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DEPARTMENT OF STATE

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DATE: April 16, 1973

**1973-4-16, Faisal, Yamani, ~~William P. Rogers~~ Rogers**

### Memorandum of Conversation

SUBJECT: Impact of the Arab/Israel Issue on the Oil Supply Situation

**PARTICIPANTS:**

His Excellency Ahmad Zaki Yamani, Minister of Petroleum and Mineral Resources of Saudi Arabia

H.R.H. Prince Saud ibn Faisal Al Saud, Deputy Minister of Petroleum and Mineral Resources of Saudi Arabia

Mr. Nizar Madani, Saudi Arabian Charge

Honorable William P. Rogers, Secretary of State

Honorable William J. Casey, Under Secretary of State for Economic Affairs

Mr. James Akins, Director, Office of Fuels and Energy

Mr. George Bennisy, Office of Fuels and Energy

Mr. Francois M. Dickman, Director, Office of Arabian Peninsula Affairs

DISTRIBUTION: See attached sheet.

SUMMARY: Yamani observed that the US will have to purchase increased amounts of crude from Saudi Arabia. While the Saudis are prepared to increase production beyond their income requirements, he stressed the importance of having the right political atmosphere. The Secretary noted the difficulties the US faces in making progress on the Arab/Israel issue because of two conflicting forces: those in the Arab world, like President Sadat who are prepared to recognize Israel's existence but with the expectation of the return of occupied territories, and those who will use extreme measures to deny Israel's existence. We can make progress with one but not the other. Yamani expressed concern that if progress is not made soon, the fedayeen will hit vital US oil production facilities (not just pipelines or storage tanks) which could cut Arab oil production in the Gulf by half.

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(Drafting Office and Officer) *AM*

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The Secretary pointed out that the fedayeen would be making a mistake if they thought this would resolve the Arab/Israel problem. Progress toward a solution can only be made if we convince the Israelis that it will not be made in an atmosphere of terrorism and that the fedayeen will be bound by a settlement. END SUMMARY.

The meeting opened with Mr. Casey summarizing for the Secretary his earlier conversation with Minister Yamani and the principal points in the President's forthcoming message on energy. Noting the excellent relations between Saudi Arabia and the US, the Secretary asked if there was anything in the President's message which would cause problems between us and Saudi Arabia. Mr. Akins said he did not think so. He had shown Minister Yamani a portion of the message dealing with international aspects and noted that it proposed joint research with consuming countries to develop new sources of energy and joint efforts to handle energy resources by all countries in times of crisis.

Minister Yamani said that from his talks so far in Washington, including those earlier that morning with Secretary of Treasury Shultz, he had concluded that no matter what the US does to deal with its energy problem, it will need to import more and more crude from outside. This meant that it will need to purchase more crude from Saudi Arabia which is in a position to meet US requirements. However, Saudi Arabia has now reached the level of oil production where it no longer needs additional income. This raises the problem of why should Saudi Arabia produce oil beyond its income requirements since oil left underground will appreciate faster than the return from invested oil income. The Minister said that Saudi Arabia, nevertheless, was prepared to meet increased US energy demands with the cooperation of the US in establishing industries in Saudi Arabia using energy resources now being wasted. In order to further strengthen this US-Saudi relationship, however, it was important to create the right political atmosphere.

The Secretary prefaced his remarks by saying that he was often amazed to hear from others that US policy was somehow opposed to the Arab cause. As far as the US was concerned, it was in its national interest to have good relations with all Arab nations. The US continues to try and find ways to achieve at least a partial solution to the Arab/Israel problem. However,

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