

MEMORANDUM

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INFORMATION

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THE WHITE HOUSE

WASHINGTON, D.C. 20503

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June 5, 1979

MEMORANDUM FOR:

THE PRESIDENT

FROM:

HENRY OWEN *HO*

SUBJECT:

A Shift from Dollar to SDR Oil Pricing (U)

In response to your request, we have considered, and discussed with other agencies, whether the US should favor use of SDR instead of dollars, to pay for crude oil. The argument for making the change is twofold: that Germany and Japan have out ahead since 1973 as buyers of oil at prices denominated depreciated dollars, making them "cheap energy" countries; that use of dollars places an undue burden on the US. (C)

I have concluded that dollar pricing should be maintained -- view that is shared by State, Treasury, and CEA. The reasons are twofold:

1. An announcement that dollars were no longer being used as the unit of account in paying for oil would trigger selling of dollars on the foreign exchange markets. So we would suffer a

2. I don't see any offsetting gain, since OPEC would probably raise prices in SDR terms, as necessary to recover revenue losses if the SDR appreciated relative to the dollar. (C)

Thus, while conversion from dollar to SDR oil pricing probably would not have much effect on the course of oil prices, it could have serious dangers for the dollar's position in exchange markets. (C)

As to the burden on the US: Whatever the pros and cons of getting the US dollar out of its role as a global reserve currency, using SDRs, instead of dollars, to buy oil would not accomplish this change: The total amounts paid for oil each year pale into insignificance compared to the amounts of dollars sloshing around the world as a reserve currency. (C)

In any event, the question is probably moot, since US encouragement of a shift would not persuade OPEC countries to make the shift while the dollar is as strong as it now is. The OPEC countries did decide on such a shift a few years ago, but quickly abandoned the decision when the dollar strengthened. We might be able to persuade the OPEC countries to make the shift if the dollar weakened but that's precisely when the move would be most damaging to us.

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