

00565

1979/06/22

MEMORANDUM

PER 8/15/87 NLS/HRE NLC-96-188
BY [Signature] NARS. DATE 9/4/97

3817

~~CONFIDENTIAL~~

THE WHITE HOUSE

WASHINGTON

June 22, 1979

CONFIDENTIAL

INFORMATION

MEMORANDUM FOR: THE PRESIDENT
FROM: HENRY OWEN ^{po}
SUBJECT: Tokyo Summit (U)

C 29.
/

This memorandum reviews the US position on Summit issues, in light of recent events -- including discussions with the Summit Preparatory Group, German Economics Minister Lambsdorff, and French leaders (Giscard, Barre, and Francois-Poncet) in Paris last week, as well as the EC heads of government meeting, which ended today. (U)

I. Energy

Overall. Schmidt wants to begin the Summit with a general review of the energy problem. Given the limited amount of time available (a total of about 10 hours for the entire Summit) and the complexity of the issues involved, it would be useful to agree quickly that the problem is serious and then move to consideration of specific actions. (C)

A. Demand Restraint

1. Import Reductions. There are several questions here:

a. What should be the 1979 cut? The French leaders and Lambsdorff told us that they would accept the US proposal to translate the IEA/EEC prescription for a cut equal to 5% of projected consumption into specific national import levels. From the standpoint of public impact, this would be better than the present 5% formula. The Japanese and other European countries may object, not wanting to strengthen their commitment to import reductions. Lower-level French and German officials feel the same way. Schmidt's position is unclear. If you can't get agreement on this proposal, a definition of the amount of the cut would be a very poor second best. As for agreeing on a 1979 5% cut off future growth, this would only be repeating what the IEA has already done. (C)

b. What should be said about 1980 and future years? From the standpoint of public impact, this is more important than 1979, which is already covered by the IEA pledge. The EC agreed today to maintain Community imports between 1980 and 1985 at a level not higher than 1978, if other industrial countries will do the same. But this was a collective commitment for the Community as a whole; the French could not get agreement on individual country ceilings.

~~CONFIDENTIAL~~

Review on June 22, 1985

~~CONFIDENTIAL~~

Electrostatic Copy Made
for Preservation Purposes

We would prefer country specific targets. And using the 1978 base poses very serious problems for us, since 1978 saw a temporary dip in US oil imports. You might propose this formula: country specific import targets for 1980 would be fixed at 1979 or 1977-79 levels; country specific import levels for later years would be fixed in each preceding year, within an overall 1980-85 annual import level for the Summit countries as a whole, based on either 1979 or a 1977-79 average. We should insist on some provision for quarterly review of targets, since none of us can see clearly five years ahead. (C)

c. Should import ceilings be binding in a moral sense, or merely a best-efforts pledge? The French will back us in seeking binding pledges. At least some of the others will resist, fearing that these targets cannot be met without lowered economic growth. (C)

d. What procedures should be adopted to give force to these pledges? The US proposal for monthly meetings of national representatives to monitor progress seems acceptable to our allies, as does the US proposal that the Summit countries specify at Tokyo the measures that they are taking or will take to achieve their targets. The French want countries' success or failure in achieving agreed targets to be publicly certified; this is a good idea, and you might suggest it, if they don't. (C)

e. What should be the follow-up? Execution of the agreements can be remanded to the IEA and the EEC (for the French). You might propose that the heads of government also continue to be involved -- to enhance both the visibility and effectiveness of follow-through. The Summit could agree that the heads of government would periodically review progress, on the basis of reports to be submitted to them by the Summit Preparatory Group, in carrying out their commitments regarding not only import levels but also the spot market, allocation, and stockpile purchase policies described below. (C)

2. Spot Purchases. The EC Ministers agreed earlier this week to our two proposals: that the Summit countries commit themselves to discouraging their oil companies from buying or selling crude oil on the spot market, and that there should be systematic monitoring of the spot market; to see if further action is required. (C)

*above
OPEC
price*

The EC has also agreed to discuss at Tokyo the notion that the oil companies be compelled to register all sales; this could be cumbersome, but could have a useful public impact in dramatizing our intent to puncture the spot market. (C)

*other
word?*

3. Allocation. The French accept our idea of instituting a voluntary system of allocations now, with the understanding that more stringent action might be taken if it failed. Other EEC countries either prefer that the voluntary allocation scheme only come into effect later this year, if the situation does not improve in the meantime, or (in the case of the Germans) reject it altogether,

Lambsdorff told me that they don't object to the IEA taking the actions we envisage (asking countries to increase or reduce oil imports, as needed to fulfill targets), but they don't agree to describing this procedure as allocations. So you might suggest that the communique describe what will be done to ensure the targets' fulfillment, without using the term "allocation". (C)

5. Automobile Research. Brock Adams tells me the European transportation ministers agreed to support your proposal to internationalize basic automobile research. He and I interpret this to mean setting up an international council to fix priorities, arrange for joint international funding, and share resulting research findings. I told my colleagues on the Summit Preparatory Group that you would raise this at Tokyo. (C)

B. Supply

1. Coal. All the Summit countries agree that the communique should register the Summit governments' intent to promote increased production and use of coal. The real question is whether they are prepared to do anything about it. They have agreed to coal guidelines in the IEA; Summit agreement could provide a powerful political impulse. We proposed in a Summit preparatory meeting creation of an International Coal Advisory Board, made up of private experts, which would recommend actions to governments, thus exerting pressure on behalf of pro-coal courses of action. The International Energy Agency's staff liked the idea so much that they have started to create such a Board themselves. In the process, they have redefined its role in ways that would minimize its influence. Hence the importance of the Summit's endorsing the Board's creation and underlining the importance that the Summit countries attach to it. (C)

In the industrial world, the Board might try to work out an agreement going beyond the IEA guidelines, regarding reciprocal removal of restrictions on coal trade; Senator Byrd has shown a lively interest in this concept. In the developing world, the Board would identify opportunities for increased coal production; Bob McNamara is ready to provide increased IBRD loans, as needed, to exploit these opportunities. There's no outright opposition in the Summit Preparatory Group to creating a Board -- just lethargic disinterest in doing something that the IEA already seems to be tackling and some suspicion that the US is seeking to promote its coal exports. So you can probably secure agreement on Summit action if you press. In the short run, there is more potential for oil replacement in coal than anywhere else. (C)

2. Nuclear Power. There are two issues here:

a. Schmidt and Giscard want a ringing endorsement of the need for more nuclear power to help them overcome domestic opposition.

Stu Eizenstat feels that it would be counterproductive for you to seem to anticipate the findings of the Three Mile Island Commission. The probable solution in communique language will be to recognize the importance of nuclear power and the necessity of making it safe. (C)

b. Giscard fears that Schmidt's proposal for an international study of nuclear safety will provide a pretext for delay. He proposes international cooperation on safety; Schmidt agrees. (C)

3. New Energy Technologies. To fulfill the instruction you gave me last Wednesday, I proposed to French and German leaders and to the Summit Preparatory Group that the Summit agree:

a. on the need for increased international financing of projects demonstrating new technologies -- e.g., synthetics, heavy crude processing, and biomass;

b. to create an International Energy Technology Group to make a compendium of what is being done or planned domestically by member countries to this end, to evaluate the opportunities for international participation in these projects, and to recommend to heads of government whether a permanent mechanism should be created -- or other steps taken -- to facilitate broader participation in the financing of commercial scale demonstration projects. (C)

French leaders and Lambsdorff agreed; most members of the Summit Preparatory Group merely asked questions. They are wary of new financial commitments. (C)

Once the International Energy Technology Group is set up, it could seek pledges from members as to what they will do domestically to invest more funds in new technologies. By suggesting the need for parallel action in all importing countries, the Group might shame laggards. The US could cite to the Group your recent decisions on solar energy and any actions that you decide to take in respect of synthetics after returning from Tokyo. The sum of all the industrial countries' domestic actions might add up to an impressive total, which would have useful public impact. The Group could ensure that there was full exchange of information about these domestic efforts, in order to avoid wasteful overlapping. (C)

The Group would also consider the potential for international financing. This might take the form of other countries buying into an existing domestic project of one of the member countries, as the Germans and Japanese have bought into SRC-II. Or it might take the form of a new international venture, e.g., to exploit Venezuelan tar sands, which might either be organized on an ad hoc basis or be financed by a new permanent international instrument, if the Energy Group, and then the heads of government, decided that one was needed. (C)

The Group should report to the heads of government in three months. (C)

Against the background of the Summit's decision to create such a Group, you could portray any actions you decide to take regarding synthetics, etc., on your return from Tokyo as effective follow-up to the Summit's call for greater effort in this field -- as well as a response to our domestic needs. (C)

In all of this you will want to be careful not to suggest that any domestic action we decide to take in this field will be subject to international control -- or will somehow end up by becoming a form of foreign aid. Since none of this is true, it shouldn't be hard to avoid giving this impression. (C)

In this discussion, you might remind Schmidt of his Time magazine statement that he wants to see a lot more money go into developing new energy technologies. He is particularly interested in investing more money in solar energy, since he fears that increased use of coal in any form will add dangerously to the carbon dioxide levels in the atmosphere. We don't yet know enough to judge in what degree his fears are well founded. He believes that after the environmentalists weary of nuclear energy, they will turn to CO-2. (C)

I get more queries from the media about what Tokyo will do to promote new technologies than any other aspect of the Summit. A commitment at Tokyo to new action in this area has become -- together with effective action to reduce 1980 imports -- an acid test for them as to whether the Summit is serious about energy. (C)

C. Dialogue with OPEC

All the countries seem to agree that there should be continuing discussion with the oil exporters -- and that this can best be done through separate informal low-key approaches by the US, Europe, and Japan to individual oil-exporting nations. Occasionally, the French seem to favor a more structural dialogue, and Schmidt is reported to be considering another meeting of industrial, developing, and OPEC countries to this end. The last such meeting was a disaster; the more formal the meeting, the more extreme rhetoric prevails. (C)

Whatever the form of dialogue, the French and others have in mind that the object of these discussions with exporting countries should be persuade them that, in order to avoid damage to the world economy and in return for the measures by oil importers outlined above, they should increase production (or at least not reduce production to compensate for cuts in consumption), moderate price increases, and cooperate in managing an orderly market. (C)

adv/10/85

But all agree this will not happen unless the industrial nations show that they can first put their own house in order -- not to please the oil exporters but to improve the basic balance between supply and demand. When it is clear that this balance will be improved, the oil exporters may see more clearly that moderation is in their interest, since the oil importing countries are effectively and collectively responding to the challenge. This point may be worth stressing at Tokyo, if some of the other heads of government seek refuge from the hard business at hand by suggesting that the problem can somehow be made to go away by talking to the OPEC countries about it. (C)

D. Relation to EEC

At Tokyo we should go out of our way to acknowledge the Tokyo Summit's prior debt to EEC consideration of these issues, as well as the role that the EEC can play in Summit follow-up. If the EEC countries can agree on common positions to take at the Summit, and on common action to take in carrying out Summit decisions, this will make the whole thing work better. Jenkins may thus have a larger role to play at Tokyo than at previous Summits -- although Giscard will probably consider that he can speak effectively for the EEC, since France has the Presidency. (C)

E. The \$5 Entitlement on Imported Distillates

As you know, the Europeans feel very deeply about our \$5 per barrel credit within the entitlements program imposed to prevent Caribbean distillates that normally flow to the US from going to Rotterdam. If the measures described above have the intended effect, there should be no need for continuing this credit. You might enhance your bargaining power, in seeking agreement on US energy proposals at Tokyo, if you indicated that you would not renew this credit at the end of the initial four-month period, if effective agreements were reached at Tokyo to bring greater order into the oil market. (C)

Approximation date?

II. Macro-Economic Policy

1. Short-Term. Giscard wants the communique to register the Summit governments' intent to offset the contractionary effects of higher oil prices through their domestic macro-economic policies. There are differences of view as to how much can be done to this end. All agree that the effects of oil price increases cannot be passed through in the form of wage increases without disastrous effects, and that this should be made clear in the communique. The unresolved question is whether Germany and Japan will continue to maintain high growth rates, or cut back to fight inflation. Both are clearly leaning in the latter direction. We should join the other Summit countries in urging these two countries to continue to maintain the rates of growth in domestic demand to which

they committed themselves at Bonn. This is in our interest from the standpoint of increasing US exports and strengthening the dollar. If the opportunity arises, you may want to make this point in bilateral talks with Schmidt and Ohira. German and Japanese policies will be reviewed bilaterally in the OECD assessment of member countries' macro-economic responses to higher oil prices this fall. (C)

2. Medium-Term. All agree this Summit should place more emphasis on medium-term policies to increase investment and productivity. This means such steps as deregulation, tax incentives for new investment, less protection and subsidy, and reducing the size of the public sector. The only question is how clearly this view should be stated, and how specifically these policies should be described. It would be helpful to the US -- since we will want to move in this direction anyway -- to have the Summit speak forcefully to this issue. Thatcher and Clark will likely take the same view. As on most issues, the Japanese will favor generalities.

III. North-South

All agree that the Summit should emphasize aid to developing countries for production of energy and food, and should stress technical assistance. Again, the need is for specificity: otherwise, the whole thing will be dismissed by the developing countries as a farce. Furthermore, only a clear call for specific action will produce that action. We do not want the Summit, in its pre-occupation with energy, to become -- or to be seen to have become -- an ingrown rich man's club. The other countries agree but would, for the most part, be content with bland generalities. (C)

U.S.?

1. Energy. The key points to make here are:

a. The Summit should call on the World Bank and other multi-lateral banks to expand their programs to aid hydrocarbon exploration in LDCs, and on the Summit countries to improve their national programs to the same end. The French have proposed a joint mechanism (presumably managed by the World Bank) to guarantee developing countries and oil companies against the risks of fruitless exploration; the Summit could ask the World Bank to study this idea, which is too vague to be acted on. (C)

b. The Summit countries should agree to give high priority, in their aid budgets, to renewable energy development in LDCs and should call on the World Bank to coordinate increased bilateral aid for this purpose. (C)

c. The French want the Summit to call on the OPEC countries to participate vigorously in these programs of energy aid to LDCs. This makes sense. (C)

2. Food. In line with Sol Linowitz' Hunger Commission report to you:

a. Reserves. The Summit should call on LDCs to strengthen their food storage capacity, so that they can maintain larger food reserves, and should urge increased bilateral and multi-lateral aid to them for this purpose. You might urge governments expeditiously to establish the basis for a successful resumption of the negotiations for an international wheat reserve. (This means European willingness to agree to larger stocks.) (C)

b. Production. The Summit should call on LDCs to develop national food production strategies, and pledge increased bilateral and multilateral aid to help LDCs carry out these strategies. (C)

c. Research. The Summit should call for increased bilateral and multilateral aid for agricultural research in LDCs. This is one of the main prerequisites to increased food output; it is underfunded. The most effective instrument for supporting this research is the World Bank's Consultative Group for International Agricultural Research; its resources should be doubled. (C)

d. Food Aid. The Summit should call for more food aid to LDCs. To this end, it should suggest negotiating a new Food Aid Convention, and fulfilling the aid targets in the present one. (C)

3. Technical Assistance. The Summit should call for increased effort in this field and for coordination between national programs -- such as our proposed new Institute for Scientific and Technological Cooperation and the comparable Canadian institution. (C)

12
The heads of government don't need to spend a great deal of time on these North-South issues. If they will agree that the communique should be specific, the Summit Preparatory Group can do the rest. The Bonn communique called for a new World Bank program of lending for oil exploration in LDCs, which has proved exceedingly useful. This is the sort of thing Summits can accomplish in the North-South field if they resist the temptation to settle for soothing generalities. The steps proposed above cost little. (C)

IV. Other

1. Trade. Nothing new here. All agree on the need to say something forceful about implementing MTN. (C)

2. Monetary. No need to spend much time on this issue unless the fall in the dollar continues, in which case Mike Blumenthal will have specific recommendations as to what you might say about this at Tokyo (C)

V. Topics for Discussion at First Day's Luncheon (Heads of Government Only)

1. Central America. I told my colleagues that you would wish to discuss creation of an international consultative group regarding aid to Latin America. Lacking instructions, they said nothing. (C)
2. Indochina. The Canadians, British, and French agree that the refugee issue should be discussed. I suggest you raise the issue and ask the Summit countries to agree on two principles: the need for greater effort, in view of the rising number of refugees; and the need for a more equitable division of responsibility, which we have been largely bearing single-handed. The Summit could appoint a small group to join others in giving effect to these principles in preparing specific recommendations for an international UN Conference on refugees. These specific recommendations should cover three issues: Where will the refugees first stay when they come out; where will they resettle; and where will the money come from? You might point out that the US and some other Summit countries failed in the 1930s to accept Jewish refugees from Nazi Germany in needed numbers -- a moral failure that haunts us still and that we should not repeat. You might indicate that the US would be prepared to do more if others would increase their efforts. In view of many Asians, and of such US groups as Catholic Relief Services, this is rapidly becoming the dominant Summit issue. (C)
3. Aid to Egypt. This still looks like a good candidate for luncheon discussion, as per Schmidt's suggestion. You will need to overcome both political (fear of Arab reprisal) and economic (Egyptian development performance) objections to increased aid to Egypt. We need to get commitments in principle by the other heads of government to contribute generously at the Egyptian aid consortium that the World Bank will assemble in the Fall. A separate paper on this, as on other luncheon issues, is in your briefing book. (C)
4. Aid to Turkey. Schmidt may wish to report on this matter. Much of the short-term aid for Turkey has been pledged. (C)
5. Hijacking. There has been considerable progress in implementing the Bonn declaration on hijacking. There is no reason for the heads of government to linger on this issue. Thank him. (C)
6. Iran. Other countries want to talk about Iran. You may want to review the situation, and urge other governments to join us in impressing on the Iranian government both the adverse international reaction to executions and the need to protect religious minorities. (C)

7. Cuba. You might draw attention to Cuba's adventurous policies abroad and urge them to avoid such preferential treatment as aid, credits, and government guarantees for Cuba. (C)

8. Pakistan. You might share with your Summit partners our concern about Pakistan's nuclear program, explain the actions we have taken (approaches to GOP and cutting off development and seek their views as to what more should be done -- by them and/or us.

9. China. All agree that a discussion of economic relations with China would be useful. The main point of stress is the need for following common guidelines, to avoid cut-throat competition, particularly in such areas as export credits.

VII. Next Year

The question of the next Summit may come up. Italy, which will have the EC Presidency in the first half of next year, proposes to hold it in Venice (on an island for security's sake). I told my Italian colleague that May might be better than June, given the approach of our Presidential election. He intimated that they will invite you to a state visit to Italy just before or after the Summit. Dick Gardner says that the security problem is manageable, and cites two papal funerals and one papal coronation to prove his point.

There are rumors that Giscard may ask: Why have an annual Summit? I doubt he will, unless the Tokyo Summit is a bust. But in case he does: the Japanese would be mortified by the implication of failure inherent in the Tokyo Summit's being the last such meeting for a while; and the Italians would be even more mortified -- particularly after Guadeloupe -- if there were no 1980 Summit.

→ You might mention that peaceful uses of nuclear energy should be discussed at the Summit next year, in the wake of INCFE (which ends in February). You might stress the need for an international approach to this issue, and say that Gerard Smith will be visiting their governments to talk about this approach shortly. (You may recall that you wrote "OK" on a memo I sent you a while back, proposing that this be a main theme of the 1980 Summit. Gerry and I are working on specific proposals for early submission to you.)

VIII. Bilateral Talks Regarding the Summit

A. Ohira

Your Monday meeting with Ohira is an opportunity to impress strongly on him the need for the Tokyo Summit to agree on bold and specific steps regarding energy. (C)

~~CONFIDENTIAL~~

Electrostatic Copy Made
for Preservation Purposes

Carter Library
Copy

Japanese officials below Ohira are reluctant to accept specific oil-import targets -- and count on the known reluctance of Schmidt and the UK to accept such targets to ensure that their views prevail. The Trade Ministry, which is responsible for energy, wants Summit energy agreements that will look good, but that will not limit Japan's freedom of action. (C)

You need to make clear to Ohira that your definition of a successful Summit is one that involves specific commitments on both the supply and demand side. These will be painful, but essential. You count on him to exert his influence, as he did so successfully in helping to resolve US-Japan economic issues earlier this year, to ensure a successful outcome. (C)

You might also stress your desire to see the Summit come up with specific commitments in the North-South field -- particularly regarding aid to LDCs to help them increase their food and energy production. (C)

B. Thatcher

Mrs. Thatcher said to the media, after the recent EC heads of government meeting, that "the current supply crisis is not as bad as it is sometimes made out to be . . . It is a marginal problem, which is reflected in the spot market." (C)

You may want to share with her our view that the imbalance between oil supply and demand, even though it is only 1.5 million barrels a day, has extremely serious implications for the US and other OECD economies. If the Tokyo Summit does not agree on effective joint action, the pressures for competitive national responses will mount. We should not let the fact that small amounts of oil are involved blind us to the very high political and economic stakes, or to the fact that this Summit presents an opportunity for a common response which, if missed, may be hard to recapture. Half-measures will not meet the need. (C)

IX. Communique

I attach a draft communique circulated by the Japanese after the last meeting of the Preparatory Group. It is not agreed, and I want to make it more specific. But since other heads of government may have seen it, you may wish to glance at it. (Tab A) (C)

X. Other Briefing Materials

Summit issues are described more fully in Book I; luncheon discussion issues are treated in Book II. This memo covers the ground sufficiently so that I believe you need only review these other briefing materials for background reading, as time permits. (U)