Where we are in the story:

- Oil embargo from 1973 War over
- Ford is President
- inflation and unemployment high (DJIA down 86% since 1968; poverty up 5.6%; real income down 4%); global food crises
- Kissinger (pro-Iran) secretary of State and national security advisor; William Simon (pro-Saudi) Treasury secretary (carrying over their disagreement)
- Ford lacks confidence and knowledge to keep Kissinger in check
- Kissinger/Nixon deals with Shah (oil price increases to pay for military buildup) not explained to Ford. "Kissinger wanted to make sure that Ford, a foreign policy novice, saw things his way."
- Nelson Rockefeller, friend of the Shah and brother of Shah’s banker, becomes VP.
- Saudi Arabia says it does not set the price, but follows Iran. Nobody wants an auction.

**Sept. 1974**: Ford declares “war” on oil producers, but no leverage. Shah calls his bluff, “something he never would have dared do” with Nixon. “Ford is an utter booby.” And he knows Kissinger, his friend, is the real power.
US unemployment rises to 7.1% by early 1975. Americans go to Iran for good jobs, and “servants, pools, tennis courts, and country club memberships.” (My employer, AT&T, got a big contract with Iran for telecommunications.)

Agreements: Iran secretly offers to sell surplus to US at discount. In return, Shah agrees to support a price freeze in May 1975. Also, Iran agrees to supply oil to Israel and weapons to the Kurds (fighting Saddam Hussein).

Jan. 1975: World-wide recession causes slight drop in oil prices. However, most of OPEC cuts production, but not the Saudis. Hope for US economy, but no improvement. 86% of Americans disapprove of Ford’s handling of economy; election coming up in 1976.

Public is learning about connection between high oil prices and arms sales to Iran. Kissinger still working on the deal (sale of surplus for price freeze). Shah needs the money. To the Shah, “the U.S. should regard Iram as her country in the Middle East.” Buying surplus and selling it privately probably illegal, a problem post-Watergate.

Iran agrees not to join any future boycott of Israel. Kissinger still working on nuclear deal with Iran.

The Shah betrays the Kurds via a deal with Iraq. Betrays Israel, too, who had looked to the Kurds to keep Iraqi forces pinned down in the east.

March 1975: “from Lisbon to Saigon, American power was in retreat.” Coup attempt in Portugal; King Faisal killed (by nephew); Communists launch offensives against US-backed Cambodia, South Vietnam, and Laos. “It was a month that irretrievably damaged the mystique of Henry Kissinger’s diplomacy.”

The Shah visits the White House, but Kissinger advises Ford against raising the issue of oil prices. “... confirmed just how little [Kissinger] grasped the intense political and economic pressures bearing down on Gerald Ford in the spring of 1975. The Shah proposed a joint Iranian-Egyptian invasion of Saudi Arabia. (So much for balancing Iran/Egypt.) Ford brings up oil prices with Shah with Kissinger out of the room but is rebuffed. (No match for the Shah.)

Summer 1975: Oil market in a slump, but prices still high. Religious-based political unrest in Iran; high inflation, shortages of consumer goods. Economy built on increasing oil revenues. Seminary students in Qum riot to mark 12th anniversary of arrest and exile of Ayatollah Khomeini.

Kissinger appeals to Sheik Yamani, but Saudi Arabia takes opportunity to humiliate him. OPEC announces 10% price increase for Oct. 1975. Word gets out that Shah is in poor health, secretly seeing French doctors.

Nov. 2 1975: Halloween Massacre: Rumsfeld to Defense (Schlesinger fired), Cheney to chief of staff; George Bush to CIA (Colby fired); Kissinger replaced as national security advisor by Brent Scowcroft; Rockefeller off ticket for 1976.

Jan. 1976: Iran/US relations bad. Oil pricing; arms-sale scandals; betrayal of Kurds; questions about Iran’s commitment to Israel; no surplus-oil deal; poor relations between Defense (Rumsfeld) and Iran. (Simon still has his job, now with Rumsfeld as ally.)

Ford asks Shah to hold off on price increases until after election, in return for surplus-oil deal.

Communists gaining power in Italy and Portugal. In Spain, King Juan Carlos trying to steer Spain towards democracy, but success depends on improving economy.
May 1976: OPEC fails to agree on new price; price stays frozen. Yamani refuses Iranian 15% price increase. Shah agrees to hold price until after election.

July 1976: US makes deal to sell advanced weapons to Saudi Arabia.

August 1976: Kissinger’s last trip to Iran as secretary of state. Shah demands that US sell him all military equipment he wants. Kissinger agrees to $10 billion.

Sept. 1976: OPEC wants 10-20% increase. US has very little leverage. Kissinger “dominated policy making to such an extent that virtually no one else in the US government… had the vital information they needed to do their jobs.”

Nov. 2 1976: Ford loses election to Carter. (Ford is still President for almost 3 months.) Ford administration now decides to break OPEC any way they can. Things continue to get worse. Unemployment rises to 8.1%. With election over, Iran wants to raise prices.

Dec. 1976: Yamani favors 6-month freeze. Rest of OPEC does not agree, and votes for two stages: 10% in Jan., 5% in July.

Yamani announces that Saudi Arabia are finally taking charge of their destiny. 5% increase and Saudis will flood the market. Severe damage to Iran—money already spent. Yamani says future cooperation depends on peace process. (What Kissinger had long feared.)


Now we are beholden to Saudi Arabia, a slightly better choice.

Discussion: What were the avoidable mistakes?

- 1959 Mandatory Oil Import Quota Program (12.2% of production) was lifted in 1973. Good or bad?
- No peace treaty after 1967 Six Day war. Led to 1973 war and embargo?
- Deal with Shah to raise prices so as to buy weapons and keep USSR in check. Good or bad?
- What if we had cut off the weapons?
- Lack of US oil production increase. Could we have done anything?

Discussion: Is US position today due to fracking? Suppose we eliminated all fracking?