fortunate countries to survive. The thought did not occur to the Shah until we pushed it on him. Then he took it as a, he made something out of it for his own grandeur. It was fine. I thought it was a great gesture.

Q: Now I think one development that did occur before you'd left in

the summer was, I think, at least the initiative to organize what was called the US-Iran Joint Economic Commission.

Mr. Lehfeldt: Yes.

Q: Did you do much work on the Commission before you'd left?

Mr. Lehfeldt: No.

Q: I think it was in April it was sort of, proposed.

Mr. Lehfeldt: Yes. It was proposed, and we were studying what we were going to do, who was going to fund what, how much money the Iranians were gonna put up. But it was not a reality by the time I left. In the event the Iranians didn't want to put up any money. Unlike the Saudis. This was a, sort of a fashionable thing to do with all of the oil rich countries. We had a joint council with the Saudi Arabians, we had with Iran. I don't know whether we ever did one with Venezuela, but probably we did. And so on down the line.

Q: What were the general purposes of the Commission?

Mr. Lehfeldt: The general purposes were to discuss problems areas on an official level, and at the same time we organized the US-Iran Business Council as a private sector adjunct to the Joint Economic Council. I took part in that.



Q: Later on?

Mr. Lehfelddt: No--at the time, in the first meetings of that. Then when I came back as a businessman I took part in it from a business point of view. Walter Surrey, from Surrey and Morse, was very active. Hank Greenberg from AIG was very active--American International Group's insurance guy. The head of it was a guy from IOP--International Oil Pipelines or something or other. From Iowa, as I recall. [Edward L.] Hennessy from Allied Chemical.

Q: To what extent was the Commission seen as a means to ensure that US exporters got a large share of the market that would be developing as oil revenues increased?

Mr. Lehfelddt: Well that was our aim, of course. To make sure that the American share of the market was either constant or increased, and to smooth out the methods for increasing American involvement in the Iranian economy, and to help the Iranians export other things than oil to the United States. We met periodically. We got a few things done but nothing overly overwhelming.

Q: Back to this oil thing on another aspect of it. Did Richard Helms meet with the Shah to discuss OPEC questions, periodically? expressing concern about price increases?

Mr. Lehfelddt: Well I can't say that--I don't know that he expressed concern about price increases. It was the other aspects of it, the

recycling and so on, that were necessary to be discussed. And the military supply, which was overwhelming. He was willing to sell us, for instance, oil for our strategic reserves. But at a price, and he wanted a long-term agreement. Which we weren't willing to sign, so.

Q: When you were a businessman in Iran in the late 1970s--well I'll get to this later on.

I'd like to go back a few years earlier, to Nixon's visit to Iran in 1972 on his way back from the Moscow Summit. Was the embassy given much advanced notice about this visit by the President and Secretary Kissinger?

Mr. Lehfelddt: No, not really a lot. We knew about it. We knew it was in the cards, because naturally any presidential visit requires a great deal of security being laid on and so on down the line. But our participation, other than the ambassador and the security people, was very minimal. We had all the troops from Washington there--all the press.

Q: You didn't get any real sense at the time of Nixon's or Kissinger's purposes in visiting the Shah?

Mr. Lehfelddt: No, none whatever. None whatever. The purpose was just as stated, to brief him on the results of his summit in the Soviet Union, and it was a great builder for the Shah's ego. But apart from that we had no sense that that was when they were going to anoint him as the savior of the Middle East.

Q: There was no discussion about that at that time?

Mr. Lehfelddt: No. It came out later.

Q: It did filter down, the decision?

Mr. Lehfelddt: But you see, Helms wasn't there then.

Q: Farland was there?

Mr. Lehfelddt: Farland was there. It was quite a different can of worms. Because he'd only been there a couple weeks.

Q: Was Farland present at the meetings with the Shah and Kissinger and Nixon?

Mr. Lehfelddt: I doubt it. Seriously. He may have been.

Q: You don't know who was?

Mr. Lehfelddt: No. Because Nixon and Kissinger were staying at the palace. They could have met any time, anywhere.

Q: They were in the stratosphere, yes. Now the policy, though, did filter down.

Mr. Lehfeldt: Yes. Rather soon as a matter of fact because the Iranians, the Shah himself was very proud of the whole thing and wanted it known that he was a chosen instrument.

Q: This was confirmed by cables from Washington eventually?

Mr. Lehfeldt: Over time, yes.

Q: You got a sense of the arms sales approach that was discussed at the same time?

Mr. Lehfeldt: Yes, because that was when Henry Kearns and I were discussing how we were going to use a billion dollars worth of Exim money, or something of that sort.

Q: Henry Kearns was the head of the bank?

Mr. Lehfeldt: He was the head of the Eximbank.

Q: Okay. The idea being that the Shah could use the money as he pleased?

Mr. Lehfeldt: Yes, pretty much.

Q: Was this a big departure from previous policy and practice?

Mr. Lehfeldt: Oh absolutely. We had been very very chary, very