The original documents are located in Box 9, folder: "Strategic Petroleum Reserve - General" of the Frank Zarb Papers at the Gerald R. Ford Presidential Library.

DRAFT: CBMalin
6-9-76

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PROPOSAL CONCEPT OUTLINE

1. The buyer will over the next 6 years purchase at least 500 million barrels of crude oil for a national storage program. The seller has expressed interest in contracting to supply a significant portion, and has indicated a willingness to negotiate price terms. The essence of price terms must be that they provide sufficient incremental revenue to the seller to justify a discount of sufficient magnitude to warrant the buyer's interest in seeking exemption from normal procurement procedures.

2. The seller would commit to supply and the buyer would commit to purchase approximately 290 million barrels of crude oils over 6 years commencing in 1977. Light crudes oils would constitute 65 percent of total deliveries.

3. The buyer would consign crude oil received to storage, with commitment not to market same for at least 5 years after completion of the contract in 1983, except in the event of an emergency for which the reserve has been constructed.

4. The seller would supply crude oils over the term of the contract at nominal prices not to exceed $11 per barrel for (FOB-Persian Gulf)

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light crudes and $10.70 per barrel for heavy crudes. (Precise quality and price terms subject to final negotiations.) In the event OPEC prices fall below levels, prices would be reopen to negotiation.

5. The buyer would deposit in a ~~domestic~~ bank of its choosing immediately upon completion of a contract an amount of funds equivalent to 15 percent of the total crude purchase. A second payment of 15 percent would be deposited to the seller's account coincident with initial crude oil liftings in 1977. The final 70 percent would be payable upon completion of contract. Funds initially deposited before crude oil is delivered will be spent by seller in the buyer's domestic economy.

6. Final terms are subject to negotiation and to review by principals and/to legislative action if appropriate.

PROPOSAL CONCEPT OUTLINE

1. The seller would commit to supply and the buyer would commit to purchase approximately 290 million barrels of crude oils over 5 years commencing in early 1977. Light crude oils would constitute 60 percent of total deliveries. If the seller can not supply 60 percent light crude, the total volume will be reduced accordingly.

2. The buyer would consign crude oil received to reserve storage, with commitment not to market same for at least 10 years after signing of contract, except in the event of an emergency for which the reserve has been constructed.

3. The seller would supply crude oils over the term of the contract at nominal prices not to exceed an average $11 per barrel (FOB - Persian Gulf). Precise quality and price terms subject to final negotiations. In the event the seller's third party sales prices fall below levels agreed to in the contract, contract prices would be reduced accordingly.

4. The buyer would transfer to the seller immediately upon signature of the contract an amount of funds equivalent to 15 percent of the total crude purchase. A second payment of 15 percent would be deposited to the seller's account coincident with initial crude oil liftings in 1977. The final 70 percent would be payable upon completion of contract.

The initial/

The initial payments will be deposited in banks of the buyer's choosing, and the funds are to be used for the purchase of goods and services in the buyer's economy.

5. Final terms are subject to negotiation, and to review by principals and to legislative action if appropriate.

June 11, 1976