

PREM19

27

ECONOMIC POLICY

(Tokyo G7)

(Part 1)

SECRET

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PART ONE

4901

Confidential Filing

Tokyo Economic Summit -
June 1979 - Policy

Economic Policy

SP
830

MAY 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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12-6-79							
18-6-79							
22-6-79							
29-6-79							
<u>Part One ends</u>							

PREM 19/27

In an Envelope attached to the back of this
file are copies of :

The Tokyo Summit Declaration

The Special Statement of the Summit on
Indochinese Refugees.

PART 2 begins:-

Bcc Note for the record 30/6/79

PART 1 ends:-

Tokyo Tel 343 29/6/79

UNCLASSIFIED

FM TOKYO 291330Z

TO FLASH FCO TELNO 343 OF 29 JUNE.

PLEASE PASS FOLLOWING TO ROBERTS NO.10 DOWNING ST:
BEGINS.

DECLARATION: TOKYO SUMMIT CONFERENCE.

THE HEADS OF STATE AND GOVERNMENT OF CANADA, THE FEDERAL REPUBLIC OF GERMANY, FRANCE, ITALY, JAPAN, THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND, AND THE UNITED STATES OF AMERICA MET IN TOKYO, ON THE 28TH AND 29TH JUNE, 1979. THE EUROPEAN COMMUNITY WAS REPRESENTED BY THE PRESIDENT OF THE EUROPEAN COUNCIL AND BY THE PRESIDENT OF THE EUROPEAN COMMISSION FOR DISCUSSION OF MATTERS WITHIN THE COMMUNITY'S COMPETENCE.

1. THE AGREEMENTS REACHED AT THE BONN SUMMIT HELPED TO IMPROVE THE WORLD ECONOMY. THERE WAS HIGHER GROWTH IN SOME COUNTRIES, A REDUCTION OF PAYMENTS IMBALANCES, AND GREATER CURRENCY STABILITY.
2. BUT NEW CHALLENGES HAVE ARISEN. INFLATION, WHICH WAS SUBSIDING IN MOST COUNTRIES, IS NOW REGAINING ITS MOMENTUM. HIGHER OIL PRICES AND OIL SHORTAGE HAVE REDUCED THE ROOM FOR MANEUVER IN ECONOMIC POLICY IN ALL OUR COUNTRIES. THEY WILL MAKE INFLATION WORSE AND CURTAIL GROWTH, IN BOTH THE INDUSTRIAL AND DEVELOPING COUNTRIES. THE NON-OIL DEVELOPING COUNTRIES ARE AMONG THE BIGGEST SUFFERERS.

WE ARE AGREED ON A COMMON STRATEGY TO ATTACK THESE PROBLEMS. THE MOST URGENT TASKS ARE TO REDUCE OIL CONSUMPTION AND TO HASTEN THE DEVELOPMENT OF OTHER ENERGY SOURCES.

OUR COUNTRIES HAVE ALREADY TAKEN SIGNIFICANT ACTIONS TO REDUCE OIL CONSUMPTION. WE WILL INTENSIFY THESE EFFORTS. THE EUROPEAN COMMUNITY HAS DECIDED TO RESTRICT 1979 OIL CONSUMPTION TO 500 MILLION TONS (10 MILLION BARRELS A DAY) AND TO MAINTAIN COMMUNITY OIL IMPORTS BETWEEN 1980 AND 1985 AT AN ANNUAL LEVEL NOT HIGHER THAN IN 1979. THE COMMUNITY IS MONITORING THIS COMMITMENT AND FRANCE, GERMANY, ITALY AND THE UNITED KINGDOM HAVE AGREED TO RECOMMEND TO THEIR COMMUNITY PARTNERS THAT EACH MEMBER COUNTRY'S CONTRIBUTION TO THESE ANNUAL LEVELS WILL BE SPECIFIED. CANADA, JAPAN, AND THE US WILL EACH ACHIEVE THE ADJUSTED IMPORT LEVELS TO WHICH THEY ARE PLEDGED IN IEA FOR 1979, WILL MAINTAIN THEIR IMPORTS IN 1980 AT A LEVEL NOT HIGHER THAN THESE 1979 LEVELS, AND WILL BE MONITORING THIS.

THE SEVEN COUNTRIES EXPRESS THEIR WILL TO TAKE AS GOALS FOR A CEILING ON OIL IMPORTS IN 1985, THE FOLLOWING FIGURES:

- FOR FRANCE, GERMANY, ITALY, AND THE UNITED KINGDOM: THE 1978 FIGURE.
- CANADA WHOSE OIL PRODUCTION WILL BE DECLINING DRAMATICALLY OVER THE PERIOD BETWEEN NOW AND 1985, WILL REDUCE ITS ANNUAL AVERAGE RATE OF GROWTH OF OIL CONSUMPTION TO 1%, WITH THE CONSEQUENT REDUCTION OF OIL IMPORTS BY 50,000 BARRELS PER DAY BY 1985. CANADA'S TARGETS FOR IMPORTS WILL THEREFORE BE 0.6 MILLION BARRELS PER DAY.

FOOTNOTE: ITALY'S COMMITMENT WITH REFERENCE TO THE 1978 LEVEL IS ACCEPTED IN THE COD EXT OF THE OVERALL COMMITMENT OF THE EUROPEAN COMMUNITY.

- JAPAN ADOPTS AS A 1985 TARGET A LEVEL NOT TO EXCEED THE RANGE BETWEEN 6.3 AND 6.9 MILLION BARRELS A DAY. JAPAN WILL REVIEW THIS TARGET PERIODICALLY AND MAKE IT MORE PRECISE IN THE LIGHT OF CURRENT DEVELOPMENTS AND GROWTH PROJECTIONS, AND DO THEIR UTMOST TO REDUCE OIL IMPORTS THROUGH CONSERVATION, RATIONALIZATION OF USE AND INTENSIVE DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES IN ORDER TO MOVE TOWARD LOWER FIGURES.
- THE UNITED STATES ADOPTS AS A GOAL FOR 1985 IMPORT LEVELS NOT TO EXCEED THE LEVELS EITHER OF 1977 OR THE ADJUSTED TARGET FOR 1979, IE 8.5 MILLION BARRELS PER DAY.

THESE 1985 GOALS WILL SERVE AS REFERENCE TO MONITOR BOTH ENERGY CONSERVATION AND THE DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES.

A HIGH LEVEL GROUP OF REPRESENTATIVES OF OUR COUNTRIES AND THE EEC COMMISSION, WITHIN THE OECD, WILL REVIEW PERIODICALLY THE RESULTS ACHIEVED. SLIGHT ADJUSTMENTS WILL BE ALLOWED TO TAKE ACCOUNT OF SPECIAL NEEDS GENERATED BY GROWTH.

IN FULFILLING THESE COMMITMENTS, OUR GUIDING PRINCIPLE WILL BE TO OBTAIN FAIR SUPPLYS OF OIL PRODUCTS FOR ALL COUNTRIES, TAKING INTO ACCOUNT THE DIFFERING PATTERNS OF SUPPLY, THE EFFORTS MADE TO LIMIT OIL IMPORTS, THE ECONOMIC SITUATION OF EACH COUNTRY, THE QUANTITIES OF OIL AVAILABLE, AND THE POTENTIAL OF EACH COUNTRY FOR ENERGY CONSERVATION.

WE URGE OTHER INDUSTRIALIZED COUNTRIES TO SET SIMILAR OBJECTIVES FOR THEMSELVES.

WE AGREE TO TAKE STEPS TO BRING INTO THE OPEN THE WORKING OF OIL MARKETS BY SETTING UP A REGISTER OF INTERNATIONAL OIL TRANSACTIONS. WE WILL URGE OIL COMPANIES AND OIL-EXPORTING COUNTRIES TO MODERATE SPOT MARKET TRANSACTIONS. WE WILL CONSIDER THE FEASIBILITY OF REQUIRING THAT AT THE TIME OF UNLOADING CRUDE OIL CARGOES, DOCUMENTS BE PRESENTED INDICATING THE PURCHASE PRICE AS CERTIFIED BY THE PRODUCER COUNTRY. WE WILL LIKEWISE SEEK TO ACHIEVE BETTER INFORMATION ON THE PROFIT SITUATION OF OIL COMPANIES AND ON THE USE OF THE FUNDS AVAILABLE TO THESE COMPANIES.

WE AGREE ON THE IMPORTANCE OF KEEPING DOMESTIC OIL PRICES AT WORLD MARKET PRICES OR RAISING THEM TO THIS LEVEL AS SOON AS POSSIBLE. WE WILL SEEK TO MINIMIZE AND FINALLY ELIMINATE ADMINISTRATIVE ACTION THAT MIGHT PUT UPWARD PRESSURE ON OIL PRICES THAT RESULT FROM DOMESTIC UNDERPRICING OF OIL AND TO AVOID NEW SUBSIDIES WHICH WOULD HAVE THE SAME EFFECT.

OUR COUNTRIES WILL NOT BUY OIL FOR GOVERNMENTAL STOCKPILES WHEN THIS WOULD PLACE UNDUE PRESSURE ON PRICES: WE WILL CONSULT ABOUT THE DECISIONS THAT WE MAKE TO THIS END.

3. WE PLEDGE OUR COUNTRIES TO INCREASE AS FAR AS POSSIBLE COAL USE, PRODUCTION, AND TRADE, WITHOUT DAMAGE TO THE ENVIRONMENT. WE WILL ENDEAVOUR TO SUBSTITUTE COAL FOR OIL IN THE INDUSTRIAL AND ELECTRICAL SECTORS, ENCOURAGE THE IMPROVEMENT OF COAL TRANSPORT, MAINTAIN POSITIVE ATTITUDES TOWARD INVESTMENT FOR COAL PROJECTS, PLEDGE NOT TO INTERRUPT COAL TRADE UNDER LONG-TERM CONTRACTS UNLESS REQUIRED TO DO SO BY A NATIONAL EMERGENCY, AND MAINTAIN, BY MEASURES WHICH DO NOT OBSTRUCT COAL IMPORTS, THOSE LEVELS OF DOMESTIC COAL PRODUCTION WHICH ARE DESIRABLE FOR REASONS OF ENERGY, REGIONAL AND SOCIAL POLICY.

WE NEED TO EXPAND ALTERNATIVE SOURCES OF ENERGY, ESPECIALLY THOSE WHICH WILL HELP TO PREVENT FURTHER POLLUTION, PARTICULARLY INCREASES OF CARBON DIOXIDE AND SULPHUR OXIDES IN THE ATMOSPHERE.

WITHOUT THE EXPANSION OF NUCLEAR POWER GENERATING CAPACITY IN THE COMING DECADES, ECONOMIC GROWTH AND HIGHER EMPLOYMENT WILL BE HARD TO ACHIEVE. THIS MUST BE DONE UNDER CONDITIONS GUARANTEEING PEOPLE'S SAFETY. WE WILL COOPERATE TO THIS END. THE INTERNATIONAL ATOMIC ENERGY AGENCY CAN PLAY A KEY ROLE IN THIS REGARD.

WE REAFFIRM THE UNDERSTANDING REACHED AT THE BONN SUMMIT WITH RESPECT TO THE RELIABLE SUPPLY OF NUCLEAR FUEL AND MINIMIZING THE RISK OF NUCLEAR PROLIFERATION.

NEW TECHNOLOGIES IN THE FIELD OF ENERGY ARE THE KEY TO THE WORLD'S LONGER-TERM FREEDOM FROM FUEL CRISES. LARGE PUBLIC AND PRIVATE RESOURCES WILL BE REQUIRED FOR THE DEVELOPMENT AND COMMERCIAL APPLICATION OF THOSE TECHNOLOGIES. WE WILL ENSURE THAT THESE RESOURCES ARE MADE AVAILABLE. AN INTERNATIONAL ENERGY TECHNOLOGY GROUP LINKED TO THE OECD, IEA AND OTHER APPROPRIATE INTERNATIONAL ORGANIZATIONS WILL BE CREATED TO REVIEW THE ACTIONS BEING TAKEN OR PLANNED DOMESTICALLY BY EACH OF OUR COUNTRIES, AND TO REPORT ON THE NEED AND POTENTIAL FOR INTERNATIONAL COLLABORATION, INCLUDING FINANCING.

WE DEPLORE THE DECISIONS TAKEN BY THE RECENT OPEC CONFERENCE. WE RECOGNISE THAT RELATIVE MODERATION WAS DISPLAYED BY CERTAIN PARTICIPANTS, BUT THE UNWARRANTED RISES IN OIL PRICES NEVERTHELESS AGREED ARE BOUND TO HAVE VERY SERIOUS ECONOMIC AND SOCIAL CONSEQUENCES. THEY MEAN MORE WORLD-WIDE INFLATION AND LESS GROWTH. THAT WILL LEAD TO MORE UNEMPLOYMENT, MORE BALANCE OF PAYMENTS DIFFICULTY AND WILL ENDANGER STABILITY IN DEVELOPING AND DEVELOPED COUNTRIES OF THE WORLD ALIKE. WE REMAIN READY TO EXAMINE WITH OIL EXPORTING COUNTRIES HOW TO DEFINE SUPPLY AND DEMAND PROSPECTS ON THE WORLD OIL MARKET.

4. WE AGREE THAT WE SHOULD CONTINUE WITH THE POLICIES FOR OUR ECONOMIES AGREED AT BONN, ADJUSTED TO REFLECT CURRENT CIRCUMSTANCES. ENERGY SHORTAGES AND HIGH OIL PRICES HAVE CAUSED A REAL TRANSFER OF INCOMES. WE WILL TRY, BY OUR DOMESTIC ECONOMIC POLICIES, TO MINIMIZE THE DAMAGE TO OUR ECONOMIES. BUT OUR OPTIONS ARE LIMITED. ATTEMPTS TO COMPENSATE FOR THE DAMAGE BY MATCHING INCOME INCREASES WOULD SIMPLY ADD TO INFLATION.

5. WE AGREE THAT WE MUST DO MORE TO IMPROVE THE LONG-TERM PRODUCTIVE EFFICIENCY AND FLEXIBILITY OF OUR ECONOMIES. THE MEASURES NEEDED MAY INCLUDE MORE STIMULUS FOR INVESTMENT AND FOR RESEARCH AND DEVELOPMENT: STEPS TO MAKE IT EASIER FOR CAPITAL AND LABOR TO MOVE FROM DECLINING TO NEW INDUSTRIES: REGULATORY POLICIES WHICH AVOID UNNECESSARY IMPEDIMENTS TO INVESTMENT AND PRODUCTIVITY: REDUCED GROWTH IN SOME PUBLIC SECTOR CURRENT EXPENDITURES: AND REMOVAL OF IMPEDIMENT TO THE INTERNATIONAL FLOW OF TRADE AND CAPITAL.

6. THE AGREEMENTS REACHED IN THE TOKYO ROUND ARE AN IMPORTANT ACHIEVEMENT. WE ARE COMMITTED TO THEIR EARLY AND FAITHFUL IMPLEMENTATION. WE RENEW OUR DETERMINATION TO FIGHT PROTECTIONISM. WE WANT TO STRENGTHEN THE GATT, BOTH TO MONITOR THE AGREEMENTS REACHED IN THE MTN'S AND AS AN INSTRUMENT FOR FUTURE POLICY IN MAINTAINING THE OPEN WORLD TRADE SYSTEM. WE WILL WELCOME THE FULL PARTICIPATION OF AS MANY COUNTRIES AS POSSIBLE IN THESE AGREEMENTS AND USE THE SYSTEM AS A WHOLE.

7. WE WILL INTENSIFY OUR EFFORTS TO PURSUE THE ECONOMIC POLICIES APPROPRIATE IN EACH OF OUR COUNTRIES TO ACHIEVE DURABLE EXTERNAL EQUILIBRIUM. STABILITY IN THE FOREIGN EXCHANGE MARKET IS ESSENTIAL FOR THE SOUND DEVELOPMENT OF WORLD TRADE AND THE GLOBAL ECONOMY. THIS HAS BEEN FURTHERED SINCE THE BONN SUMMIT BY TWO IMPORTANT DEVELOPMENTS -- THE NOVEMBER 1ST 1978 PROGRAM OF THE UNITED STATES IN CONJUNCTION WITH OTHER MONETARY AUTHORITIES, AND THE SUCCESSFUL EMERGENCE OF THE EUROPEAN MONETARY SYSTEM. WE WILL CONTINUE CLOSE COOPERATION IN EXCHANGE MARKET POLICIES AND IN SUPPORT OF THE EFFECTIVE DISCHARGE BY THE IMF OF ITS RESPONSIBILITIES, PARTICULARLY ITS SURVEILLANCE ROLE AND ITS ROLE IN STRENGTHENING FURTHER THE INTERNATIONAL MONETARY SYSTEM.

8. CONSTRUCTIVE NORTH-SOUTH RELATIONS ARE ESSENTIAL TO THE HEALTH OF THE WORLD ECONOMY. WE FOR OUR PART HAVE CONSISTENTLY WORKED TO BRING DEVELOPING COUNTRIES MORE FULLY INTO THE OPEN WORLD TRADING SYSTEM AND TO ADJUST OUR ECONOMIES TO CHANGING INTERNATIONAL CIRCUMSTANCES. THE PROBLEMS WE FACE ARE GLOBAL. THEY CAN ONLY BE RESOLVED THROUGH SHARED RESPONSIBILITY AND PARTNERSHIP. BUT THIS PARTNERSHIP CANNOT DEPEND SOLELY ON THE EFFORTS OF THE INDUSTRIALIZED COUNTRIES. THE OPEC COUNTRIES HAVE JUST AS IMPORTANT A ROLE TO PLAY. THE LATEST DECISION SUBSTANTIALLY TO INCREASE OIL PRICES WILL ALSO SEVERELY INCREASE THE PROBLEMS FACING DEVELOPING COUNTRIES WITHOUT OIL RESOURCES AS WELL AS THE DIFFICULTIES FOR DEVELOPED COUNTRIES IN HELPING THEM. THE DECISION COULD EVEN HAVE A CRIPPLING EFFECT ON SOME OF THE DEVELOPING COUNTRIES. IN THIS SITUATION, WE RECOGNISE, IN PARTICULAR, THE NEED FOR THE FLOW OF FINANCIAL RESOURCES TO THE DEVELOPING COUNTRIES TO INCREASE, INCLUDING PRIVATE AND PUBLIC, BILATERAL AND MULTILATERAL RESOURCES. A GOOD INVESTMENT CLIMATE IN DEVELOPING COUNTRIES WILL HELP THE FLOW OF FOREIGN INVESTMENT.

WE ARE DEEPLY CONCERNED ABOUT THE MILLIONS OF PEOPLE STILL LIVING IN CONDITIONS OF ABSOLUTE POVERTY. WE WILL TAKE PARTICULAR ACCOUNT OF THE POOREST COUNTRIES IN OUR AID PROGRAMS.

ONCE MORE WE URGE COMECON COUNTRIES TO PLAY THEIR PART.

WE WILL PLACE MORE EMPHASIS ON COOPERATION WITH DEVELOPING COUNTRIES IN OVERCOMING HUNGER AND MALNUTRITION. WE WILL URGE MULTILATERAL ORGANISATIONS TO HELP THESE COUNTRIES TO DEVELOP EFFECTIVE FOOD SECTOR STRATEGIES AND TO BUILD UP THE STORAGE CAPACITY NEEDED FOR STRONG NATIONAL FOOD RESERVES. INCREASED BILATERAL AND MULTILATERAL AID FOR AGRICULTURAL RESEARCH WILL

BE PARTICULARLY IMPORTANT. IN THESE AND OTHER WAYS WE WILL STEP UP OUR EFFORTS TO HELP THESE COUNTRIES DEVELOPE THEIR HUMAN RESOURCES, THROUGH TECHNICAL COOPERATION ADAPTED TO LOCAL CONDITIRJS.

WE WILL ALSO PLACE SPECIAL EMPHASIS ON HELPING DEVELOPING COUNTRIES TO EXPLOIT THEIR ENERGY POTENTIAL. WE STRONGLY SUPPORT THE WORLD BANKS PROGRAMME FOR HYDROCARBON EXPLOITATION AND URGE ITS EXPANSION. WE WILL DO MORE TO HELP DEVELOPING COURZRIES INCREASE THE USE OF RENEWABLE ENERGY: WE WELCOME THE WORLD BANK'S COORDINATION OF THESE EFFORTS. ENDS.

2. HENRY JAMES HAS TAPE OF PRESS CONFERENCE GIVEN BY MRS THATCHER. WE COULD PRODUCE DUPLICATE BUT TRANSCRIPTION WOULD TAKE SOME TIME. SUGGEST IT MIGHT BE QUICKER IF HE WERE TO TELEPHONE GIST OF IMPORTANT POINTS FROM CANBERRA.

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Private Office.

PRIME MINISTER INTERVIEWED IN TOKYO (TRANSCRIBED FROM BBC RADIO 4 1300
29 JUNE 1979)

Well as you heard in the news the Tokyo Summit itself is now over. The Summit has been very largely concerned with the world energy crisis. Shortly after the meeting was over Bob Friend put it to Mrs. Thatcher that President Carter had been painting a bleak picture this morning and was critical of OPEC oil price rises. Did she think that there is a bleak future ahead?

Mrs. Thatcher: I think the prospects for expansion are much worse than they were on the part of those countries who have to rely wholly on oil imports. And really the only answer for them in the longer run is not to rely on oil from OPEC countries to anything like the same extent and that is why such a large part of the Communique is given over to trying to find alternative sources of energy. We have got coal as well. But that won't be enough. We have got to look for a little from some ^{SUN?} though we will not be able to get very much from that source. And most of us agree that to get the amounts we need, and after all our oil won't last for ever, we shall have to go nuclear to a far greater extent than we have in the past.

Bob Friend: Do you think that after the accident on Three Mile Island that you can convince the people in Britain that any sort of adventurous project is worthwhile.

Mrs. Thatcher: Well you know we have an excellent safety record in Britain. Our nuclear inspectorate are very very tough on all safety standards. Some people think that in the past they have been too tough, but thank goodness they have. Now it is paying off. I think one just has to remember this. You know there are dangers with almost any form of energy. After all you only need to have one of the big tanks of oil going up or striking something and look at the loss of life and human tragedies that can cause. So there is danger in almost any course of action. But so far you know I don't think anyone has lost their life from the operation of a nuclear power station.

Bob Friend: You in the past have been fairly critical of meetings like Summit meetings and have been fairly acidy in your suggestions that they should be brief and to the point. Are you now happy with the way things are run?

/ Mrs. Thatcher:

Mrs. Thatcher: Well this one was much more to the point and the Communique was much more succinct and as you know I made my views on brevity very well known. I think just at the moment we have got rather a lot of Summitry - we were at Strasbourg last week for Europe, Tokyo this week for the big Economic Summit and also there is Lusaka coming up. What bothers me is that it does take rather a large slice out of one's time for dealing with things at home. But if there is a world summit I really think Great Britain should be represented because she has a very great contribution to make.

Bob Friend: Another Summit in twelve months time - how do you think the energy crisis will have affected the seven western nations by then?

Mrs. Thatcher: Well it will undoubtedly have affected our prospects for growth and it will also have had an effect on inflation. This is one of the very very bad things. This amount of increase in oil prices will work through into the rest of prices and it means we have got to be very careful in managing our economies because if we are not careful we shall print money to accommodate the oil increase and that will only give another round of inflation which eventually gives another round of unemployment. So we have got to be particularly careful and the fact that we are all coming back again in about a year's time I think will help that because we will report to one another.

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1 ZCZC
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6 FM FCO 281445Z JUNE 79
7 FLASH TO TOKYO
8 TELEGRAM NUMBER 328
9 REPEATED INFO IMMEDIATE TO WASHINGTON, ROME, PARIS, BONN,
10 OTTAWA, UKDEL OECD, UKREP BRUSSELS, UKMIS GENEVA, JEDDA
11 FOLLOWING FOR PRIVATE SECRETARY TO SECRETARY OF STATE
12 OPEC MEETING IN GENEVA: FCO TEL 320
13 1. The Communique is being sent to you from Geneva by flash
14 telegram.
15 2. World effects of price rise:
16 On basis of price increases reported in our TUR which are
17 broadly confirmed by communique now issued, preliminary calculat-
18 ions indicate that they will
19 (a) add about 20 billion dollars to OECD oil import bill; and
20 over 5 billion dollars to non-OECD oil import bill.
21 (b) Increase inflation in OECD countries by 0.75 per cent after
22 one year.
23 (c) reduce growth in industrial world by 0.5-0.75 per cent
24 after one year.
25 (d) increase OECD current account deficit by over 10 billion

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Telegram

dollars

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D J HARDING

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MR BUTLER

MISS BROWN

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OUT TELEGRAM (CONT)

Classification and Caveats
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 2 over a full year (of which 5 billion dollars might fall to US).
 3 (e) add over 20 billion dollars to OPEC revenues.
 4 3. These figures take account of:
 5 (i) increased OECD exports to OPEC countries
 6 (ii) some policy reaction by Western Governments
 7 (iii) some 'confidence effect' on Western savings and investments.
 8 4. The above are the estimated effects of the price rises
 9 taken in isolation. We had however, already allowed in our
 10 economic and Budget forecasts for some increase in oil prices.
 11 Thus, assuming the OPEC ^{prices} figures in our TUR ~~are right~~ and assuming
 12 prices remain stable during the rest of 1979 and into 1980
 13 (perhaps an optimistic assumption) the price outturn is likely
 14 to be some 10% higher than earlier Whitehall forecasts (which
 15 assumed prices rising to an OPEC average 18 dollars a barrel by
 16 Q1 1980). World economic activity by the middle of 1980 there-
 17 fore might be expected to be about 0.5 per cent lower than we
 18 thought likely and OPEC surpluses (previously estimated at 20
 19 billion dollars in 1979 and 25 billion in 1980) some 10-15 billion
 20 dollars higher in both 1979 and 1980.
 21 5. Effect on UK.
 22 Effect of increases on UK economy will be complicated by fact that
 23 pound has been and may well continue appreciating because the UK
 24 will be thought to be relatively well placed compared with other
 25 industrialised countries. But combined effect of cut in world
 26 growth, loss of export competitiveness due to stronger pound will
 27 be to reduce UK growth (GNP) - we think by at least as much as
 28 world average (para 2(c) above). On other hand effect on
 29 consumer prices in UK of higher oil prices will to some extent
 30 be offset by appreciation of pound. Direct effect on UK balance
 31 of payments will be cushioned by North Sea oil production ^{not present} (85 per
 32 cent ~~self-sufficiency~~ ^{of UK consumption}) will be indirectly affected through<<<
 33 cent ~~self-sufficiency~~ ^{of UK consumption} this year) but will be indirectly affected
 34 through effects on sterling, world economy and world trade.

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OUT TELEGRAM (CONT)

Classification and Caveats
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2 Although direct effect assuming the OPEC increase is spread
 3 evenly across the board would add about 8p to a gallon of petrol,
 4 the actual increase might be somewhat less if the pound
 5 appreciates.

6
 7 CARRINGTON

8 NNNN
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ROME, JEDDA, UKDEL OECD, UKREP BRUSSELS
FOLLOWING FROM PS FOR PS/SECRETARY OF STATE
OPEC MEETING IN GENEVA

1. OPEC Ministers are expected to issue official communique about midday today, which is likely to confirm in detail the price compromise apparently reached but not finalised late last night. The compromise is reported in the press, involving Saudi Arabia increasing the price of Arabian light to 18 dollars a barrel (from 14.55 dollars a barrel). All other OPEC members would price their crudes in a 20-23.50 dollars price range, with the high quality African crudes (Libian, Algerian, Nigerian) which are comparable to North Sea crudes at the top end. Until we know precisely how individual OPEC countries will adjust their prices within this price band, it is not possible accurately to give the average percentage represented by the latest increase. But the rise in the average OPEC price since December 1978 based

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- on the above prices will lie somewhere between 40-50 percent.
2. If agreed, these increases will take effect from 1 July. But the new price structure will be reviewed probably at a further Ministerial meeting in September.
 3. The agreement to allow members to fix their own prices within an agreed range appears to reflect the inability of OPEC Ministers to restore order to their differential structure, and is clearly the only solution acceptable to the majority which does not involve a formal price split in OPEC. But whatever is maintained in public it cannot possibly be regarded as an effectively unified price structure.
 4. OPEC sources claim that the new price structure will eliminate price leap-frogging; but much depends on the price at which Iran pegs Iranian light crude. If pegged at the 22 dollar mark, as has been suggested, producers of higher quality crudes may well try to re-impose quality surcharges, and thus break through the upper end of the range.
 5. There has been no confirmation yet from Saudi Arabia but she is reported to be ready now to increase production by up to 1 million barrels per day to cushion effects of new prices on world economy (and presumably to render less likely and practicable a resumption of price leap-frogging.)

CARRINGTON

NNNN



OPEC

press release

No. 5/1979

FAX2725-2

For immediate release

Geneva, 28 June, 1979

54TH MEETING OF THE CONFERENCE

The 54th Meeting of the Conference of the Organization of the Petroleum Exporting Countries was held in Geneva, Switzerland from 26th to 28th June, 1979. The Conference unanimously re-elected as its President HE Dr. Mana Saeed Al-Otaiba, Minister of Petroleum and Mineral Resources of the United Arab Emirates and Head of its Delegation. HE Prof. Dr. Subroto, Minister of Mines and Energy of Indonesia and Head of its Delegation, was reelected Alternate President.

The Conference expressed concern for the problems being faced by Developing Countries, especially in the light of the continued lack of readiness on the part of the industrialized countries to face up to their responsibilities towards the problems of the Third World. For their part, OPEC Member Countries have in the past proved their strong solidarity with the Third World and have contributed in many ways to alleviate the problems of other Developing Countries. The Member Countries of the Organization of the Petroleum Exporting Countries once again acts in accordance with their invariable solidarity towards the other Third World countries by agreeing to step up their aid to them. It was agreed to recommend to the Governments of Member Countries that they approve the further replenishment of the resources of the OPEC Special Fund by an additional amount of US\$800 million. Within the same context the Conference also looked into another proposal for a long-term fund to be set up jointly by the industrialized countries and OPEC Member Countries to compensate Developing Countries for imported inflation, on the one hand, and any increases in crude oil prices on the other, and has decided to refer this subject for further study by the Ministerial Committee for Long Term Strategies.

The Conference takes this opportunity to invite the industrialized countries to take a more positive stand towards the problems of the Third World countries, whether in regard to grants, aid, and other forms of financial support as well as the restructuring of the International Economic Order so as to give Developing Countries a better chance of solving their problems.

FAX2725-3

The Conference expressed its continued willingness to discuss energy matters along with other problems of concern for Developing Countries of which OPEC is an integral part. It took note of proposals for a dialogue between OPEC and industrialized countries. Some of these proposals, however, seem to suggest that a meaningful dialogue can be carried out only on energy matters in isolation of other global, economical, and structural problems. The Conference wants to take this opportunity to restate its categorical rejection of any dialogue which does not look into the various problems faced by the World Community and especially the Developing Countries, taking into account the problems of development, the acquisition of advanced technology, the financial and monetary reforms, world trade and raw materials, along with the various aspects of the energy problem.

The Conference, conscious of the efforts undertaken individually and collectively by the Member Countries in cooperating with other Developing Countries and of the need to inform other countries of the world of the true scope and magnitude of such efforts, as well as of other news of general interest regarding the Organization and the Member Countries, and in order to counteract the manipulation of information by some of OPEC's detractors, has given general support to the idea of establishing an international news agency - OPECnews. For this purpose, it has been decided to refer this matter to a committee of experts of the Member Countries to study the most effective means of implementing this idea, and to submit its report to the Conference, through the Board of Governors.

The Conference expressed its great concern over the continuation of abnormal conditions prevailing in the international oil market. Demand has continued to be a source of pressure on the price structure, resulting in several phenomena which generated difficulties for both producers and consumers, especially the developing countries. The Conference once again calls upon the major industrialized consuming countries to control their total demand, whether for consumption or stock build up, so that the adverse effects of the present market situation can be avoided. The Conference also takes this opportunity to warn the oil companies of the irresponsible practice of taking advantage of the present situation to reap unwarranted profits and call upon them to play a more constructive role in connection with guaranteeing supplies to developing countries, and to prevent price speculation.

In an endeavour to bring some stability to the market the Conference decided on the following:

1. Adjust the Marker Crude price from the present level to US\$18/bbl.
2. Allow Member Countries to add to the prices of their crude a maximum market premium of US\$2/bbl over and above their normal differential, if and when such a market premium was necessitated by market conditions.

AX2725-4

3. The maximum prices that can be charged by Member Countries shall not exceed US\$23.50/bbl, whether on account of quality and location advantage or market premia.

It was also agreed that Member Countries would take steps to limit transactions in the spot market in a collective effort to stop the present price spiral.

The Conference expressed concern on the movement of the U.S. dollar vis-a-vis the international major currencies with a view to eroding the real price of oil, and further reduce the purchasing power of the OPEC barrel, and has decided that should such movement indicate a further erosion in the real value of OPEC revenues, an Extraordinary Meeting of the Conference shall be called upon to decide on shifting to a basket of currencies as a means of compensating OPEC Countries from resulting losses and further protecting the purchasing power of those revenues.

The Conference expressed its sincere gratitude to the Federal Government of Switzerland and the Republic and Canton of Geneva for their warm hospitality and the excellent arrangements made for the Meeting.

The Conference passed Resolutions which will be published on 28th July, 1979, after ratification by Member Countries.

The next Ordinary Meeting of the Conference will be convened in Caracas, Venezuela on Monday, 17th December, 1979.

(3)

NOTE FOR RECORD

1. Mr Kosaka, the Director of Economic Planning and four aides called on the Chancellor at the Residence after dinner last night. Mr Couzens and Mr Warren, the Ambassador's Private Secretary, also participated in the discussions.
2. After initial exchanges, in which it was made clear that Mr Kosaka had come at the wish of Prime Minister Ohira, it became apparent that the main purpose of Mr Kosaka's call was to probe UK attitudes to a US proposal to initiate country by country oil import saving targets (as opposed to global targets) for the Summit members, and also to convey Japanese unease at setting targets as far ahead as 1985, as agreed by the European Council at Strasbourg. The Japanese also conveyed an impression of United States disquiet with the choice of 1978 as the base year for measuring import saving targets, their preference being for 1977. For their part the Japanese appeared undecided whether to support one base year or another, or alternatively to press for some average base period; given that countries at different points on the business cycle could be faced with unequal pressures to achieve targets related to a particular base year.
3. In reply the Chancellor and Mr Couzens stressed the need for the Summit countries to make plain to OPEC the strength of their commitment to reduce demand for oil by measures of conservation, use of the price mechanism, or by encouragement of new sources of energy. In this respect it was significant that, even after de-control, the price of petrol to US consumers would be no more than half the price to consumers in Western Europe. On the matter of energy saving targets the Chancellor stressed the Community view that a time scale to 1985 was justified by the continuing nature of the energy problem. As for the choice of base this was a matter for discussion over the next two days as was the suggestion for adopting country by country import saving targets - although the members of the European Community had already agreed at Strasbourg upon a target for the Community as a whole rather than separate country targets. It was clearly in the common interest of all Summit participants to work out a credible approach to the energy problem. The Chancellor, despite persistent pressure from Mr Kosaka, refused to be drawn further on whether the UK would be prepared to go along with moves to individual country targets, standing on the proposition that the form and nature of energy saving measures, choice of base period and period of application were matters for

/consideration

CONFIDENTIAL



-2-

consideration by the Heads of Government in the Summit discussion.

4. Mr Kosaka thanked the Chancellor for receiving him and for discussing matters in a preliminary way.

A handwritten signature in blue ink, appearing to read 'AMB'.

A M W Battishill

TOKYO

28 June 1979

cc: Mr Couzens

CONFIDENTIAL

IMMEDIATE

X-20

ADVANCES: BOAT PEOPLE

PS
PS/LPS
PS/MR HURD
PS/MR BLAKER
PS/PUS
SIR A DUFF
SIR A PARSONS
MR CORTAZZI
MR MURRAY
MR STRATTON
HD/UND
HD/HK & GD
HD/MVD
HD/NEWS D
HD/SEAD
HD/N AM D
HD/EESD
HD/OID

PS/NO 10 DOWNING STREET

(File)

GR 288

CONFIDENTIAL

FM TOKYO 281243Z JUN 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 335 OF 28 JUNE, 1979

INFO IMMEDIATE UKMIS NEW YORK, UKMIS GENEVA AND WASHINGTON
SAVING HONG KONG AND HANOI

FOR NEWS DEPT.

TOKYO SUMMIT: INDO-CHINESE REFUGEES

1. THE FOLLOWING IS THE TEXT OF THE SPECIAL STATEMENT ON
INDO-CHINESE REFUGEES

THE PLIGHT OF REFUGEES FROM VIETNAM, LAOS AND CAMBODIA POSES
A HUMANITARIAN PROBLEM OF HISTORIC PROPORTIONS AND CONSTITUTES
A THREAT TO THE PEACE AND STABILITY OF SOUTH EAST ASIA. GIVEN
THE TRAGEDY AND SUFFERING WHICH ARE TAKING PLACE, THE PROBLEM
CALLS FOR AN IMMEDIATE AND MAJOR RESPONSE.

THE HEADS OF STATE AND GOVERNMENT CALL ON VIETNAM AND OTHER
COUNTRIES OF INDOCHINA TO TAKE URGENT AND EFFECTIVE MEASURES
SO THAT THE PRESENT HUMAN HARDSHIP AND SUFFERING ARE ELIMINATED.
THEY CONFIRM THE GREAT IMPORTANCE THEY ATTACH TO THE IMMEDIATE
CESSATION OF THE DISORDERLY OUTFLOW OF REFUGEES WITHOUT PREJUDICE
TO THE PRINCIPLES OF FREE EMIGRATION AND FAMILY REUNIFICATION.

TO THE PRINCIPLES OF FREE EMIGRATION AND FAMILY REUNIFICATION.

THE GOVERNMENTS REPRESENTED WILL, AS PART OF AN INTERNATIONAL EFFORT, SIGNIFICANTLY INCREASE THEIR CONTRIBUTIONS TO INDOCHINESE REFUGEE RELIEF AND RE-SETTLEMENT - BY MAKING MORE FUNDS AVAILABLE AND BY ADMITTING MORE PEOPLE, WHILE TAKING INTO ACCOUNT THE EXISTING SOCIAL AND ECONOMIC CIRCUMSTANCES IN EACH OF THEIR COUNTRIES.

THE HEADS OF STATE AND GOVERNMENT REQUEST THE SECRETARY-GENERAL OF THE UNITED NATIONS TO CONVENE A CONFERENCE AS SOON AS POSSIBLE WITH A VIEW TO ATTAINING CONCRETE AND POSITIVE RESULTS. THEY EXTEND FULL SUPPORT TO THIS OBJECTIVE AND ARE READY TO PARTICIPATE CONSTRUCTIVELY IN SUCH A CONFERENCE.

THE HEADS OF STATE AND GOVERNMENT CALL ON ALL NATIONS TO JOIN IN ADDRESSING THIS PRESSING PROBLEM.

FCO PASS SAVING HANOI

WILFORD

NNNN

Mr Cartledge *gm*

cc: Mr Walden
HE

EXCHANGES WITH US ON SOUTHERN AFRICA

1. The Australian Embassy telephoned this morning to ask if it would be possible for us to give them any indication of the course of any discussion on Southern African questions between the Prime Minister or the Secretary of State and President Carter or Mr Vance. They realise that Mr Fraser will be able to question Mrs Thatcher directly on this point when she visits Canberra at the end of this week, but have been instructed to try to get an advance indication to assist them in briefing. (The Australian Ambassador is calling on HE tomorrow afternoon).
2. I should be grateful for any material which I may use, perhaps after the breakfast meeting tomorrow.

M Elliott

28 June 1979

M Elliott

*Embassy
High Commissioner*

THE TOKYO SUMMIT.

28-29 JUNE 1979.

Akasaka Palace.

PARTICIPANTS AT THE TOKYO SUMMIT

Canada

The Right Honourable Joe Clark, P.C., M.P.,
Prime Minister

The Honourable Flora MacDonald, P.C., M.P.,
Secretary of State for External Affairs

The Honourable John Crosbie, P.C., M.P.,
Minister of Finance

The French Republic

His Excellency Mr. Valéry Giscard d'Estaing,
President

His Excellency Mr. Jean François-Poncet,
Minister of Foreign Affairs

His Excellency Mr. René Monory,
Minister of Economy

The Federal Republic of Germany

His Excellency Mr. Helmut Schmidt,
Federal Chancellor

His Excellency Mr. Hans-Dietrich Genscher,
Vice Chancellor and Federal Minister for
Foreign Affairs

His Excellency Mr. Hans Matthöfer,
Federal Minister of Finance

His Excellency Dr. Otto Graf Lambsdorff,
Federal Minister of Economics

The Republic of Italy

His Excellency Honourable Giulio Andreotti,
President of the Council of Ministers

His Excellency Honourable Arnaldo Forlani,
Minister of Foreign Affairs

His Excellency Honourable Filippo M. Pandolfi,
Minister of the Treasury

Japan

His Excellency Mr. Masayoshi Ohira,
Prime Minister
His Excellency Mr. Sunao Sonoda,
Minister for Foreign Affairs
His Excellency Mr. Ipppei Kaneko,
Minister of Finance
His Excellency Mr. Masumi Esaki,
Minister of International Trade and Industry

The United Kingdom of Great Britain and Northern Ireland

The Right Honourable Margaret Thatcher, M.P.,
Prime Minister
The Right Honourable The Lord Carrington,
Secretary of State for Foreign and Commonwealth
Affairs
The Right Honourable Sir Geoffrey Howe, M.P.,
Chancellor of the Exchequer

The United States of America

His Excellency Mr. Jimmy Carter,
President
The Honourable Cyrus Vance,
Secretary of State
The Honourable W. Michael Blumenthal,
Secretary of the Treasury

The Commission of the European Communities

The Right Honourable Roy Jenkins,
President

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I. Programme

Thursday, June 28, 1979

- 08: 00-08: 50 Breakfast for Heads of State/Government at Prime Minister's Official Residence
- 09: 30-12: 30 First Session of the Summit meeting at Akasaka Palace. *To UK Del down: bringing. Then Salon. 10 mins.*
- 12: 40-13: 00 Stroll in the Garden
- 13: 00-14: 50 Luncheon in honour of Heads of State/Government, President of the EC Commission and Ministers given by Prime Minister Ohira in the Banquet Hall, Akasaka Palace
-Buffet Luncheon for delegation members given by Parliamentary Vice-Minister for Foreign Affairs Shiga at Iikura House
- 15: 00-18: 00 Second Session of the Summit meeting at Akasaka Palace
- 19: 30-22: 00 Court banquet in honour of Heads of State/Government, President of the EC Commission and Ministers at Imperial Palace (Black tie)

Friday, June 29, 1979

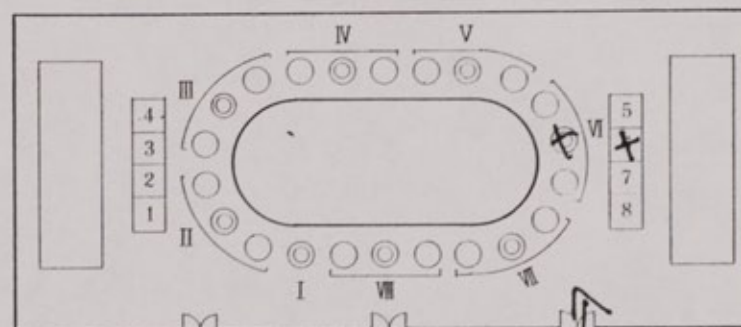
- 0902-0901*
09: 30-12: 00 Third Session of the Summit meeting at Akasaka Palace
- 12: 20-14: 20 -Luncheon in honour of Heads of State/Government given by Prime Minister Ohira at Japanese-Style Annex, Akasaka Palace
-Luncheon in honour of Foreign Ministers given by Foreign Minister Sonoda at Iikura House
-Luncheon in honour of Finance Ministers and President of the EC Commission given by Finance Minister Kaneko at Fukudaya
- 14: 30-16: 00 Final Session of the Summit meeting at Akasaka Palace
- 17: 30-18: 20 Press Conference at the Hotel New Otani

**Arrival Times of Heads of Delegations
and Ministers**

	Thursday, June 28			Friday, June 29	
	PM's Residence	Akasaka Palace	Imperial Palace	Akasaka Palace	Press Conference Room, Hotel New Otani
Heads of Delegations					
EC Commission	—	9: 03	19: 18	9: 12	17: 22~17: 25
Canada	7: 45	9: 05	19: 20	9: 14	"
United Kingdom	7: 47	9: 07	19: 22	9: 16	"
Italy	7: 49	9: 09	19: 24	9: 18	"
Germany	7: 51	9: 11	19: 26	9: 20	"
United States	7: 53	9: 13	19: 28	9: 22	17: 26
France	7: 55	9: 15	19: 30	9: 24	17: 28
Ministers					
Canada	—	8: 46			
France	—	8: 48			17: 22~17: 25
Germany	—	8: 50			
Italy	—	8: 52			
United Kingdom	—	8: 54			
United States	—	8: 56			

2. Plan of Conference Room

All the sessions of the Summit meeting will be held in the Conference Room (Hagoromo-no-ma) on the second floor of Akasaka Palace.



Seats at Conference Table

- I=EC Commission
- II=Canada
- III=France
- IV=Germany
- V=Italy
- VI=United Kingdom
- VII=United States
- VIII=Japan

Positions of Note-takers

- 1=EC Commission
- 2=Canada
- 3=France
- 4=Germany
- 5=Italy
- 6=United Kingdom
- 7=United States
- 8=Japan

There will be simultaneous interpretation in all Conference languages.

Participants may call into the conference room their respective personal representatives by pressing a button which is found on the table for each Head of Delegation and connected with an indicator light in the room where the personal representatives can wait.

RESTRICTED

Mr Walden

cc: Mr Whitmore ✓
 HE
 Miss Deeves

full
 27~

BILATERAL MEETINGS

1. The US Delegation have conveyed an invitation from President Carter for the Prime Minister and the Secretary of State to join him and Mr Vance for a very informal drink at the US Ambassador's Residence at 18.15 this evening. They suggest that the Prime Minister and the Secretary of State might stay for about 30 minutes. The Canadian Prime Minister will have been there before-hand and might possibly be still lingering at 18.15.
2. The Americans propose that the meetings should be extremely informal, without any note-takers or Private Secretaries present. They have no objection of course to Detectives or Private Secretaries if necessary travelling to the Embassy but would not expect them to join the conversation.
3. Driving time to the US Embassy from the hotel with police escort is approximately 8 minutes. Driving time from the hotel to the French Embassy is approximately 15 minutes. Time will therefore be rather tight for the dinner given by President Giscard, which is now to be at 19.30. Nevertheless it would still be just possible for the Prime Minister to return to the hotel and to change before leaving for the French Embassy.
4. If both the Prime Minister and the Secretary of State would like to accept this invitation (we have provisionally indicated that they will), the need for a breakfast meeting between Lord Carrington and Mr Vance may be reduced. Mr Vance cannot in any event meet Lord Carrington at breakfast on 28 June, as he has an engagement with Mr Genscher which has involved rather complex arrangements and cannot now be shifted.
5. I have however made provisional arrangements with the Canadian Delegation for a breakfast meeting between Lord Carrington and the Canadian Foreign Minister on 28 June (the Canadians cannot manage 29 June), and have provisionally suggested a time of 07.45 in Lord Carrington's suite.
6. You may wish now to take this further yourself. The person responsible in the US Delegation is Mr Wisner (US Embassy Ext 7102/6/7); the person responsible in the Canadian Delegation is Mr Gignac (New Otani, Ext 4805/4820).

M Elliott

M Elliott

27 June 1979

The Americans now say that the meeting over a drink proposed for this evening is intended to replace the breakfast planned for 29 June for the PM only.

MuWalden

cc MuWhitmore ←

VIETNAMESE REFUGEES

1. I attach a revised text of the statement drafted originally by the Japanese and Americans, and now modified in consultation with German, French, Canadian and Italian officials and ~~by~~ with me (speaking on a personal basis and ad referendum)
The Japanese and Americans would like to have this agreed by Heads of State/Govt. by luncheon tomorrow 28 June so that President Carter can refer to it at lunch and it can be made public during the afternoon.

2. I shall be in the Embassy tomorrow morning and have undertaken to pass our comments (and if possible our confirmation that the text as it stands is acceptable) to the Japanese Foreign Ministry during the morning, the earlier the better. Could you possibly let me know what the views of Ministers are?

M. Elliott

M. ELLIOTT

27 June.

STATEMENT ON INDOCHINESE REFUGEES
(re-revised)

The plight of refugees from Vietnam, Laos and Cambodia poses a humanitarian problem of historic proportions and constitutes a threat to the peace and stability of Southeast Asia. Given the tragedy and suffering ^{which are} ~~that is~~ taking place, the problem calls for an immediate and major response.

The Heads of State and Government ~~re~~confirm the great importance they attach to the immediate cessation of the disorderly outflow of refugees without prejudice to the principles of free ~~em~~igration and family reunification.

They call on Vietnam and other countries of Indochina to take urgent and effective measures so that the present human hardship and suffering are eliminated.

The Governments represented will substantially increase their contributions to Indochinese refugee relief and resettlement -- either by admitting more people or by making more funds available, or both.

The Heads of State and Government request the Secretary-General of the United Nations to convene a conference as soon as possible with a view to attaining concrete and positive results. They extend full support to this objective and are ready to participate constructively in ^{such a} ~~this~~ conference.

The Heads of State and Government call on all nations to join in addressing this pressing problem.

23:15
June 27, 1979

CONFIDENTIAL

PS to Prime Minister *AS 2W*

PS to Secretary of State

cc Sir John Hunt
Sir Michael Palliser

INDOCHINESE REFUGEES

1. The Deputy Vice Minister summoned me and my French and Italian colleagues on 27 June. He said that the Americans and Japanese had discussed the matter and produced the draft of a text of a statement by the Summit participants (annexed) which it was suggested might be put out during 28 June, provided agreement could be reached on it in the course of tomorrow. Mr Takashima said the draft had already been given to Herr Genscher by Mr Sonoda when he called on him and it would be given today to the Canadian Foreign Minister when she called.
2. My French colleague drew attention to the EEC Summit declaration on the same subject and said the wording of the two might have to be correlated. He also said that the French Ambassador in Hanoi had made representations in the light of the declaration to the Vietnamese. We all thought that the opening phrase of paragraph 2 and the ending of that paragraph with a reference to putting an end to the "disorderly outflow" of refugees might be better reversed. The Italian said that his Government, he knew, would feel like this.
3. I said that I would put the text to our delegation on arrival. Mr Takashima asked that we should convey views or amendments to either the Director General of Asian Affairs or his deputy (Mr Yanagiya or Mr Miyake). If a meeting was necessary to resolve difference it could be called. Mr Holbrook had been nominated by the Americans.

Michael Wilford

Michael Wilford

27 June 1979

CONFIDENTIAL

CONFIDENTIAL

INDOCHINESE REFUGEES

The plight of refugees from Vietnam, Cambodia, and Laos poses a humanitarian problem of historic proportions and constitutes a threat to the peace and stability of Southeast Asia. Given the tragedy and suffering that is taking place, the problem calls for an immediate and major response.

The Heads of State and Government reconfirm the importance they attach to the principles of free emigration and family reunification and call upon the countries of Indochina urgently to take appropriate measures and to establish procedures to put these principles into effect, so that the disorderly outflow of refugees will cease.

Each of our countries will substantially increase its contributions to Indochinese refugee relief and resettlement - either by admitting more people or by making more funds available, or both.

The Secretary General of the United Nations has our full support in calling for a conference in mid July with a view to achieving concrete and positive results.

We call on all nations to join in addressing this pressing problem.

GR 230
CONFIDENTIAL
FM TOKYO 270930Z
TO IMMEDIATE FCO TELNO 330 OF 27 JUNE.

FOLLOWING FROM DELEGATION

MIDDLE EAST

MIPT. FOLLOWING IS TEXT:-

THE CHIEFS OF STATE AND GOVERNMENT OF THE SEVEN NATIONS MEETING IN TOKYO, IN CONNECTION WITH THEIR DISCUSSION, HAVE REAFFIRMED THE FOLLOWING:

WHEREAS THE ISSUE OF PEACE IN THE MIDDLE EAST IS OF THE UTMOST IMPORTANCE FOR NOT ONLY THE PEOPLES AND STATES OF THE AREA BUT ALSO FOR THE ENTIRE WORLD INCLUDING THE SEVEN:

1. IT IS ABSOLUTELY ESSENTIAL THAT PEACE IN THE MIDDLE EAST MUST BE A COMPREHENSIVE PEACE:
2. THIS SHOULD BE BROUGHT ABOUT IN FULL ACCORDANCE WITH ALL PRINCIPLES OF THE UNITED NATIONS SECURITY COUNCIL RESOLUTIONS 242 AND 338, AND THROUGH THE RECOGNITION OF AND RESPECT FOR THE LEGITIMATE RIGHTS OF THE PALESTINIAN PEOPLE:
3. ALL POSSIBLE AVENUES TO PEACE SHOULD BE EXPLORED, TAKING INTO ACCOUNT THE ASPIRATIONS OF ALL THE PEOPLES IN THE AREA INCLUDING THE PALESTINIANS:
4. CONTINUING THEIR INDEPENDENT POLICIES, THE SEVEN GOVERNMENTS WILL WORK TO ACHIEVE THE COMMON GOAL OF PEACE.

THE BRITISH, CANADIAN, FRENCH, GERMAN, ITALIAN AND JAPANESE GOVERNMENTS DEEPLY APPRECIATE PRESIDENT CARTER'S CONTRIBUTION TO PEACE IN THE AREA AND WELCOME HIS DETERMINATION TO WORK FOR A COMPREHENSIVE SETTLEMENT.

WILFORD

File No.

OUTWARD

Security Classification CONFIDENTIAL	(B)
Precedence IMMEDIATE	
DESKBY Z	

Department.....

TELEGRAM

Drafted by.....

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SAVING TO (for info)

Distribution:-

[TEXT]

Following from Delegation

MIDDLE EAST

MIPT. Following is text [A to B attached]

Copies to:-

MW. 27/6

NOTHING TO BE WRITTEN IN THIS MARGIN

June 27, 1979

(Confidential)

A

The Chiefs of State and Government of the seven nations meeting in Tokyo, in connection with their discussion, have reaffirmed the following:

Whereas the issue of peace in the Middle East is of the utmost importance for not only the peoples and states of the area but also for the entire world including the Seven:

1. It is absolutely essential that peace in the Middle East must be a ^{comprehensive} comprehensive peace;
2. This should be brought about in full accordance with all the principles of the United Nations Security Council Resolutions 242 and 338, and through the recognition of and respect for the legitimate rights of the Palestinian people;
3. All possible avenues to peace should be explored, taking into account the aspirations of all the peoples in the area including the Palestinians;
4. Continuing their independent policies, the seven Governments will work to achieve the common goal of peace.

The British, Canadian, French, German, Italian and Japanese Governments deeply appreciate President Carter's contribution to peace in the area and welcome his determination to work for a comprehensive settlement.

B

Genscher
adviser

Same as
Ohira/Carter
text issued
Washington
May.

Not only
Alexandria
Barratton

Japan had
an independent
policy.
not

Return
to
p.w.

LDW 743

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OO TOKYO DESLNBY 272300Z JUN

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OO JEDDA

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FM FCO 271200Z JUNE 79

TO IMMEDIATE TOKYO

TELXGRAM NUMBER 284 OF 27 JUNE

INFO IMMEDIATE WASHINGTON, OTTAWA, PARIS, BONN, ROME, JEDDA,

UKDEL OECD, UKREP BVESSELS

FOLLCZING FOR PRIVATE SECRETARY TO SEHRETARY OF STATE.

OPEC MEETING IN GENEVA

1. A REPORT IN TODAY'S FINANCIAL TIMES (WHICH WE HAVE NOT
SO FAR BEEN ABLE TO CONFIRM) CLAIMS THAT OPEC MINISTERS HAVE
QUOME DECIDED TO TAKE AN INITIATIVE IN RESTARTING THE

Prime Minister

By
28/6

IMMEDIATE
CYRILLIC

ECONOMIC DIALOGUE BETWEEN THE INDUSTRIALISED WORLD AND THE
DEVELOPING COUNTRIES, INCLUDING THE OIL PRODUCERS WITH A
PARTICULAR EMPHASIS ON THE TRANSFER OF TECHNOLOGY UOWUOTE.

2. NO OTHER DETAILS ARE AVAILABLE AND OFFICIAL OPEC

COMMUNIQUE WILL PROBABLY NOT EMERGE TILL LATER TODAY. BUT

ALL REPORTS SO FAR AGREE THAT NO
DECISION HAS BEEN REACHED

ON PRICES.

3. PROPOSALS FOR AN ADDITIONAL 800 MILLION DOLLARS TO BE
MADE AVAILABLE TO THE OPEC SPECIAL FUND TO PROVIDE INCREASED
PROJECT AID FOR DEVELOPING COUNTRIES APPEAR TO HAVE BEEN
ACCEPTED IN PRINCIPLE BY OPEC DELEGATES.

4. PLEASE PASS COPY TO PRIVATE SECRETARY TO PRIME MINISTER.

CARRINGTON

NNNN M

1235/27

LDW 886

OO FCO

GR 70
CONFIDENTIAL
FM TOKYO 270930Z
TO IMMEDIATE FCO TELNO 329 OF 27 JUNE.

FOLLOWING FROM DELEGATION

MIDDLE EAST

THE AMERICANS AND JAPANESE HAVE PREPARED THE TEXT OF A POSSIBLE STATEMENT TO BE PUT OUT BY THE HEADS OF STATE AND GOVERNMENT, PROBABLY ON THE LAST DAY OF THEIR MEETING. MIFT CONTAINS THE TEXT. THE SECRETARY OF STATE WOULD LIKE IMMEDIATE COMMENTS ON IT.

WILFORD

NNNN

REVISED PROVISIONAL TEXT

29th June, 1979

The Heads of State and Government of Canada, the Federal Republic of Germany, France, Italy, Japan, the United Kingdom of Great Britain and Northern Ireland, and the United States of America met in Tokyo on the 28th and 29th of June, 1979.

The European Community was represented by the President of the European Council and by the President of the European Commission to discuss matters within the Community's ^{Competence} province.

1. The agreements reached at the Bonn Summit helped to improve the world economy. There was higher growth in some countries, a reduction of payments imbalances, and greater currency stability.
2. But new challenges have arisen. Inflation, which was subsiding in most countries, is now regaining its momentum. Higher oil prices and oil shortage have reduced the room for maneuver in economic policy in all our countries. They will make inflation worse and curtail growth, in both the industrial and developing countries. The non-oil developing countries are among the biggest sufferers.

We are agreed on a common strategy to attack these problems. The most urgent tasks are to reduce oil consumption and to hasten the development of other energy sources.

Our countries have already taken significant actions, to reduce oil consumption. We will intensify these efforts.

The European Community has decided to restrict 1979 oil consumption to 500 million tons (10 million barrels a day) and to maintain Community oil imports between 1980 and

1985 at an annual level not higher than in 1978. The Community is monitoring ^{Canada} ~~and will be asked to specify~~ each member country's contribution toward these annual levels. ~~Canada~~, Japan, and the US will each achieve the adjusted import levels to which they are pledged in IEA for 1979, ~~and~~ will maintain their imports in 1980 at a level not higher than these 1979 levels, and will be monitoring this. ~~Canada~~, Japan, and the US are prepared to commit themselves to specific restraint targets on their oil imports for the year 1985. (Possible specific figures for Canada and US.) They will fix annual targets on a year-by-year basis in the meantime.

see separate amendment to this

US square brackets will depend on EEC "specific"

Castro & Clark want to announce this here: this strengthens our hand.

The seven countries express their will to take as maximum goals for oil imports in 1985, the ¹⁹⁷⁸ following figures:

Canada

France

Germany

Italy

Japan

UK

USA

for France, UK, U.S.; the range 78-79 June.

for U.S. Japan Canada

These 1985 goals will be

fixed as reference for monitoring the development of alternative sources

of alternative sources

8 1/2 of energy

No-one was pressing for this para. except US. We have made it clear that even if we wanted to we couldn't give a 1985 figure now.

They will fix annual goals on a year-by-year basis

in the meantime.]

In

Canada - within the framework of the agreement. 600,000 barrels per day for 1985.

In fulfilling these commitments, our guiding principle will be to obtain fair supplies of oil products for all countries, taking into account the differing patterns of supply ^{and ranges potential} the efforts made to limit oil imports, the economic situation of each country and the quantities of oil available. We urge other industrialized countries to set similar objectives for themselves.

We welcome the proposal ~~of the European Community~~ to take steps to bring into the open the working of oil markets by setting up a register of international oil transactions. Canada, Japan and the United States have agreed to adopt a parallel scheme for their oil imports. ^{and produce companies of many countries} We will urge oil companies to moderate spot market transactions. [We will require that at the time of unloading crude oil cargoes, documents be presented indicating the purchase price as certified by the producer country.] [We will likewise seek to achieve better information on the profit situation of oil companies and on the use of the funds available to these companies.]

Wavy line

US + Germany want look sources

keep change to us

to avoid new subsidies

[We agreed to avoid all administrative action that might put further pressure on oil prices, ^{that would be - damage including ?} e.g. national import subsidies.]

We agree on the importance of keeping domestic oil prices at world market prices or raising them to this level [as soon as possible.]

Our

Square brackets only because US wants finally agree with rest of world. But in practice is the bag.

*Quinn
New York
organizing*

Our countries will not buy oil for governmental stockpiles when this would place undue pressure on prices; we will consult about the decisions that we make to this end.

3. We pledge our countries to increase as far as possible coal use, production, and trade, without damage to the environment. We will endeavor to substitute coal for oil in the industrial and electrical sectors, encourage the improvement of coal transport, maintain positive attitudes toward investment for coal projects, pledge not to interrupt coal exports ^{under} under long-term contracts unless required to do so by a national emergency, and maintain, by measures which do not obstruct coal imports, those levels of domestic coal production which are desirable for reasons of energy, regional and social policy. We support the formation of an International Coal Advisory Board, including private experts, to recommend additional actions to increase coal use and trade.

Wavy line

Wavy line

We need to expand alternative sources of energy, especially particularly those which will help to prevent further ^{particular} increases of carbon dioxide in the atmosphere.

These sentences are alternatives. Only USA wants the second one.

[We agree that the speedy expansion of nuclear power is indispensable.] ^{or} [Without the development of nuclear energy in the coming decades, economic growth will be hard to achieve.]

We reaffirm the understanding reached at the Bonn Summit with respect to the reliable supply of nuclear fuel and ^{ensuring} reducing the risk of nuclear proliferation.

We

To X on next page.

These sentences
are alternatives.
US want the
second; most
others the
first

[We must see to it that any apprehensions over safety in nuclear plant operation and waste disposal be eliminated.]

OR
[This must be done under conditions guaranteeing our people's safety. We will cooperate to this end.] The International Atomic Energy Agency can play a key role in this regard. X (take in sentence from previous page)

New technologies in the field of energy are the key to the world's longer-term freedom from fuel crises. Large public and private resources will be required for the development and commercial application of those technologies.

A US proposal.
Everyone else
has doubts. Can
just accept
provided the
waste "re-
porter" are
retained i.e.
with a new
free-standing
body with its
own funds etc

~~We shall ensure that these resources are made available.~~
An International Energy Technology Group linked to appropriate international organizations will be created to review the actions being taken or planned domestically by each of our countries, and to report on the need and potential for international collaboration, including financing.

We are ^{ready} prepared to cooperate with oil-exporting countries to define supply and demand prospects on the world oil market. We hope these countries will participate in a continuous exchange of views on energy matters as well as other related matters (e.g. transfer of energy technologies) between producer and consumer countries, including oil-importing developing countries.

We

dk
revised.

po. to ^{maintain} ~~maintain~~ on
efficiency (length of work
week) just indicated.

J.H.:

[Handwritten scribble]

4. We agree that we should continue with the policies for our economies agreed at Bonn, adjusted to reflect current circumstances. Energy shortages and high oil prices have caused a real transfer of incomes. We will try, by our domestic economic policies, to minimize the damage to our economies. But our options are limited. Attempts to compensate for the damage by matching income increases would simply add to inflation.

5. We agree that we must do more to improve the long-term productive efficiency and flexibility of our economies.

? } The measures needed may include more stimulus for investment and for research and development; steps to make it easier for capital and labor to move from declining to new industries; regulatory policies which avoid unnecessary impediments to investment and productivity; reduced growth in some public sector current expenditures; and removal of impediments to the international flow of trade and capital. ?

We

6. We believe that constructive North-South relations are a condition for the health of the world economy. We for our part will work to bring developing countries more fully into the open world trading system, and to adjust our economies to changing international circumstances. The problems we face are global and can only be resolved on the basis of shared responsibility and partnership. Although what has happened to oil prices has made it more difficult for developed countries to help in this, ^{In this situation} We recognize the need for the flow of financial resources to the developing countries to increase, including private and public, bilateral and multi-lateral resources. A good investment climate in developing countries will help the flow of foreign investment.

we got this considerably watered down. Originally it said "we pledge additional funds..."

We are deeply concerned about the millions of people still living in conditions of absolute poverty. We will take particular account of the poorest countries in our aid programs. // Once more we urge COMECON countries to play their part. // We will place more emphasis on cooperation with developing countries in overcoming hunger and malnutrition. We will urge multilateral organizations to help these countries to develop effective food sector strategies and to build up the storage capacity needed for strong national food reserves. Increased bilateral and multilateral aid for agricultural research will be particularly important. In these and other ways we will step up our efforts to help these countries develop their

Again watered down by us after a battle. Originally "we pledge increased..."

human

human resources, through technical cooperation adapted to local conditions. // We will also place special emphasis on helping developing countries to exploit their energy potential. We strongly support the World Bank's program for hydrocarbon exploitation and urge its expansion. We will do more to help developing countries increase the use of renewable energy; we welcome the World Bank's coordination of these efforts.

CONFIDENTIAL

JAPANESE TEXT

極秘

REVISED PROVISIONAL TEXT

27th June, 1979

1. The agreements reached at the Bonn Summit are helping improve the world economy. There was higher growth in some countries, a reduction of major surpluses and deficits in the balance of payments, and greater currency stability.
2. But new challenges have arisen. Inflation, which seemed to subside in most countries, is now regaining its momentum. What has happened in recent months on the supply and price of oil has reduced the room for manoeuvre in economic policy in all our countries. It will make inflation worse and curtail growth, in both the industrial and developing countries. The non-oil developing countries are among the biggest sufferers, both through increased oil prices and through reduced world economic activity, [and the consequent difficulty for the industrialized countries in pursuing their development aid efforts].

We are determined to attack these problems at their roots. For this purpose we have agreed on a common strategy, consisting both of immediate short-term measures in the field of energy and of longer-term policies directed toward the constitutional improvement of the world economy.

3. (Oil) To be inserted later.

4. We pledge our countries to increase coal use, production, and trade. We will endeavor to substitute coal for oil in the industrial and electrical sectors, assess and clarify policies which unduly impede coal use, encourage the improvement of coal transport, maintain positive attitudes toward investment for coal projects, pledge not to interrupt coal exports under long-term contracts unless required to do so by a national emergency, and maintain desired levels of domestic coal production by measures which do not obstruct low-cost coal imports. We support the formation of an International Coal Advisory Board of private experts, linked to appropriate international organizations, which will recommend to us additional actions to overcome existing constraints to freer coal trade and increase coal utilization.

We need to expand alternative sources of energy, particularly those which will help to prevent further increases of carbon dioxide in the atmosphere.

We agree that the speedy expansion of nuclear power is indispensable. We reaffirm the understanding reached at the Bonn Summit with respect to the reliable supply of nuclear fuel and reducing the risk of nuclear proliferation. We must see to it that any apprehensions over safety in nuclear plant operation and waste disposal be eliminated. The International Atomic Energy Agency can play a key role in this regard.

New

New technologies in the field of energy are the key to the world's longer-term freedom from fuel crises. We agree to increase our research, development, and commercial application of new technologies, both for production and economization of energy resources. We will create an International Energy Technology Group to assess the actions being taken or planned domestically by each of our countries and to examine possibilities for international collaboration, including financing, on a continuing basis. We invite oil-producing nations, as well as other nations capable of making significant contributions, to join any international collaboration that may result.

We call on the oil-exporting countries to cooperate in stabilizing the world oil situation. We will endeavor to foster a climate that will help to bring about new discussions on energy-related matter of mutual concern between producing and consuming countries.]

5. We agree that we should continue with the policies for our economies agreed at Bonn, adjusted to reflect current circumstances. Energy shourtages and high oil prices have caused a real transfer of incomes. We will try, by our domestic economic policies, to minimize the damage to our economies. But our options are limited. Attempts to compensate for the damage by matching income increases would simply add to inflation.

Our

Our main long-term task is to improve the productive efficiency of our economies. This is essential to promote non-inflationary growth. We will take steps to increase investment, to [?]accelerate innovation, to enhance competition, and to improve the flexibility of our economies.

These steps, while varying from country to country, should include curtailing the growth of the public sector

current expenditures, increasing support for research and development, improving regulatory policies so as to achieve social objectives without creating unwarranted

impediments to investment, and providing stimulus for increased investment. We will try to make it easier for capital and labor to move from sectors with declining demand to those with increasing demand, from less to more efficient industries, and to areas in which the country concerned has a comparative advantage in international trade.

6. The agreements reached in the Tokyo Round are an important achievement. We are committed to early and faithful implementation of these agreements. We renew our determination to fight protectionism. We want the functions of GATT to be strengthened, both to monitor the agreements reached in the MTNs and as an instrument for future policy in maintaining the open world trading system. We will welcome the full participation of as many

countries

?

? how

by increasing public expenditure?

??

How

!!

✓

countries as possible in these agreements and in the system as a whole.

7. We will intensify our efforts to pursue the economic policies appropriate in each of our countries to achieve durable external equilibrium. Stability in the foreign exchange market is essential for the sound development of world trade and the global economy. This has been furthered since the Bonn Summit by two important developments -- the November 1st 1978 program of the United States in conjunction with other monetary authorities, and the successful emergence of the European Monetary System. We will continue close cooperation in exchange market policies and in support of the effective discharge by the IMF of its responsibilities, particularly its surveillance role and its role in strengthening further the international monetary system.

8. We believe that constructive and harmonious North-South relations are the condition for the expansion of the world economy. With them we must address the urgent problem of today and long-term issues of coming decades. These problems are global and must be resolved on the basis of shared responsibility and partnership. For our part we shall work to bring about a full participation of developing countries into the open world trading system, and to adjust our economies to changing international circumstances.

[We will continue our collective effort to expand the flow of financial assistance and other resources, bilateral

and

and multilateral, toward developing countries. A good investment climate fostered by the developing countries will help promote the increase of foreign investment.]

We are deeply concerned about the millions of people still living in conditions of absolute poverty, and will take particular account of the poorest countries in our aid programs. We shall place special emphasis on assisting developing countries to identify their energy needs and to expand their energy production. We strongly support the World Bank's program for hydrocarbon exploitation and urge its expansion. We will build on the work of the OECD working party in expanding our efforts to help developing countries increase the use of renewable energy; we welcome the World Bank's coordination of these efforts.

We will cooperate with developing countries to eradicate hunger and malnutrition. We will urge multilateral organizations to help these countries to develop effective food production strategies and to build up the storage capacity needed for strong national food reserves. We will provide increased bilateral and multilateral aid for agricultural research. For these and other ways we will increase -- and collaborate in -- our efforts to help these countries develop the human resources, especially through various forms of technical cooperation better adapted to local conditions.

We

We urge the COMECON countries and other countries capable of providing aid to join more positively in development cooperation.

What about —

France, Germany, Italy and the UK
will make their contribution within
the overall Community agreement
to keep their 1985 figure
not higher than 1978 ?

J&H

As far as Italy is concerned
the commitment is agreed within the
overall context of the Community
commitment.

FRENCH TEXT

I

We consider it vital that the consumer and producer countries together work out a world energy strategy designed to :

- ensure more moderate and rational use of oil as a non-renewable natural resource;
- permit continued economic growth no longer dependent on increased consumption of oil but based on the development of other energy resources;
- ensure that the developing countries are also able to obtain the energy necessary for their growth.

If such a strategy cannot be worked out, the world will rapidly move towards a large scale economic and social crisis.

We agreed that the most urgent tasks are to reduce oil consumption and to accelerate the development of other energy sources. This will require both immediate and longer-term steps if the further harmonious development of the world economy is to be ensured. We are particularly concerned about the prospects for oil-importing developing countries in case the current imbalance in world oil markets persists into the 80's.

II

II

The European countries recall the Community's commitment to limit to 560 MT the oil consumption in 1979 and to maintain, through the period 1980-1985, the annual imports of oil at a level not higher than 1978. They indicate that the Community's institutions have the necessary powers to make sure that the oil imports of each member state will be in accordance with these targets.

The US, Canada and Japan confirm that they will reach the oil consumption and import targets to which they are pledged within the I.E.A.. In 1980 they will maintain their oil imports at a level not higher than 1979. They will ensure, through the period 1981-1985, that this level will not be exceeded, which, taking into account the requirements of the economic growth, implies a vigorous effort to save energy and to develop domestic production of energy.

III

III

This effort will be accompanied by measures relating to the free markets, where prices bear no relation to those charged by the producer markets.

- Our countries will not buy oil for strategic stockpiles when this would place undue pressure on prices. We will concert our actions to this end.
- We will monitor the spot markets, to determine whether further joint action is needed; we will ask oil companies to register transactions on the spot markets under procedures to be agreed by our energy ministers.
- We will ask our oil companies to refrain from participating in spot transactions at prices inconsistent with official producer country prices.
- As far as crude oil is concerned, we will request that at the time of unloading cargo documents be presented indicating the purchase price as certified by the producer country of origin.

So that these efforts may continue in consonance with the growth of their economies, the Summit countries will continue and extend the redeployment of energy which has already begun. This redeployment will be based on the strengthening of the energy-saving measures already under way and be such as to enlist the use of nuclear energy, coal and, as soon as possible, other, alternative sources of energy.

- The Summit countries have already made a major effort to save energy. They must strengthen national programmes in order to encourage growth combined with low energy requirements, in particular by means of greater investment efforts in this area.

- Without the development of nuclear energy in the coming decades, no economic growth will be possible. Nuclear programmes must therefore be given strong fresh impetus.

Nuclear energy must be used under conditions guaranteeing the safety of the population. In this connection, the Summit countries, whilst recalling that this matter is essentially the responsibility of national authorities, consider that existing bilateral and multilateral co-operation should be strengthened and developed. It highlighted the role of the International Atomic Energy Agency in this area.

- In view of the necessary change in oil imports, the use of coal in power stations must be stepped up without delay ; its use in industry must also be encouraged. Special attention will be given to technological programmes to devise new processes for the extraction, transport and processing of coal.

- The Summit countries note that the situation calls for national and international research and development efforts in the energy sector to be stepped up by co-ordinating national action and joint programmes so that more tangible prospects may shortly be found for the economical use of new resources, especially solar and geothermal energy. Like nuclear energy, these "clean" forms of energy will contribute to halting the build-up in the atmosphere of carbonic fumes caused by the use of fossile fuels.

Such research will also be directed at promoting new techniques for the use of conventional resources and achieving energy savings.

The decisions adopted today bear witness to the fact that the Summit countries are ready to shoulder their responsibilities. They urge the other industrialized consumer countries to make efforts on a similar scale and to develop their national energy resources.

Tokyo, June 27, 1979

GERMAN TEX J

CONFIDENTIAL

A Proposal for the Energy Section of the Tokyo Declaration

6.1. We agreed that the most urgent tasks are to reduce oil consumption and to accelerate the development of other energy sources. This will require both immediate and longer-term steps if the further harmonious development of the world economy is to be ensured. We are particularly concerned about the prospects for oil-importing developing countries in case the current imbalance in world oil markets persists into the 80's.

6.2. Our countries have already taken a number of specific actions, listed in the annex, in fulfillment of our pledge to reduce expected oil consumption in 1979 and beyond. We will intensify our efforts to limit oil consumption and imports.

The European Community reiterates its resolve to maintain Community oil imports between 1980 and 1985 at an annual level not higher than that for 1978.

Canada

Japan

The United States

We urge other industrialized countries to set similar objectives for themselves. Our guiding principle will be to obtain fair supplies of oil products for all countries, taking into account the differing patterns of supply, the efforts made to limit oil imports, the economic situation of each country and the quantities of oil available.

6.3. The current supply situation has upset the normal working of the international oil markets. Prices paid on the spot markets bear little relation to the official prices of oil exporting countries. We therefore welcome the proposal of the European Community to take steps to increase the transparency of oil markets by setting up a register of all international oil transactions. Canada, Japan and the United States have agreed to adopt a parallel scheme for their oil imports. We will urge oil companies to contribute to the restoration of orderly conditions by cautious market operations. We will likewise seek to achieve better information on the profit situation of oil companies and on the use of the funds available to these companies.

6.4. We agreed to avoid all administrative action that might put further pressure on oil prices, e.g. national import subsidies. We remain resolved to keep domestic oil prices at world market prices or to raise them to this level.

Quasi-autonomous
non-governmental
organization.

6.5. We agreed that while short-term measures are needed to deal with some aspects of our current problem the real task ahead of us is medium and long term;
this is true for both energy saving and the development of other energies.

6.6. Our countries will substitute as far as possible coal for oil in the industrial and electrical sectors. Special attention will be given to technological programmes to devise new processes for the extraction, transport and processing of coal.

Our countries will welcome foreign investment in coal production, pledge not to interrupt coal exports under long-term contracts unless required to do so by a national emergency, and agree to maintain, by measures which do not obstruct coal imports, those levels of domestic coal production which are desirable for reasons of energy, regional and social policy. We are in favour of a substantial increase in world coal trade and welcome the proposal for the establishment of an International Coal Advisory Board.

6.7. Without the development of nuclear energy in the coming decades, no economic growth will be possible. In the light of the long-term shortage of oil already evident the expansion of nuclear power has become even more urgent. This must be done under conditions guaranteeing our people's safety. While recalling

that this matter is essentially the responsibility of national authorities, we welcomed the initiative to accomplish within IAEA an extensive and world-wide exchange of experience on safety of nuclear power plants. We are convinced that the safe disposal of nuclear waste can also be guaranteed. We reaffirmed the understandings reached at the Bonn Summit with respect to the reliable supply of nuclear fuel and minimising the risk of nuclear proliferation.

- 6.8. We agreed to accelerate both nationally and internationally our efforts for the research, development, and commercialization of new energy technologies like synthetics (liquefaction and gasification of coal) and renewable energies (e.g. solar and geothermal energy). Like nuclear energy these renewable energy sources do not involve the emission of pollutants associated with the use of fossile fuels, particularly the increase of carbon dioxide concentration in the atmosphere.

We will each take appropriate steps to facilitate increased investment and finance for this purpose. We will ask the appropriate international organisations (OECD/IEA) to set up an expert group with the mandate to elaborate an assessment of promising technologies either under development or at the commercialisation stage and to work out organisational proposals for the coordination of national efforts in these fields within one year.

6.9. We are prepared to cooperate with oil-exporting countries to define supply and demand prospects on the world oil market. We call on these countries for an active contribution to beginning a permanent exchange of views on energy matters proper as well as other matters (e.g. transfer of energy technologies) between producer and consumer countries, incl. oil-importing developing countries.

June 28, 1979

ALTERNATIVE COMMUNIQUE LANGUAGE ON IMPORT RESTRAINT

Option 1: The European Community reiterates its resolve to restrict 1979 oil consumption to a figure not exceeding 500 million tons (10 million barrels a day) and to maintain Community oil imports between 1980 and 1985 at an annual level not higher than that for 1978. The Community will specify and monitor each member country's contribution towards these annual levels. Canada, Japan, and the US indicate that they will each achieve the adjusted import levels to which they are pledged in IEA for 1979 and will maintain their imports in 1980 at a level not higher than these 1979 levels. There will be quarterly review of targets to take account of special needs generated by high growth. Canada, Japan, and the US are prepared now to commit themselves to specific restraint targets on their oil imports for the year 1985, with periodic review to take account of special circumstances.* They will fix annual targets on a year-by-year basis in the meantime.

Option 2: The Summit countries reaffirm the commitments that they have made in appropriate international organizations to reduce oil imports by 5% of projected consumption by the end of 1979; and they affirm that they will make commitments in 1980 within these organizations not to exceed in 1980 the import levels that they have stated for 1979 as a result of these reductions -- such national import limits being specified below. We will support in the IEA quarterly review of targets, to take account of special needs generated by high growth. All countries are prepared to commit themselves to specific restraint targets on their oil imports for the year 1985, with periodic review to take account of special circumstances.*

*This sentence will be defined in more specific terms by the Preparatory Group if the heads of government choose this option.

We consider it vital that the consumer and producer countries together work out a world energy strategy designed to :

- ensure more moderate and rational use of oil as a non-renewable natural resource;
- permit continued economic growth no longer dependent on increased consumption of oil but based on the development of other energy resources;
- ensure that the developing countries are also able to obtain the energy necessary for their growth.

If such a strategy cannot be worked out, the world will rapidly move towards a large scale economic and social crisis.

We agreed that the most urgent tasks are to reduce oil consumption and to accelerate the development of other energy sources. This will require both immediate and longer-term steps if the further harmonious development of the world economy is to be ensured. We are particularly concerned about the prospects for oil-importing developing countries in case the current imbalance in world oil markets persists into the 80's.

II

II

The European countries recall the Community's commitment to limit to 500 MT the oil consumption in 1979 and to maintain, through the period 1980-1985, the annual imports of oil at a level not higher than 1978. They indicate that the Community's institutions have the necessary powers to make sure that the oil imports of each member state will be in accordance with these targets.

The US, Canada and Japan confirm that they will reach the oil consumption and import targets to which they are pledged within the I.E.A.. In 1980 they will maintain their oil imports at a level not higher than 1979. They will ensure, through the period 1981-1985, that this level will not be exceeded, which, taking into account the requirements of the economic growth, implies a vigorous effort to save energy and to develop domestic production of energy.

III

III

This effort will be accompanied by measures relating to the free markets, where prices bear no relation to those charged by the producer markets.

- Our countries will not buy oil for strategic stockpiles when this would place undue pressure on prices. We will concert our actions to this end.
- We will monitor the spot markets, to determine whether further joint action is needed; we will ask oil companies to register transactions on the spot markets under procedures to be agreed by our energy ministers.
- We will ask our oil companies to refrain from participating in spot transactions at prices inconsistent with official producer country prices.
- As far as crude oil is concerned, we will request that at the time of unloading cargo documents be presented indicating the purchase price as certified by the producer country of origin.

So that these efforts may continue in consonance with the growth of their economies, the Summit countries will continue and extend the redeployment of energy which has already begun. This redeployment will be based on the strengthening of the energy-saving measures already under way and be such as to enlist the use of nuclear energy, coal and, as soon as possible, other, alternative sources of energy.

- The Summit countries have already made a major effort to save energy. They must strengthen national programmes in order to encourage growth combined with low energy requirements, in particular by means of greater investment efforts in this area.

- Without the development of nuclear energy in the coming decades, no economic growth will be possible. Nuclear programmes must therefore be given strong fresh impetus.

Nuclear energy must be used under conditions guaranteeing the safety of the population. In this connection, the Summit countries, whilst recalling that this matter is essentially the responsibility of national authorities, consider that existing bilateral and multilateral co-operation should be strengthened and developed. It highlighted the role of the International Atomic Energy Agency in this area.

- In view of the necessary change in oil imports, the use of coal in power stations must be stepped up without delay ; its use in industry must also be encouraged. Special attention will be given to technological programmes to devise new processes for the extraction, transport and processing of coal.

- The Summit countries note that the situation calls for national and international research and development efforts in the energy sector to be stepped up by co-ordinating national action and joint programmes so that more tangible prospects may shortly be found for the economical use of new resources, especially solar and geothermal energy. Like nuclear energy, these "clean" forms of energy will contribute to halting the build-up in the atmosphere of carbonic fumes caused by the use of fossile fuels.

IV 115

Such research will also be directed at promoting new techniques for the use of conventional resources and achieving energy savings.

The decisions adopted today bear witness to the fact that the Summit countries are ready to shoulder their responsibilities. They urge the other industrialized consumer countries to make efforts on a similar scale and to develop their national energy resources.

Japan adopts as a 1985 target a level not to exceed the range between 6.3 and 6.9 million barrels a day. Japan will review this target periodically and make it more precise in the light of current developments and growth projections, and do their utmost to reduce oil imports through conservation, rationalization of use and intensive development of alternative energy sources.

14: 1-3
DI →

6.2. The European Community reiterates its resolve to restrict 1979 oil consumption to a figure not exceeding 500 million tons (10 million barrels a day) and to maintain Community oil imports in 1979 and 1980 at an annual level not higher than that for 1978. The Community will specify and monitor each member country's contribution towards these annual levels. Canada, Japan, and the US indicate that they will each achieve the adjusted import levels to which they are pledged in IEA for 1979 and will maintain their imports in 1980 at a level not higher than these 1979 levels. There will be quarterly review of targets to take account of special needs generated by high growth.

The seven countries express their will to adopt as maximum goals for oil imports in 1985, the following figures :

- Canada
- France
- RFA
- Italie
- Japon
- UK
- USA

They will fix annual goals on a year by year basis in the meantime. The 1985 goals will serve as reference to monitor the development of alternative sources of energy.

6.5 ~ tons

470.

1979
430

1579

1200

8.6
8.5

CONCLUSIONS
OF THE PRESIDENCY OF
THE EUROPEAN COUNCIL.

(Strasbourg, 21 and 22 June 1979)

I. Election of the Assembly of the European Communities

Wishing to demonstrate the importance and significance which it attaches to the first election of the members of the Assembly of the European Communities by direct universal suffrage, the European Council met on 21 and 22 June in Strasbourg, thereby underlining Strasbourg's European status.

The Heads of State and of Government noted with satisfaction that the elections had gone smoothly and that they had helped to make the peoples of Europe more aware of their solidarity.

They welcomed the intention expressed by their Irish colleague of taking part, as President-in-Office of the European Council, in the inaugural meeting of the new Assembly in Strasbourg on 18 July.

They charged him on that occasion to express their joint conviction that the newly elected Assembly, taking its rightful place among the Community institutions, will serve the hopes and the ambitions of Europe.

II. European Monetary System

The European Council was informed of the conditions under which the European Monetary System had been set up and took the view that the initial stock-taking, now that the system had been in operation for three months, could be regarded as positive.

It attached particular importance to the strengthening of monetary co-operation and the development of the procedures for concerted action put in hand within the appropriate Community bodies. It expressed the hope that the preparations for setting up a European Monetary Fund would be expedited, so that the latter might be able, by the planned deadlines, to make an effective contribution towards stabilizing monetary relations and exchange rates within the Community.

It stressed the major political significance which the introduction of an area of monetary stability has for progress towards the organization of Europe.

III. ENERGY

1. The European Council held an exchange of views on the world energy situation. It stressed the urgent need for action in the face of the serious structural situation brought about by the development of a lasting imbalance between supply and demand for oil and the precariousness of world energy supplies, not only in the long term but also in the immediate future.

The European Council considers it vital that the consumer and producer countries together work out a world energy strategy designed to:

- ensure more moderate and rational use of oil as a non-renewable natural resource;
- permit continued economic growth no longer dependent on increased consumption of oil but based on the development of other energy resources;
- ensure that the developing countries are also able to obtain the energy necessary for their growth.

If such a strategy cannot be worked out, the world will rapidly move towards a large-scale economic and social crisis.

2. The European Council affirms the Community's will to play an exemplary role in this action. It recalls the decisions already taken at its meeting in March 1979 and, in particular, the objective to limit oil consumption in 1979.

The Council also expresses its resolve to continue and step up this effort to limit oil consumption and, through energy saving, the development of indigenous production and the progressive use of alternative energy, to maintain Community imports between 1980 and 1985 at an annual level not higher than that for 1978.

It will not be possible to make an effort of this magnitude unless an effort on the same scale is made at the same time by the other industrialized consumer countries, which must also restrict their oil imports.

Lastly, steps will have to be taken, in co-operation with the oil companies, to ensure that each country can obtain fair supplies of oil products, taking into account the differing patterns of supply, the efforts made to limit oil imports, the economic situation of each country and the quantities of oil available.

78 ← 80 - 81 -
75
=

5. This effort will be accompanied by measures relating to the free markets, where prices bear no relation to those charged by the producer countries.

The Council welcomes the measures taken in this connection by the Council (Energy) to improve market surveillance. As regards the recording of international transactions, it requests the Council (Energy) to take the steps for which it has laid down the principles provided that the other industrialized States are prepared to take similar action. It invites the Member States and the Commission, which will take part in the Tokyo Summit, to examine with the other participants in that meeting what additional steps should be taken. In the light of that examination the Council (Energy) will adopt the appropriate measures.

In the immediate future, the Member States declare their readiness to dissuade companies from lending themselves to transactions on these markets at excessive prices.

So that these efforts may continue in consonance with the growth of their economies, the Community and the Member States will continue and extend the redeployment of energy which has already begun. This redeployment will be based on the strengthening of the energy-saving measures already under way and be such as to enlist the use of nuclear energy, coal and, as soon as possible, other, alternative sources of energy.

- The Community has already made a major effort to save energy. It must strengthen national and Community programmes in order to encourage growth combined with low energy requirements, in particular by means of greater investment efforts in this area.
- Without the development of nuclear energy in the coming decades, no economic growth will be possible. Nuclear programmes must therefore be given strong fresh impetus.

Nuclear energy must be used under conditions guaranteeing the safety of the population. In this connection, the European Council, whilst recalling that this matter is essentially the responsibility of national authorities, considers that existing bilateral and multilateral co-operation should be strengthened and developed. It highlighted the role of the International Atomic Energy Agency in this area.

- In view of the necessary change in oil imports, the use of coal in power stations must be stepped up without delay; its use in industry must also be encouraged. Special attention will be given to technological programmes to devise new processes for the extraction, transport and processing of coal.

- The European Council notes that the situation calls for national and Community research and development efforts in the energy sector to be stepped up by co-ordinating national action and joint programmes so that more tangible prospects may shortly be found for the economical use of new resources, especially solar and geothermal energy. Like nuclear energy, these "clean" forms of energy will contribute to halting the build-up in the atmosphere of carbonic fumes caused by the use of fossile fuels.

Such research will also be directed at promoting new techniques for the use of conventional resources and achieving energy savings.

5. The decisions adopted today bear witness to the fact that Europe is ready to shoulder its responsibilities. It urges the other industrialized consumer countries to make efforts on a similar scale and to develop their national energy resources, failing which the Community's contribution to the world energy balance cannot play its full part.

6. The European Council appeals to the producer countries to take account of the importance of the world energy balance and harmonious economic development.

In conjunction with the other industrialized consumer countries, the Community and the Member States are prepared to establish contacts with the producer countries in an endeavour to define in common supply and demand prospects on the world oil market. To analyse the situation in this way will be to make it possible to pinpoint the difficulties and work out ways and means of remedying them, with all parties acting in concert. This analysis should most particularly concentrate on the oil-importing developing countries. To cut down on the industrialized countries' imports will be to improve developing countries' supply prospects. Furthermore, a major effort will have to be made to boost the output of their energy resources. On this score, the European Council is gratified at the action undertaken by the World Bank and declares its willingness to examine further improvements to its operations.

Over and above these forms of action, the European Council confirms its interest in an overall approach to world energy

problems, on which the President of the United Mexican States has put forward some significant proposals.

7. The European Council instructs the Presidency to inform the other industrialized consumer countries and the producer countries of all the decisions adopted today.

IV ECONOMIC AND SOCIAL SITUATION

The economic policies initiated a year ago in line with the common approach defined in the July 1978 European Council have helped to improve the outlook for growth and price trends in the Community.

The recent substantial changes in the supply and price of oil have however narrowed the margin for manoeuvre in economic policies, as regards both the rate of growth and the level of inflation.

Faced with this situation, the Council adopted the following guidelines:

- the economic policies of the Member States will be even more closely co-ordinated, in order to minimize the inflationary and depressive effects of the increase in oil prices and its consequences for the level of growth and the employment situation;
- co-ordination of budgetary policies for 1980 is of particular importance in this context. Priority should be given to measures which enable a satisfactory level of growth to be attained in the Community through investment, while promoting modernization of economic structures;
- the struggle against inflation will continue. The major internal and external economic equilibria on which the competitiveness and growth of the economies of the Member States depend must be respected. Steps must be taken to ensure that the drain on real resources which the increase in oil prices entails are not compensated by nominal increases in incomes.

IV. (continued)

The European Council took note of the discussions which had taken place in the Council and Commission pursuant to the guidelines adopted at its meeting on 12 and 13 March, to contribute, by Community action, to improving the employment situation.

It took note of the Commission's interim communication on the discussions regarding work sharing.

It confirmed the importance it attached to the active continuation, with the collaboration of both sides of industry, of the work it had asked be undertaken, so that concrete proposals might be worked out rapidly.

CONVERGENCE

The European Council noted the report submitted to it by the Council (Economic and Financial Affairs) on the convergence of Member States' economic performances.

Following comments from a number of delegations, it asked the Commission to submit to the Council a reference paper describing the financial consequences of applying the budgetary system on the situation in each Member State, especially in 1979 and 1980. The study will have to take into account the economic, financial and social effects of each Member State's participation in the Community and the Community nature of the components contributing to the formation of own resources. For 1980, it will take account of the agricultural prices for the 1979/1980 marketing year.

The Commission will at the same time examine the conditions under which the corrective mechanism decided on in 1975 can play its part in 1980 and the extent to which it fulfils the objectives assigned to it.

The Commission will submit its study to the Council so as to enable the Member States to give their opinions and present their requests in concrete form. In the light of the debate and of any guidelines which may emerge from the Council the Commission will present proposals sufficiently early to enable decisions to be taken at the next meeting of the European Council.

VI. JAPAN

The European Council noted that the imbalance in trade relations between the Community and Japan was continuing and deepening. Wishing to expand and strengthen co-operation with Japan in all fields, it expressed the wish that the Japanese Government, bearing in mind the place and the responsibilities of Japan in the world economy, would help by means of appropriate measures to redress a situation which gave particular cause for concern. It hoped that the regular consultations between the Commission and Japan would rapidly result in wider openings for EEC exports on the Japanese market and enable broader and more equitable relations to be envisaged.

REFUGEES FROM INDOCHINA

The Ministers for Foreign Affairs reported on the initiative which they had taken in proposing that an international conference meet under the auspices of the United Nations to discuss the problem of refugees from Indochina.

Stressing the dramatic nature of the problem and the urgent need to find an effective and humane solution, the European Council requested the Ministers to see to it that their initiative is successful and that in the meantime no decision is taken that might aggravate the situation.

File No.....
Department.....
Drafted by HE
(Block Capitals).....
Tel. Extn.....

OUTWARD
TELEGRAM

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[TEXT]

Following from Delegation
MIDDLE EAST

The Americans and Japanese have prepared the text of a possible statement to be put out by the Heads of State and Government, probably on the last day of their meeting. MIFT contains the text. The Secretary of State would like immediate comments on it.

Copies to:-

Ms. 27/6.

NOTHING TO BE WRITTEN IN THIS MARGIN

CONFIDENTIAL

PS to Prime Minister *As 22*

PS to Secretary of State

cc Sir John Hunt
Sir Michael Palliser

PS to Chancellor of the Exchequer

MIDDLE EAST

1. Mr Takashima, Deputy Vice Minister, sent for me and my French and Italian colleagues on 27 June. Mr Chiba, Director General of Middle Eastern and African Affairs was present. He said that in their bilateral talks President Carter and Mr Ohira had agreed that the Summit Conference would have to issue some declaration (not part of the communiqué) on the Middle East. A text (annexed) had accordingly been prepared after discussion between Mr Sonoda and Mr Vance, which had US/Japanese approval. Mr Chiba took us through it. He explained that it had been discussed with Herr Genscher who had made certain personal suggestions (reserving the position of his EEC colleagues). It would be given to the Canadian Foreign Minister when she called on Mr Sonoda that day.

2. It was proposed that the declaration should be cleared amongst officials first with a view to the Foreign Ministers approving it at their lunch on 29 June. They would then submit it to Heads of State and Government for immediate release. (The French Ambassador said that he believed that the Foreign Ministers would be together at a separate table at the Prime Minister's lunch at the Akasaka Palace on 28 June and could discuss it then if they wanted to.)

3. Mr Chiba explained that Herr Genscher's suggestions were:

- (a) In paragraph 1 alter last phrase to read "..... a just and comprehensive peace;"
- (b) In para 2 delete "respect for" and substitute "implementation of" or some such words.
- (c) In para 3 replace "in the area" by the word "involved".

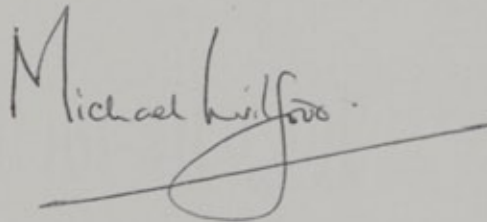
4. Mr Chiba further explained the Japanese Government's own thinking:

- (a) para 2 was the same as the wording used in the communiqué after Mr Ohira's visit to Washington in May.
- (b) para 3 used the words "All possible avenues to peace" to mean not only the present Egyptian/Israeli talks. Other fora might be needed.

/ (c)

CONFIDENTIAL

- (c) para 4 used the words "their independent policies" to make clear that the Japanese were not just followers of the Americans. He pointed out that Japan's aid policy to Egypt was of many years standing and independent of US plans for Egypt. He added that paragraph 4 reflected also a remark by President Carter to Mr Ohira that he would not allow his re-election campaign to deflect him from his Middle Eastern objective. The Japanese welcomed this.
5. The French Ambssador said that he did not think his Government would like the closing (unnumbered) paragraph. Why single out the President? What about President Sadat and others? Mr Chiba said that it was because President Carter was at the meeting.
6. Mr Chiba asked for earliest possible comments on the draft (his direct line at the MFA is 581-2954). He was happy to chair a meeting if necessary.

A handwritten signature in cursive script that reads "Michael Wilford". The signature is written in dark ink and is positioned above a horizontal line that extends to the right.

Michael Wilford

27 June 1979

June 27, 1979

(Confidential)

The Chiefs of State and Government of the seven nations meeting in Tokyo, in connection with their discussion, have reaffirmed the following:

Whereas the issue of peace in the Middle East is of the utmost importance for not only the peoples and states of the area but also for the entire world including the Seven:

1. It is absolutely essential that peace in the Middle East must be a comprehensive peace;
2. This should be brought about in full accordance with all the principles of the United Nations Security Council Resolutions 242 and 338, and through the recognition of and respect for the legitimate rights of the Palestinian people;
3. All possible avenues to peace should be explored, taking into account the aspirations of all the peoples in the area including the Palestinians;
4. Continuing their independent policies, the seven Governments will work to achieve the common goal of peace.

The British, Canadian, French, German, Italian and Japanese Governments deeply appreciate President Carter's contribution to peace in the area and welcome his determination to work for a comprehensive settlement.

TOKYO SUMMIT

US ENERGY POLICY AND STATISTICS

Attached are notes on:

- (a) energy statistics for the US and other Summit countries on per capita energy demand and the ratio of energy demand to GDP;
- (b) tables on oil imports and gasoline consumption over recent years;
- (c) crude oil decontrol;
- (d) energy conservation in the US;
- (e) the entitlement scheme;
- (f) US R & D policies.

Department of Energy
26 June 1979


UNITED STATES ENERGY STATISTICS

In Million Barrels Per Day

	1973	1974	1975	1976	1977	1978	1979(1st Qtr)
Total Petroleum Imports (1)	6.2	6.1	6.0	7.3	8.8	8.0	8.4
Total Crude oil Imports (2)	3.2	3.5	4.1	5.3	6.6	6.0	6.3
Demand for Motor Gasoline	6.7	6.5	6.7	7.0	7.2	7.4	7.2
Total Domestic Demand (Refined Petroleum Products)	17.3	16.6	16.3	17.5	18.4	18.8	19.9

(1) Crude oil and refined products but excluding Strategic Petroleum Reserve imports

(2) Excludes Strategic Petroleum Reserve imports which averaged between 100,000 and 200,000 b/d in 1978 and 1979



ENERGY STATISTICS - SUMMIT COUNTRIES

	TOTAL ENERGY DEMAND IN TONS OIL PER CAPITA	RATIO OF TOTAL ENERGY REQUIREMENT TO GDP
CANADA	8.77	1.03
UNITED STATES	8.29	.96
GERMANY	4.25	.51
UNITED KINGDOM	3.78	.87
FRANCE	3.36	.47
JAPAN	3.07	.51
ITALY	2.46	.71

CIP2

25 June 1979



CRUDE OIL DECONTROL

General

1. President Carter's initial National Energy Plan launched in 1977 visualised some form of Crude Oil Equalisation Tax which would bring the price of domestic crude in the United States to world levels. The tax ran into difficulties in Congress and was not included in the final package of the National Energy Act announced in October 1978. At the Bonn Summit the President pledged to bring the price paid for oil in the US to world levels by the end of 1980.


2. Under the Energy Policy and Conservation Act of 1975, the limitation on the amount by which oil prices could be increased became discretionary with the President and, from the end of September 1981, price controls on domestic crude oil were due to run out. In support of his Bonn pledge and the commitment made in the IEA Governing Board in March 1979, President Carter included a programme of phased decontrol of oil prices in his April energy package.

Definition

3. Oil under price control fell into two basic categories: lower tier, or old oil, which is defined as oil discovered and in production prior to 1973, and upper tier, or new oil, which includes all non-exempt oil found thereafter. Certain categories of oil were exempt from price control including oil from wells producing less than 10 b/d (stripper), Alaskan North Slope and oil from US owned reserves (ie Elk Hills). About two-thirds of domestically produced oil falls under price control.

Decontrol Schedule

4. - As of 1 June, newly discovered oil would receive world market price and 80% of production from marginal wells may be sold at upper tier price.
- On January 1, 1980, the remaining 20% of marginal oil will be released to upper tier price.
- Wells employing tertiary recovery techniques may receive world price from 1 June 1979, from 1 January 1980 producers investing in enhanced recovery projects may release specified volumes of lower tier oil at upper tier prices to finance the investment.
- From 1 January, 1980, upper tier oil prices would increase in equal monthly increments to reach world levels on 1 October 1981.

- 
- Lower tier oil would be permitted to decline by $1\frac{1}{2}\%$ ^{per month} from 1 June (the rate experienced in lower tier wells in 1978), and 3% per month from 1 January 1980.

Windfall Profits Tax

5. To prevent excessive new revenues from flowing to oil producers, the President is asking Congress to enact a Windfall Profits Tax of 50% which would be applied to producer revenues from the sale of uncontrolled oil which are attributable to any future OPEC price increases or from the sale of lower and upper tier oil which are attributable to decontrol. The revenue from the Windfall Profits Tax would be channeled into an Energy Security Fund designed to assist low income groups affected by the removal of price controls, the development of mass transit projects and investment in energy technology such as oil shale, wood, solar and synthetic fuels.

CIP2

25 June 1979



ENTITLEMENT SCHEME

General


1. The entitlement programme is intended to spread the benefits of price controlled US domestic crude oil amongst all US refiners. Some refiners have access to unusually large amounts of oil at lower tier prices and would have a big advantage over refiners more heavily dependent on upper tier oil or on imports. Because of the product price control rules, such privileged refiners would be required to price their products at a low level, thereby becoming unduly competitive. Alternatively, if price controls were removed, the privileged companies could make windfall profits. Thus, refiners who have access to more than average amounts of lower priced oil pay a premium to refine it. This premium is handed over to those refiners who have higher crude oil costs. In practice, refiners with large amounts of lower tier oil buy 'entitlements' from companies with less than average amounts which permit the former to refine their excess supplies of low cost crude.

2. In February 1979 the prices for the various categories of oil in the US were:

Lower Tier		\$ 5.76
Upper Tier		\$12.78
Stripper		\$14.88
Domestic Average		\$ 9.69
Imported Average	(est)	\$15.25
Composite Refiner Aquisition		\$13.42
Cost		

Product Subsidy

3. The entitlement programme is adjusted to take account of special problems associated with the domestic market: eg: small refiners, Puerto Rican petrochemical plants and Californian refiners using low quality crude. It also was adjusted to take account of the East Coast residual fuel market and again on 24 May to deal with the Caribbean middle distillate market. The average imports of middle distillates into the US are between 150 and 200 thousand barrels per day.



UNITED STATES CONSERVATION PROGRAMMES

General

1. The striking feature of energy conservation in the US is the range and diversity of the programmes now in place. Many are highly innovative with orientation to R&D and commercialisation of conservation technologies. Present DOE government funding for conservation in the FY 1979 budget is over \$1 billion. The effectiveness of Federal efforts is hampered by relatively modest progress by some states and a lack of public awareness of the seriousness of the energy situation. Conservation measures have been included in the Energy Policy and Conservation Act, 1975 (EPCA), the National Energy Conservation Policy Act, 1978 (NECPA) and in President Carter's April energy package.

Transportation

2. Over half US total petroleum consumption is used for transport and more than 60% of that consumed by passenger cars. The EPCA(1975) laid down fuel economy standards for new car fleets of 27.5 mpg in 1985. This Act was reinforced by provisions in NECPA (1978) which increased the penalty for non compliance and provided a graduated Federal tax on cars getting less than a certain mileage (eg. \$ 500 on cars getting less than 13 mpg in 1980 which would increase over time to \$ 3,850 on a car getting less than 12.5 mpg in 1986). The transportation energy conservation programme is aimed at eliminating, as far as possible, dependence of transportation modes on petroleum based fuels.

Residential/Commercial Sector

3. The residential building sector currently accounts for 23% of total energy used: about 70% of which is for climate control, 20% on heating water and the remainder on lighting and appliances. About one quarter of the proposed budget for 1979 is for programmes in this sector which are aimed at increasing the energy efficiency of new and existing buildings, use of waste heat and the improvement of appliance efficiency. Programmes are also directed towards performance standards; utility conservation (whereby utilities are required to inform customers of suggested energy conservation and solar energy measures and relative costs and savings); weatherisation grants for insulation of lower income homes; and improvement of energy efficiency in schools and hospitals. In his April 1979 energy package, President Carter proposed mandatory building thermostat



settings for non-residential buildings which must set thermostats no higher than 65° in winter and no lower than 80° in summer. Federal agencies were also directed to reduce energy consumption by 5% over the previous year.

Industry

4. Industry accounts for 42% of the energy utilised in the US. The underlying strategy on conservation appears to be to reinforce the response by industry to the price mechanism. The programmes are aimed at increasing productivity while reducing energy waste and at monitoring progress. There are no mandatory conservation standards for industrial equipment, but DOE can order test procedures and labelling requirements for certain equipment.

Utilities


5. Under the April energy package, utilities are called on voluntarily to switch to natural gas or to use available coal, nuclear and hydro generated electricity to replace that generated by oil fired plants. If voluntary measures do not work, mandatory orders may be made.

Demand Restraint

6. The US programme to reduce oil imports included measures to increase domestic production and switch from oil to other fuels as well as price measures and other conservation measures. Savings in 1979 are expected to be:

- a. Energy Prices Controlled price of domestically produced oil phasing out from June. Saving, 60-80 thousand b/d.
- b. Indigenous Production Increased production of oil from Elk Hills and Alaskan North Slope. Incremental increase, 20-170 thousand b/d.
- c. Fuel Switching Utilities switch to natural gas and non-oil fired capacity and relaxation of emission standards. Savings, 350-600 thousand b/d.
- d. Demand Reduction Multimedia campaign: Saving 200-250 thousand b/d.
Reduction in Federal Government energy use: Saving 215-410 thousand b/d.

If these efforts fail to achieve demand restraint goals (total 1 mbd by end 1979), DOE has the authority to impose allocation and rationing.



UNITED STATES RESEARCH AND DEVELOPMENT

Budgetary Trends

1. The overall government energy R D & D budget has increased from \$2466 million in 1977 to \$3235 million in 1978 and is projected at \$3515 million in 1979. In 1977 dollars, the 1978 budget represented a 23.5% increase over the 1977 level but the 1979 budget represents only a 2.1% increase over the 1978 level. The slow down results from avoiding activities which are more appropriately done by the private sector (eg. solar heating), avoiding duplication (eg. on coal gasification) and avoiding controversial techniques (Clinch River FBR). Budget expenditure in major technology areas and at current and 1974 prices is shown at figures 1 and 2 attached.

Programmes

2. Several technology areas have increased budgets for 1979 over 1978, including:
- a. Conservation A 32% increase to \$233.3 million which will provide greater emphasis on R&D relating to building performance standards, co-generation, waste heat utilisation and the development of advanced propulsion systems for cars, electric and hybrid vehicles and improve techniques for storing energy.
 - b. Fossil Fuels A 7% increase to \$608.6 million, which will focus on enhanced development of domestic fossil energy resources with emphasis on technologies aimed at reducing coal pollution.
 - c. CO2 Research Increased funding to determine whether increased amounts of CO2 in the atmosphere due to fossil fuels may reach levels which could cause changes in the world climate.
 - d. New Energy Sources A 25% increase to \$512.7 million, for research into solar photovoltaics, solar air conditioning, wind and geothermal and the development of small scale appliances using wood as a substitute for oil and natural gas.
 - e. Magnetic Fusion A 5% increase to \$449 in the research into approaches for magnetic confinement.
3. The nuclear fission R&D is being redirected to systems that the US believe minimise risks of nuclear proliferation. Increased means will be provided to improve safety margins in current generation reactors and in developing nuclear waste disposal.



National Energy Plan II

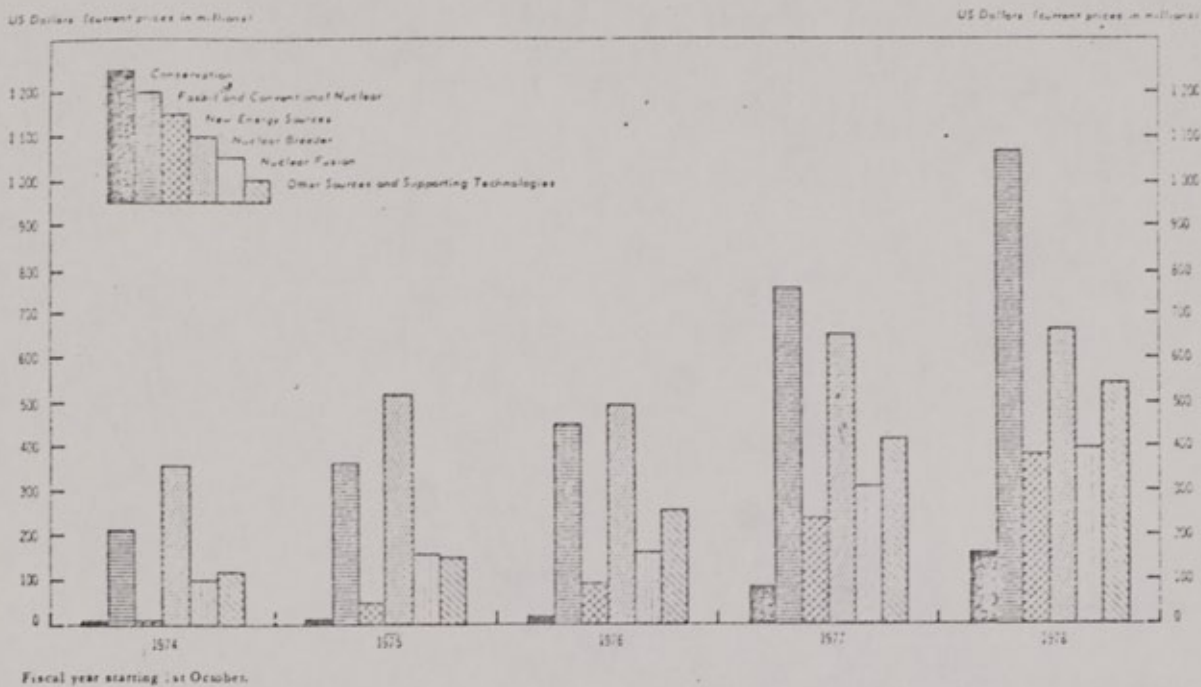
4. NEP II is essentially an analytical and discussion document which does not lay down production and consumption targets but outlines the energy strategy for security of supply in the short, medium and long term. In the short term up to 1985, the strategy is aimed at reducing dependence on imported oil, realistic pricing policies, the elimination of regulatory delays for energy projects, diversification of import sources and building up the strategic petroleum reserve. The medium term, 1985 to 2000, is seen as the period in which a transition must be made to new domestic sources of fossil fuel production - particularly oil shale, 'unconventional' gas (ie. geopressurised, tight sands, Devonian shale), coal gasification/liquefaction and enhanced oil recovery. The long term, past 2000, when the new medium term sources will be running down, requires a further transition to renewable/inexhaustible sources of energy, including advanced nuclear technology. R & D will have to be carried out on all phases of the strategy.

A Possible Solution

5. When Department officials met Deputy Secretary O'Leary early in June, he explained his '10 cent' solution to the US energy problem. The concept was for a major synthetic fuel programme financed by a 10 cents a gallon tax on gasoline which would yield \$15 billion per year. In his view, this could yield 5 mbd of domestic oil and gas production from oil shale and coal in 10 years. The idea is not being pressed directly by the Department of Energy but may well be inspired by them.

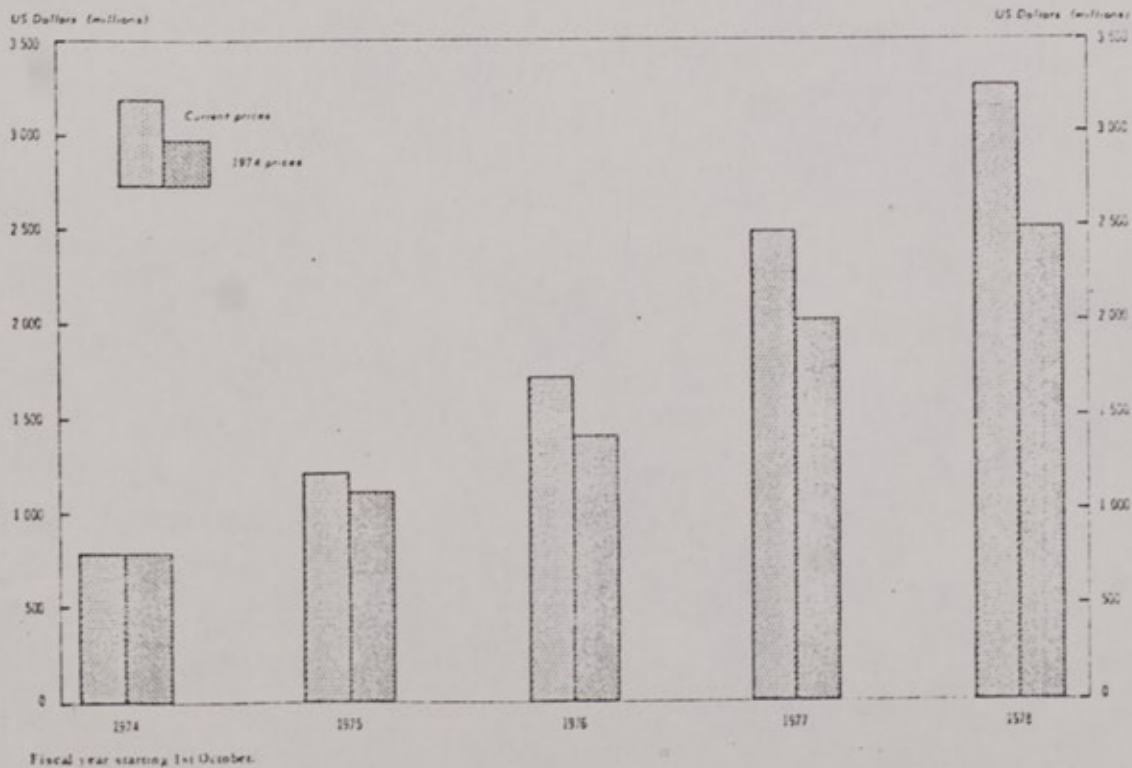
UNITED STATES

Figure 1 EVOLUTION OF GOVERNMENT ENERGY R & D BUDGETS IN MAJOR ENERGY TECHNOLOGY AREAS



UNITED STATES

Figure 2 EVOLUTION OF GOVERNMENT ENERGY R & D BUDGETS AT CURRENT AND 1974 PRICES



cc Sir John Hunt
Sir Michael Palliser
Sir Kenneth Couzens

TOKYO - POSSIBLE TALKS WITH OPEC

1 Do we want to try for discussions

Yes clearly; in the immediate and longer term if any balance of supply and demand is to exist except as a result of economic recession some understanding with oil producing countries is needed. That won't guarantee a secure future but its the best hope there is.

Possibly the UK as consumer and producer might be able to establish contacts more easily than some but in the long run only the US has the potential power to exert lasting influence.

2 If contacts, with whom?

No real hope of talking with OPEC collectively. Too disparate in their production, power to absorb resources, and politics. Need to talk with a collection of producers who together have enough muscle to control the market e.g Saudi Arabia + Kuwait + ?Iraq.

3 What is the basis for contact?

This is very much a matter of political judgement.

First, the Summit can show a general willingness to talk with oil producers as did the EEC in their Strasbourg communique. This probably has only a negative value with no element of persuasiveness and if done in the wrong paternal terms could only aggravate.

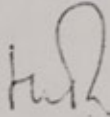
Second, OPEC always asks us to cut down on consumption. The various targets already agreed, e.g at Strasbourg and in the IEA are probably as much as we can do in the shorter term. If these targets are endorsed or improved on in Tokyo this provides some basis for contact. But probably not much when set against the shorter term interests of many producers. No point in setting unrealistic high targets which will deceive nobody - only a major emergency will make emergency measures acceptable.

Can we offer more conditionally? See note attached. Great advantage to the West in accepting that oil prices in real terms will rise (we have here talked about at least twice the present real price by 2000) but we need them to rise slowly and smoothly not fast and irratically. Could consider offering to OPEC that we agree the real price of oil should be maintained - it only just got back to real 1974 levels this year. But this not all that attractive to OPEC who will expect more. May be offer to accept maintenance of real prices + something more over a period. Always risk that any such offer would lead to prices higher than would otherwise be the case. But perhaps the intrinsic risk not all that great since OPEC could easily tear up any agreement if in a dominant position.

We should clearly expect as basis for any such offer some guarantee on supply and of a controlled market, i.e no feeding of the crude spot market.

4 Can we pray in aid the LDCs ?

They are being severely damaged and compensating action taken by the West and oil producers by no means offsets the effect of oil price rises. Could it be interesting to OPEC to associate with them in developing LDC energy resources? Alternatively, dare we risk cutting down, and saying we are doing so, on aid programmes because the oil price rises have severely reduced our ability to do so?



Sir Jack Rampton
Department of Energy
26 June 1979

Seen and approved by my Secretary of State



C O N F I D E N T I A L

WHAT THE WEST COULD OFFER OPEC

The notes below deal with:

- A The indexation of oil prices
- B Guarantees for OPEC assets
- C Transfer of technology
- D Joint aid to developing countries

It will be seen that none of these look particularly promising. A fifth item would of course be military protection. But in so far as this is practical at all it is something which only the US can provide.

C O N F I D E N T I A L



C O N F I D E N T I A L

A. INDEXATION OF OIL PRICES

1. When OPEC members argue for the indexation of oil prices they are essentially complaining that the West has failed to control inflation adequately (or sometimes that the West has deliberately used inflation in order to erode the real price of oil).

2. The indexation of commodity prices to the price of industrial goods is of course a well established theme of the North/South dialogue. Indexation of oil prices (ie a mechanism which would automatically adjust oil prices to the movement of, say, an indicator of a representative basket of OPEC imports) is something which oil producers could impose autonomously through production controls if they wished to do so. So far they have not, because of the complexities of the mechanism needed and because of Saudi opposition. We would have no interest in encouraging the producers to move in this direction because, among other reasons:

- (a) oil prices are one element in the cost of manufactured goods. Indexation would risk creating a circular situation in which it would be difficult to stop oil prices spiralling downwards. It would act as a price ratchet and make it very difficult ever to adjust real oil prices.
- (b) it would place the onus for controlling oil prices onto the industrialised countries. We (and not the producers) would be blamed by the Third World for failing to control domestic inflation and thus pushing oil prices up.

3. This is not to say, however, that it would not be in the West's interests to explore the possibility of a more general understanding about oil price movements, particularly one which aimed at avoiding sudden and excessive oil price increases. The long term trend of oil prices is upwards. By the end of the century oil may be more than twice its present real price. But the path of oil prices over the intervening period is very uncertain. We believe that a gradual transition is economically less disruptive than a series of sudden price increases.

B. GUARANTEES FOR OPEC ASSETS

4. Some OPEC members (chiefly Saudi Arabia and the Gulf States) hold assets in the industrialised countries, and to the extent that the value of or return from these assets suffer through excessive increases in oil prices, it might be supposed that this would act as a moderating influence



C O N F I D E N T I A L

- 2 -

on OPEC pricing decisions. Unfortunately, however, the damage which oil price increases do to OPEC assets in the West is very quickly outweighed by the additional revenues which they generate.

5. Indexation of OPEC assets was considered by the Conference on International Economic Co-operation in 1977, but no progress was made. There is no existing mechanism which could be used to guarantee the real value of OPEC assets. It would be possible to create one, but the institutions with which OPEC members deposited funds would in turn have to make indexing arrangements for its lending activities. The result could be an appreciable extension of index linking in western economies, and/or the index linking of commercial lending to developing countries (including some OPEC members, such as Algeria and Nigeria, who are substantial net borrowers in the international financial markets).

C. TRANSFER OF TECHNOLOGY

6. Oil producers need substantial infusions of Western technology and expertise to develop their economies (and in some cases to exploit their oil and gas resources to best advantage); many of them of course simply buy the technology they want. Transfer of technology is a well established theme of the North/South dialogue. Oil producers will certainly want to introduce it into any discussions with industrialised consumers. Essentially their objective will be to obtain arrangements which will allow them access to technology on terms more favourable (eg in relation to licensing agreements) than the commercial arrangements they are already free to enter into with Western companies. It would be difficult to confine any concessions in this field to the oil producers; it would almost certainly be necessary to extend them to developing countries generally.

D. JOINT AID TO DEVELOPING COUNTRIES

7. A number of oil producers give substantial amounts of development aid (though it is heavily concentrated on Arab or other Muslim countries). Details are in many cases incomplete and it is difficult to make a direct comparison with development assistance by Western countries.



C O N F I D E N T I A L

- 3 -

8. "Trilateral" development assistance (ie a combination of OPEC money and western technology in development projects in LDCs) has a number of attractions, and the possibilities would be worth exploring in the course of consumer/producer contacts.

DEPARTMENT OF ENERGY

26 June 1979

C O N F I D E N T I A L

TOKYO SUMMIT : ENERGY

SUPPLEMENTARY BRIEFING ON UK TARGET
OIL SAVINGS IN 1979

The IEA Governing Board agreed on 2 March that member countries would reduce their demand for oil on the world market by 2 mbd or about 5% of the pre-crisis estimate of consumption. The Energy Council of the EEC shortly afterwards agreed that there should be a target reduction in EEC oil consumption of 25m tonnes in 1979. The UK share of this target has been expressed as 4.7m tonnes. The note at Annex gives details of expected oil consumption, production and savings in the UK in 1979.

2 If it is decided that international action to restrain oil demand and prices in future years is going to be necessary, consideration needs to be given to the ways in which we should wish to see any future international oil demand restraint targets expressed. From a UK standpoint the IEA formula which is expressed in terms of a reduction in demand on the world market, ie import savings, preserves the possibility of increasing domestic oil production as an alternative to reducing oil consumption. This possibility may not in practice be available to us because the EEC have already chosen the course of reductions in consumption, and, indeed, it might be that with the likelihood of the real cost of oil increasing as world resources become more scarce, it would in any case be right to pursue a policy of stringent economies in oil consumption and to conserve indigenous oil supplies. But our objective should be to preserve as much freedom as possible to choose whichever policy seems most advantageous to us at the time. It is accordingly recommended that we should press for demand restraint objectives to be expressed as import targets whether for geographical sectors or individual countries.

Department of Energy
26 June 1979

TOKYO SUMMIT

OIL CONSUMPTION, PRODUCTION AND SAVINGS IN THE UK IN 1979

1 UK anticipated 1979 oil consumption as projected prior to the IEA/EEC decisions on demand restraint; and anticipated fourth quarter consumption.

1979:- 97.0m tonnes, or 1.9 mbd

This estimate was made in February 1979, and takes into account the effects of below-average temperatures during the first part of the quarter.

1979 fourth quarter consumption:- 25.5m tonnes, or 0.51 mbd
(1979 first quarter consumption was actually 26.7 tonnes,
or 0.53 mbd)

2 UK's originally estimated domestic production of oil in 1979 and in the fourth quarter of 1979.

1979:- 76m tonnes, or 1.5 mbd

1979 fourth quarter:- 21m tonnes, or 0.425 mbd

3 UK's presently estimated oil import savings (conservation plus added domestic oil production) as compared with no. 1 above, in compliance with the IEA/EEC decisions, in 1979 and fourth quarter 1979

First quarter:	0.3m tonnes, or 6,000 bd
Second quarter:	1.1m tonnes, or 22,000 bd
Third quarter:	1.9m tonnes, or 38,000 bd
Fourth quarter:	<u>1.7m tonnes</u> , or 34,000 bd

5.0m tonnes total estimated savings

Note: the second quarter figure includes 0.4m tonnes, and the fourth quarter figure 0.7m tonnes, estimated savings from the public sector and the general public appeals for oil savings. These increments can be utilised or not, according to whether the balance of advantage lies between demonstrating that the UK can reach the required savings of 4.7m tonnes on the EEC basis, or will be able to reach it only with difficulty. The estimates are necessarily speculative.

Breakdown of Estimated Savings

Quarter of 1979	m tonnes				Totals	
	1	2	3	4		
Reduction in power station oil burn	-	0.8	1.0	0.45	2.25	-
Effect of higher prices	-	0.1	0.25	0.30	0.65	-
Effect of lower growth	0.3	0.2	0.25	0.25	1.00	-
Effect of Government economy drives in the public sector, and to the general public	-	-	0.4	0.70	1.10	-
	<u>0.3</u>	<u>1.1</u>	<u>1.9</u>	<u>1.7</u>	<u>5.00</u>	

4 Presently estimated net oil imports in 1979 and the fourth quarter of 1979:- 16m tonnes, or 0.32 mbd

1979 fourth quarter:- 3.5m tonnes, or 70,000 bd

TOKYO SUMMIT

Note by the Department of Energy

US COAL

1. The US has identified reserves of some 1,000b tonnes of hard coal (equivalent to over 1000 years production at current levels). (The comparable UK figures are 45b tonnes and 300 years).

Output in 1978 (595m) was badly affected by the unions strike.

Output was 627m tonnes in 1977 and the US Department of Energy estimate that this will rise to 937m tonnes by 1985 and 1813m tonnes by 1995 (somewhat higher than IEA projections).

2. At present the major part of production is in the East. This will nearly double by 1995 but Western coal production (largely sub-bituminous with a 30% lower calorific value than bituminous coal) will rise much more rapidly. (See Annex 1 - produced by the US Department of Energy).

3. In Eastern states half the output is opencast and half underground. In the West opencast predominates. In total about two-thirds is opencast and this will increase.

4. Although there have been arguments put forward suggesting constraints on production the general American and IEA view seems to be that US coal production is at present demand constrained. The possible problems of production are:-

- (i) environmental legislation on land restoration (opencast); this is thought to add about 50c/tonne to production costs but does not restrict output;
- (ii) leasing of Federal lands; there has been a slow down in the granting of new leases but it appears that sufficient land has been leased to allow all necessary expansion of production for some years to come;
- (iii) lack of transport; as Western reserves are opened up long distance transport will become more important. Pipeline projects with a total carrying capacity of about 100m tonnes/year ^{are} are in various stages of planning or study. These should offer

very cheap transportation rates. (See Annex 2). Difficulties with water supplies are a key element here but a recent study for the ECE suggests that this can be overcome with little addition to the coal transport charge.

5. The US coal industry is entirely private with some 6,000 mines. There appears to be no lack of willing investors. Overseas investment is commonplace (German, French, Japanese and UK) with the major oil companies all participating notably BP who, through their Sohio interest, control the largest single mining organisation. Equipment is not a problem. Opencast machinery and current underground (bord and pillar) equipment is US made. Longwall equipment (in increasing use) is provided largely by Germany (about two-thirds), the UK (about a quarter) and France.

6. The real conflict in the US is in consumption by power stations. Increased consumption is held back by tight controls on emissions (mandatory scrubbing). These are causing problems not only with new developments but also with existing stations which are unable to meet conversion deadlines. As more Western coal, which has a high sulphur content becomes available the problem will be exacerbated. Nevertheless the US Department of Energy envisage a real increase in consumption by electricity utilities (see Annex 3).

TOKYO SUMMIT

Note by the Department of Energy

US EXPLOITATION OF COAL FOR GASIFICATION

The US has plenty of natural gas at present, is spending more on R & D (and pilot plants etc) into coal gasification than all the rest of the world put together and is co-operating strongly with us and the Germans in this field.

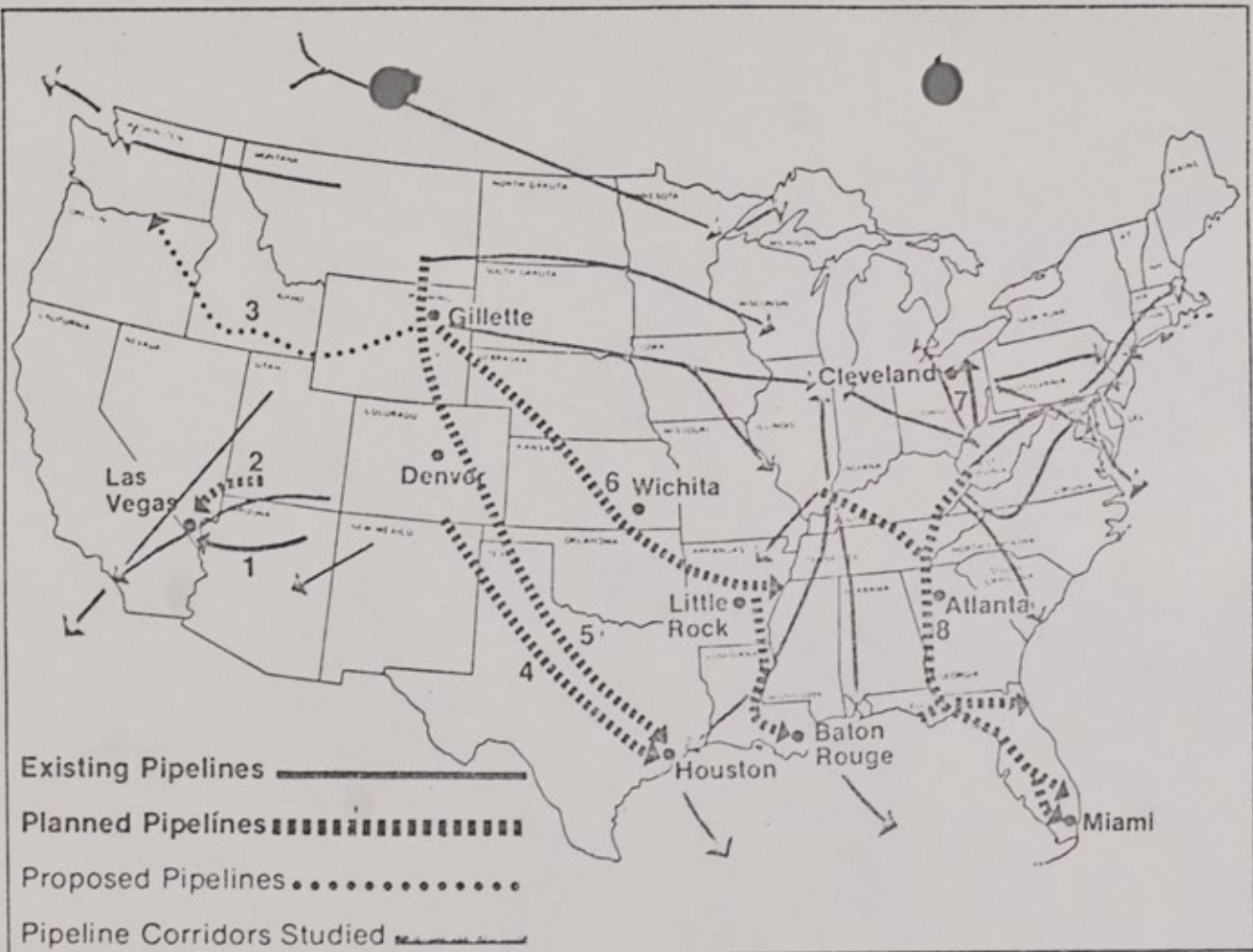
As far as commercial development of gasification is concerned, we estimate the cost of substitute natural gas in the USA with present technology to be about 20-30 pence per therm \angle £4.30 - \$7.00 per million Btu₇. This cost is very significantly higher than the cost of natural gas.

US hesitation in building full-scale proven plant has in part been constrained by environmental and institutional factors. But perhaps the most important factor is the realisation that the so called "high cost" reserves of natural gas are still cheaper than SNG is at the present stage of development.

U.S. Coal Production and Consumption, 1962-1995

(Millions Metric Tons)

	Historical				Projected		
	1962	1967	1972	1977	1985	1990	1995
<u>Coal Production</u>							
Eastern Bituminous	364	475	482	478	603	703	840
Western Bituminous					100	113	152
Western Subbituminous	16	23	48	122	145	417	682
Western Lignite	3	4	10	27	89	94	139
Total	383	502	540	627	937	1329	1813
<u>Coal Consumption</u>							
Metallurgical Coal	67	83	79	70	78	83	87
Electric Generation	173	247	318	432	665	967	1249
Industrial	85	90	65	54	113	178	277
Residential&Commercial	25	15	8	6	3	3	2
Synthetics	0	0	0	0	12	25	119
Domestic Consumption	352	436	470	563	871	1257	1734
Exports	34	44	51	47	67	74	81
Net Changes In Stocks	-4	+21	19	17	-1	-1	-1
Total	383	502	540	627	938	1329	1813



Pipeline System	Length	Annual Capacity
1. Black Mesa Pipeline	273 miles	4,800,000 tons
2. Alton Pipeline	183 miles	11,600,000 tons
3. Gulf Interstate-Northwest Pipeline	1,100 miles	10,000,000 tons
4. San Marco Pipeline	900 miles	15,000,000 tons
5. Wytex Pipeline	1,260 miles	22,000,000 tons
6. ETSI Pipeline	1,378 miles	25,000,000 tons
7. Ohio Pipeline	108 miles	1,300,000 tons
8. Florida Pipeline	1,500 miles	15-45,000,000 tons

COAL COMMITTEE

Working Party on Coal Trade

(Twentieth session, 21 to 22 June 1979)

Item 3 of the provisional agenda

U.S. Electricity Demand Patterns and Utilities
Fuel Consumption

(Quadrillion Btu Per Year)

	<u>Historical 1977</u>	<u>Projected 1990</u>
<u>Assumptions</u>		
Demand		
Residential		
Quantity	2.23	3.34
Share (%)	33.4	29.1
Commercial		
Quantity	1.83	3.09
Share (%)	27.5	27.0
Industrial		
Quantity	2.58	5.02
Share (%)	38.8	43.8
Transportation		
Quantity	0.02	0.01
Share (%)	0.20	0.10
Total Electricity	6.66	11.45
Share of Final Consumption (%)	11.0	15.5
Electric Utilities Fuel Consumption		
Distillate Fuel		
Oil	0.45	0.41
Residual Fuel		
Oil	3.58	2.76
Coal	10.27	22.05
Natural Gas	3.29	0.51
Nuclear Fuel	2.63	9.43
Hydro Power	2.29	3.15
Geothermal/other	na	0.34
(Conversion and Transmission and Distribution Losses)	15.86	27.21

TOKYO SUMMIT

Notes on R & D - present state of technology and costs:

- (A) Oil from Coal
- (B) Gas from Coal
- (C) Fluidised Bed Combustion

Department of Energy
26 June 1979

C. FLUIDISED BED COMBUSTION

1 The aspect of this technology that engages international interest is that, in certain circumstances, it may have advantages over established coal technology for steam raising for electricity production. It is a very effective means of burning inferior fuels of high and/or variable ash content; it offers a potentially attractive means of burning sulphur-bearing fuels without the emission of sulphur dioxide to the atmosphere and with less pollution from nitrogen oxides; and it opens up one way of burning coal with higher overall efficiency if combustion is carried out under pressure.

2 The two latter advantages are of especial interest to the USA because of their environmental legislation on pollution from power stations and the future seen there for a massive expansion in the amount of coal burning power stations using their cheap mid-west coal. There is also some interest in West Germany, and the basic research and development work springs from the UK. Those three countries are co-operating in the building at Grimethorpe in the UK of an experimental pressurised fluidised bed facility under the auspices of the IEA, due for commissioning next year. National R & D facilities also exist, on the small scale, in several countries.

3 The potential for exploitation to the UK is at present uncertain. The established technology used by CEGB for burning coal satisfies the UK environmental legislation although it has lead to questions of trans-border transport of pollution. And

/the nature

the nature and quality of UK coals does not, as such, require a departure from established technology.

4 Pressurised fluidised bed combustion is not the only coal-burning technology under development for dealing with the problems of thermal efficiency and gaseous emissions. Both the USA and West Germany are also developing alternatives based on coal gasification and recent evaluations, though necessarily imprecise, have tended to favour the gasification route. A similar comparison is being made for the UK by the CEEB and NCB and it seems unlikely, at present, that under our conditions either will show a sufficient advantage to warrant the very expensive development effort that would be entailed.

5 Outside the power generation field, fluidised bed combustion is under active development in the UK and USA for industrial heating. The incentive is the potential it has to improve the economics of coal relative to fuel oil for process heat and steam. This application is of major importance in both countries, and is being developed in both public and private sectors. The technology is not yet sufficiently advanced to warrant a big injection of public money, but may reach that state within a couple of years to promote a more rapid market penetration than would otherwise take place.

Department of Energy
26 June 1979

TOKYO SUMMIT

Note by Department of Energy

A. OIL FROM COAL

By the process of coal hydrogenation, coal can be converted into a substitute for crude oil (syncrude) which can be refined by oil industry technology into a range of liquid transport fuels and chemical feedstocks.

2. The process is not yet commercially developed. Several variants are being developed in a number of major countries, notably the U.S.A., West Germany and the U.K. Japan has opted to buy a stake in U.S.A. technology.

3. The U.S.A. is furthest ahead with R & D. Spurred on by the combination of large reserves of low-cost coal, shortage of indigenous oil, and environmental legislation acting heavily against the use of raw coal for power generation, a massive R & D programme was launched several years ago. One 30 ton/day pilot plant is in operation, two 200 ton/day pilot plants are under construction, and three 10,000 ton/day commercial scale plants are being planned. The U.S. Department of Energy budget for research, development and demonstration for the technology is currently running at about \$120 millions. The estimated cost of syncrude production in the U.S.A. is about \$25 - \$32 per barrel and the capital investment required for one full size commercial plant (to yield 25 million barrels a year) would be about \$2000 million. Given the unattractive economics relative to the price of conventional crude the speed of exploitation is likely to depend critically upon the attitude of the U.S.A. Government towards the provision of public sector financial support.

4. The incentives for short-term exploitation in the U.K. are much weaker. With our more expensive coal, syncrude would cost about \$35 - \$45 per barrel at current U.K. coal prices. The need for a crash R & D programme has not existed. The state of U.K. technology is that 2 small (25 ton/day) pilot plants are being designed to prove two NCB processes. They will cost £30 million to build and operate and could be operational by 1983. The need for substantial investment in larger demonstration plants will not arise much before that date, when we will be technologically ready to consider scaling up to one or two plants costing about £100 million each.

5. The Federal Republic of Germany is in a similar position as the U.K. A small test coal liquefaction plant is being built at a cost of about £5½ millions

B.

GAS FROM COAL

1. As with oil from coal, the USA is further ahead with R & D and for much the same reasons. The crash R & D programme launched several years ago has resulted in four different process routes being developed to the stage that detailed design and feasibility studies have been carried out. The R & D provision for gasification in the Federal budget is some \$130 million.
2. The competitive position in the USA of substitute natural gas (MNG) from coal is weak. The estimated ex-works cost would be 20-30 p/therm (cf. UK current landed price of about 7 p/therm for natural gas) and a commercial size plant would require an initial investment of some \$1300 millions. Exploration in the USA. is held up more by these economic difficulties than by the state of the technology.
3. In the UK, our domestic need for SNG from coal is not expected to arise until near the turn of the century. Nevertheless, the British Gas Corporation have played a very significant part in advancing SNG technology through seizing the opportunity offered by a redundant full scale Lurgi gasification plant at Westfield in Scotland to do development work under contract for the USA. That development work brought one of the front runners for exploitation in the USA. Further development work is continuing at Westfield at British Gas expense and an annual cost of some £3 millions a year. A new gasification route is also being evaluated.

To produce
about 15 mtoe
pa.



UK ENERGY CONSERVATION PROGRAMME

The UK's energy conservation programme is designed to save 11 million tonnes of oil equivalent (mtoe) a year after 10 years. So far some £450m has been allocated for the first four years (to 1982) of the programme. Annex I gives a breakdown of the spending. Annex II lists current measures.

The programme aims to:

- bring both public and private sector houses up to a basic level of insulation;
- improve the efficiency with which energy is used in the public sector for its own sake and as an example to private consumers;
- promote energy saving investment in industry, commerce and agriculture;
- demonstrate the value of new or adapted technology to industry, commerce and agriculture;
- reduce the rate of growth in demand for oil in transport; and
- develop a national awareness of the need for energy conservation.

Current estimates suggest that the UK is saving up to 6%, equivalent to 12-13 mtoe. If this is maintained and the full value is secured from the current 10 year programme the UK could in the late 1980s be saving 23-24 mtoe which would otherwise have been used. This is well over a third of the 60 mtoe saving in the year 2000 which current demand projections attribute to energy conservation.

INTERNATIONAL COMPARISON

The UK programme has a good reputation abroad. The International Energy Agency's 1978 review of member-States' energy conservation policies and programmes puts us in second rank behind Sweden, Denmark and Holland.

The UK is bracketed with Canada, Germany, Italy, Japan, Norway, New Zealand and the USA as having implemented programmes which represent an important step in the right direction but still need reinforcement to exhaust the considerable energy saving potential. (It is probably fair to say, however, that the UK programme is one of the strongest and most comprehensive in this group).

The IEA report says that our programme, like that of Germany, has made good progress in the residential and commercial sectors but programmes in other sectors, notably transport, need strengthening.

Efforts could be reinforced in Canada and the USA mainly through pricing policies and in Japan through vigorous incentive schemes and, if necessary, mandatory measures.

Programmes in Austria, Belgium, Greece, Ireland, Luxembourg and Spain are considered to be inadequate.

Notes on the programmes of the USA, Germany, Japan and France (which is not a member of the IEA) are at Annex III.

1977 MEASURES (FIGURES OVER FOUR YEARS)

- 1 Property Services Agency - an additional £20m (£5m a year) to extend its existing programme in the Civil and Defence estates. This will facilitate continued progress towards a target saving of 35% of the fuel used at the start of the programme in 1972.
- 2 National Health Service - an additional £35m (£5m + 3 x £10m) towards a long term programme for installing thermal insulation and heating controls in NHS buildings.
- 3 Education - an additional £70m (£10m + 3 x £20m of loan sanction) as part of a similar long term programme for installing thermal insulation and heating controls in educational buildings;
- 4 Local Government non-domestic buildings - up to £28m (£7m a year, £5m of which is loan sanction), subject to consultations with local authorities, for the staff to secure efficient energy management and for the installation of heating controls.
- 5 Public Sector dwellings - spending to bring public sector dwellings up to a basic minimum standard of insulation to be eligible for central government housing subsidies: a total of £114m of loan sanction (£28.5m a year) plus £8m (£2m a year) for improving the insulation of Ministry of Defence dwellings.
- 6 Non-domestic buildings generally - £2m (£0.5m a year) for the establishment of a new Government advisory and training service to promote efficient energy management in non-domestic buildings.
- 7 Information and Advisory Services to Industry - £19m (£4m + 3 x £5m) to expand information and advisory services to industry.
- 8 Demonstration Projects - an additional £20m (£2, 4, 6 & £8m on top of an earlier allocation of £1.5m) to demonstrate the benefits of new technology or novel applications of existing techniques.
- 9 Motorists' Education - £2m (£0.5m a year) for an information and publicity campaign aimed at persuading motorists to see that their cars are well maintained and to drive in more economical ways.

1978 MEASURES

- 1 Energy Conservation Scheme - £25m operated by the Department of Industry under S8 of the Industry Act to provide selective investment incentives to eliminate the worst waste in industry, commerce and agriculture; the scheme provides grants of up to 25% for the replacement of inefficient boilers; installation of insulation; and installing or improving combined heat and power schemes. The scheme has brought a strong demand for grants.
- 2 Homes Insulation Scheme - £97.5 (£22.5 + 3 x £25m) over four years; run by the Department of the Environment under the Homes Insulation Act and provides for insulation grants of 66% (up to a maximum of £50) to private householders who have no loft insulation at present. The scheme is very popular.



PUBLICITY

3 "Save It" campaign - So far some £10m has been spent on this public information/education and motivation campaign since its launch in January 1975. A sum of £2.5m is provisionally earmarked for the current financial year, including £0.5m specifically set aside for a campaign directed at motorists.

UK ENERGY CONSERVATION MEASURESPROMOTION AND PUBLICITY

SAVE-IT Campaign

Funds of £1.93m a year at 1977 prices allocated to 1980; the campaign uses all media to communicate the need for, and most cost-effective methods of achieving energy conservation in all sectors.

Co-ordination of Energy Saving publicity

The nationalised fuel industries and oil companies co-operate with the Department of Energy in promoting the need for and ways of saving energy through advertising and advice to consumers.

INDUSTRY COMMERCE AND AGRICULTURE

National Energy Management Conference

Pilot Scheme of Energy Managers' Courses

Formation of Energy Managers Groups

} These measures are designed to aid directly the voluntary development of effective energy management in industry and commerce.

Energy Conservation Scheme

£25m has been made available over 2 years for this Department of Industry Selective Grant Scheme. It is designed to give an incentive to industry and commerce to save energy by replacing or improving inefficient boiler plant, by insulating premises, and installing or improving combined heat and power schemes.

Energy Survey Scheme

A subsidy of up to £75 is provided for a one-day survey by an accredited consultant of industrial, commercial or public sector premises. A 50% subsidy can be obtained, upon Department of Energy approval, for a longer, more detailed and comprehensive energy audit.

Energy Quick Advice Service (EQAS)

A free service on a national basis is provided by consultants under contract to the Department of Energy to all non-domestic energy users. Telephoned queries are answered immediately or by letter.

Degree Days

The Department of Energy publishes degree day figures to aid energy management in buildings in its monthly newspaper - "Energy Management".

Demonstration Projects

£21.5m over four years has been made available for projects to demonstrate the potential for energy saving of new or adapted technology.

Energy Audits

Detailed investigations of energy use in selected energy intensive industries have been carried out normally by the appropriate research associations. Reports, identifying the areas where significant energy saving is possible, are being published by the Departments of Industry and Energy.

Industrial Energy Thrift Scheme

One day free visits have been made to over 2,200 selected factory sites to advise on possible improvements, to gather information on existing patterns of energy use, and to identify areas for further R and D. The programme will continue until 1981. Results are being published.

Heating Limit

A statutory Instrument under the Fuel and Electricity Control Act 1973 (now subsumed into the Energy Act 1976) sets a maximum statutory limit of 20°C for the heating of all non-domestic buildings.

Advertising Lighting

A voluntary code of advertising lighting for commerce came into effect on 1 December 1976.

Tax allowance for insulation

Where existing industrial buildings are being insulated a 100% first year tax allowance may be claimed.

Building Regulations

Amendments introducing improved standards of energy efficiency for new non-domestic buildings and requiring the provision of appropriate controls when heating plant is installed in new and existing buildings are taking place, came into force from 1 June 1979.

DOMESTIC

Insulation of public sector houses

A ten year programme for the basic insulation of public sector housing was announced in December 1977. Loan sanction for over £100 million is available to local authorities over the next four years.

Grants for insulation of private sector housing

Under the Homes Insulation Act, 1978, private householders may claim grants of 66%, up to a £50 maximum, for the installation of basic insulation.

British Standards

A British Standard for cylinder jackets incorporating test-methods has been agreed; British Standards for loft and cavity wall insulation are being drafted. The Department of Energy is more generally promoting the introduction of standards, relevant to energy conservation, where they do not exist, and the raising of existing standards.

Buildings Regulations

In January 1975, insulation requirements for new dwellings were roughly doubled.

TRANSPORT

Fuel Consumption Testing/Labelling

Under powers taken in the Energy Act any new petrol driven car displayed for sale must carry a label giving the relevant fuel consumption test results for that model. Dealers must have available the official fuel consumption list for all cars.

Education Programme

£½ million per annum has been allocated over the next four years for an information and publicity campaign aimed at encouraging economical motoring and better vehicle maintenance.

Car Pooling

An obstacle to car-pooling - the illegality of offering regular lifts for payment - has been removed by the Transport Act 1978.

Speed Limits

In 1974 speed limits on single carriageway roads were reduced to 50 mph, and on dual carriageways (other than motorways) to 60 mph.

In 1977 these limits were relaxed to 60 mph on single carriageway roads and 70 mph on dual carriageways.

PUBLIC SECTOR (other than domestic)

Civil and Defence estate

The PSA is extending its existing programme to save energy, primarily through good management and the use of optimum start heating controls, at a cost of £5 million a year for the next four years.

National Health Service Buildings

As part of a long term programme for installing insulation and heating controls, an additional £35 million will be invested in NHS buildings over the next four years.

Education buildings

A similar programme to that of the NHS will cost £70 million over the next four years.

Local authority buildings

Additional funds of up to £7 million per annum have been allocated for the necessary staff to secure efficient energy management and for the installation of heating controls in local authority non-domestic buildings other than schools.

UNITED STATES

US policy is based on the National Energy Act 1978. Its measures include grants, loans, tax incentives, regulation, penalties, and technical assistance in the residential, commercial, transport, industrial and public sectors. The Federal Government has allocated 793m dollars for fiscal 1979 and 400 staff to programmes to be developed through the Department of Energy. The Act also provides for grants totalling 900m dollars to States over the next three years to improve energy efficiency in schools and hospitals. Over 90m dollars were provided in 1978 for State technical programmes including energy auditing, energy performance standards and information campaigns.

Sectoral ProgrammesDomestic and Commercial

Some 300m dollars have been allocated for fiscal 1979 for raising the energy efficiency of new and existing buildings and appliances; waste heat recovery; and energy recovery from municipal wastes. In addition 200m dollars have been allocated for 1979 and 1980 for an extension of weatherisation grants. The Energy Act provides for tax credits for residential insulation and energy conservation measures and for the installation of solar power systems.

Industry

Here the strategy is to reinforce the price mechanism by voluntary energy efficiency improvement targets. The Act authorises the Department of Energy to order test and labelling requirements for equipment. Proposed measures include energy reporting by all major consuming companies in each of the 10 most energy intensive industries; and tax credits for investment in energy saving equipment and for conversion from oil or gas to coal.

Transport

Fuel consumption labelling is compulsory and from next year taxes will be levied on car manufacturers who fail to meet mandatory fleet mileage targets.

Utilities

Under the 1978 Act it is proposed that the fuel and power utilities should be required to offer advice involving visits to individual homes on cost effective energy conservation measures and to make financial and other arrangements for those measures to be implemented.

GERMANY

The German approach to conservation is distinguished by its substantial reliance on market forces in the industrial and transport sectors and large Government expenditure in the domestic sector.

In the industrial sector, the price mechanism is supplemented by a tax on light fuel oil (recently increased), and a 7½% grant on energy saving investment which is

estimated to have stimulated a total investment of over DM 4 billion (£1 bn) since 1975. Financial support is given for energy saving demonstration projects (about £120m 1977-80), and there is also an advisory service to small and medium sized businesses. The Government is apparently reluctant to impose standards or legal requirements.

In the domestic sector, a programme of grants and tax concessions was launched in 1978 which is expected to cost DM 4.35 billion (£1.1 bn) over five years. The initial uptake on this programme has been good. The measures have been combined with an information campaign costing DM 18 m (£4.6m).

Progress in the transport sector has been slow, but the Government has just announced examination of a series of measures, including revised taxes for cars and commercial vehicles and the incorporation of gasoline-saving techniques in the driving test. The Government is also to consider the scope for further economies in Government buildings, new standards for existing buildings, and the role of conservation in training and further education.

A sum of DM 680m (£174m) has been earmarked for increasing the use of waste heat from power stations, and DM 391m (£100m) for research, development and innovation in energy saving technologies for the 1977-80 period.

JAPAN

So far Japan has relied largely on market forces. A Bill before the Diet would enable the Government to set efficiency standards and introduce other measures. Targetting, depreciation allowances, advantageous loans and information campaigns have been deployed. The main effort has been directed at industry.

An Energy Conservation Centre has been established to provide fairly small scale consultative support for small to medium sized firms including factory energy audits. In 1978 an R & D programme was allocated and equivalent of £4.5m; financial support for energy saving investment was almost doubled to £30m; and a loan fund available through the Small Business Finance Corporation was expanded to £9m.

Residential

Loans were made available in 1978 through the Housing Loan Corporation for improvements in the thermal efficiency of existing homes; building regulations and mandatory standards for air conditioning are under consideration.

Transport

A progressive tax on cars according to engine size and weight; speed limits.

FRANCE

The French conservation programme relies heavily on legislation. The Government can control consumption, advertising, the technical standards, as well as take fiscal measures to encourage energy-saving investment.

A subsidy is granted to a firm based on the oil it saves, and loans of up to 70% can be granted for capital equipment. Strengthened building regulations are in place, and the Government is working jointly with the professional bodies to achieve energy savings in existing buildings. Publicity campaigns are also strongly featured.

In 1977 the French estimated they had saved 14 - 14.5 mtoe, and plan to increase this figure to 45 mtoe in 1985. This is estimated to require the stimulation of total investment of around £660m a year; to achieve this it seems likely that an increase in the Government's conservation budget (FF 220m, or £25m, in 1977) will be needed.



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211 6402

26 June 1979.

Bryan Cartledge Esq.,
Private Secretary to
the Prime Minister,
10 Downing Street,
London SW1.

Dear Bryan

ENOC : RENEGOTIATION OF OVERSEAS CONTRACTS

As requested of Bill Burroughs on the telephone this morning I enclose a short briefing note on ENOC re-negotiation of overseas contracts for the Prime Minister's use in Tokyo. This brief has been copied separately via the Parliamentary network for the Prime Minister's use at Question Time this afternoon and is intended to cover both purposes.

This brief has not been seen by my Secretary of State.

Yours sincerely
Bill Ambrose

C.L. Ambrose,
Private Secretary.

Encl.

BRIEF

BNOG: RENEGOTIATION OF OVERSEAS CONTRACTS

Prime Minister

In case President Carter
raises reduced BNOG
sales to US miners.

SLM
29/6

Line to Take

BNOG has been exporting a substantially larger proportion of its North Sea oil than some other North Sea operators and it is therefore not surprising that the Corporation is now taking steps to adjust the balance of its disposals. I understand that the negotiations now in hand between BNOG and its customers are intended to achieve this. Any arrangements concluded will be voluntary and include offsetting benefits for customers. For example in return for their customers' agreement to use a larger proportion of their contracted oil in the UK, the Corporation is ready to discuss possibilities such as the extension of the period of a contract beyond its current term. Such an arrangement would mean that the quantity to be supplied would not be reduced, but deliveries would be phased over a longer period.

Background

1. The Prime Minister will be aware of the conclusions of the Interdepartmental Group's Report of Fuel Supplies (MISC 9) submitted on 15 June, and on the limitations on our freedom of action on the diversion of North Sea oil to the UK which are imposed by our international obligations.

2. In response to a request from the Secretary of State for Energy for additional help with UK oil supplies, BNOG has asked a selection of its overseas customers to volunteer either to return a proportion of their contract volumes to BNOG or to direct oil to the UK during the second half of this year in return for a quid pro quo such as a continuation of their contracts beyond their current break dates at the end of this year, the effect being mainly to rephase rather than cut the total quantity delivered.

3. Negotiations have not yet been concluded but the quantities involved are as follows:

- a) The International majors among BNOC's customers (Esso, Shell, Mobil, Gulf, Chevron, Texaco but not BP who is already providing adequate supplies to the UK) may provide the UK with up to about 60,000 b/d of extra oil in the form of products delivered into market during the second half of this year (about 1.5 mt). The shortfall to these companies outside the UK is likely to be spread throughout their world wide operations.
- b) BNOC has had discussions with four of its other US customers with a view to releasing a further quantity of up to 40,000 b/d (about 1 mt in the second half of this year).
- c) BNOC has not approached its Japanese and Singapore customers, nor the two German customers who only have refineries in Germany.

4. The quantity of oil which might be made available to the UK in this way is up to 100,000 b/d ($2\frac{1}{2}$ mt in the second half of this year) compared with UK demand of about 2 m b/d and BNOC overall sales of 500,000 b/d.

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GR 150

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DESKBY 260900Z

FM TOKYO 260800Z JUN 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 326 OF 26 JUNE, 1979

TOKYO SUMMIT

1. MR KOSAKA, THE DIRECTOR-GENERAL OF THE ECONOMIC PLANNING AGENCY (WHICH IS OF COURSE A CABINET POST) HAS PROPOSED A MEETING WITH THE CHANCELLOR OF THE EXCHEQUER ON THE EVENING OF WEDNESDAY 27 JUNE IF THE CHANCELLOR IS FREE, FOR AN "INFORMAL CHAT".
2. WE HAVE SAID THAT WE SHALL NOT BE ABLE TO GIVE ANY ANSWER UNTIL THE DELEGATION ARRIVES TOMORROW AFTERNOON. IF HOWEVER THE CHANCELLOR WISHED TO ACCEPT THIS SUGGESTION, ONE WAY OF ARRANGING A MEETING MIGHT BE FOR MR KOSAKA TO COME TO THE RESIDENCE SAY AT 9 PM, IF THE CHANCELLOR PLANS TO COME TO THE INFORMAL SUPPER WHICH I HAVE PROPOSED (MY TELNO 307), AND FOR THEM TO MEET BRIEFLY IN A SEPARATE ROOM.
3. MR KOSAKA APPARENTLY MET SIR GEOFFREY HOWE AT A RECENT OECD MEETING AND WISHES TO RENEW THE ACQUAINTANCE.

WILFORD

FILES
P AND CD
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PS/LPS
PS/PUS
SIR A DUFF

MR BUTLER
MR CORTAZZI
MR MURRAY
MR THOMAS
CABINET OFFICE

COPIES TO
PS/SIR J HUNT } CABINET
MR J L WRIGHT } OFFICE
PS/CHANCELLOR OF
THE EXCHEQUER
HM TREASURY
MR D H BAKER
CSD

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FM TOKYO 260555Z JUN 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 322 OF 26 JUNE, 1979

FOR PS, PS 10 DOWNING STREET AND CONFERENCE SECTION:

MY TELNO 315 OF 25 JUNE: SUMMIT

PLEASE AMEND LINE 4 OF T.U.R. TO READ QUOTE (JAPANESE SAY ONLY
LOW CLOUD NOTT (REPEAT NOT) WIND WOULD CANCEL HELICOPTERS).
UNQUOTE.

ERROR REGRETED. .

WILFORD

FILES

P AND CD

PS

PS/LPS

PS/PUS

SIR A DUFF

SIR A PARSONS

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GR 475
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TOKYO

DESKBY TOKYO 270001Z
FM MOSCOW 261500Z JUN 79
TO IMMEDIATE TOKYO

TELEGRAM NUMBER 1 OF 26 JUNE AND TO IMMEDIATE FCO.
INFO PRIORITY BONN, PARIS, WASHINGTON, UKDEL NATO, UKDEL
VIENNA ROUTINE UKMIS NEW YORK AND PEKING.

FOR PRIME MINISTER'S PARTY.

TOKYO SUMMIT: CHANCELLOR SCHMIDT'S STOP-OVER IN MOSCOW.
SCHMIDT STOPPED OVER IN MOSCOW FOR THREE AND HALF HOURS ON
25 JUNE, AND HAD TALKS WITH KOSYGIN AND GROMYKO, ON WHICH
(ACCORDING TO GERMAN EMBASSY) HE TOLD KOSYGIN THAT HE WOULD
BRIEF THE TOKYO PARTICIPANTS.

2. MAIN PART OF THE TALKS WAS TAKEN UP WITH AN ACCOUNT BY
GROMYKO OF THE VIENNA SUMMIT, WHICH FOLLOWED CLOSELY ON THE
LINES OF HIS PRESS CONFERENCE THAT MORNING (MY TELNOS 391-393
AND 395-397, NONE REPEATED TO TOKYO AND ONLY 393 REPEATED TO
PEKING), AND WITH QUESTIONS ARISING THEREFROM. FOLLOWING ARE
MAIN POINTS:

(I) FBS.

GROMYKO MADE IT CLEAR THAT "FACTORS THAT DETERMINE THE
STRATEGIC SITUATION" IN THE SALT III GUIDELINES INCLUDED
FBS. IN REPLY TO A QUESTION FROM SCHMIDT, HE SAID THAT THEY
DID NOT INCLUDE THE SS20 AND BACKFIRE, BECAUSE THESE WERE NOT
STRATEGIC WEAPONS AS DEFINED BY SALT I.

(II) PARTICIPATION IN SALT III.

GROMYKO CLAIMED THAT IT HAD BEEN AGREED IN VIENNA THAT NUCLEAR
POWERS WITH STRATEGIC CAPABILITY SHOULD BE INCLUDED IN THE
NEGOTIATIONS. IN REPLY TO A QUESTION, HE SAID THAT THIS INCLUDED
CHINA. THE CRITERION WAS ONCE AGAIN STRATEGIC WEAPONS AS DEFINED
IN SALT I.

(III) EUROPEAN STRATEGIC BALANCE.

KOSYGIN SAID THAT THE INTRODUCTION OF NEW MEDIUM RANGE
SYSTEMS IN WESTERN EUROPE WOULD UPSET THE STRATEGIC BALANCE
AND "BE CONTRARY TO THE AGREED OBJECTIVES OF SALT II". SCHMIDT
REPLIED THAT THE PRINCIPLE OF EQUALITY AND EQUAL SECURITY AGREED
FOR SALT III SHOULD APPLY ALSO TO THE EUROPEAN BALANCE AND TO /MBPR.

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MBFR. RESISTING KOSYGIN'S ATTEMPTS TO CHANGE THE SUBJECT, HE EMPHASISED THAT THE SS20 AND BACKFIRE SHOULD BE TAKEN INTO ACCOUNT, AND THAT SALT III SHOULD AGREE TO BALANCED LIMITATIONS ON SUCH 'EUROSTRATEGIC' WEAPONS ON BOTH SIDES. IF NOT, THE WEST WOULD NEED TO UNILATERALLY INTRODUCE ITS OWN EUROSTRATEGIC WEAPONS IN ORDER TO RESTORE THE BALANCE. (PRESSED TO CLARIFY, AT PARALLEL BRIEFING MEETINGS TODAY, GERMAN AMBASSADOR AND MINISTER BOTH SAID THAT SCHMIDT HAD NOT (REPEAT NOT) IMPLIED THAT TNF MODERNISATION WOULD BE POSTPONED UNTIL THE RESULTS OF THE SALT III NEGOTIATIONS ON THIS SUBJECT WERE KNOWN).

(IV) MBFR.

SCHMIDT SAID THAT THE WESTERN DATA FIGURES MIGHT WELL HAVE TO BE EXPLAINED IN MORE DETAIL, BUT HE EMPHASISED THAT PARLIAMENTARY RATIFICATION OF AN MBFR AGREEMENT WOULD NOT (REPEAT NOT) BE POSSIBLE WITHOUT AGREEMENT ON DATA. HAVING SAID THAT CONSIDERATION MIGHT BE GIVEN TO PARTICIPATION OF FOREIGN MINISTERS AT THE CSCE FOLLOW-UP CONFERENCE AT MADRID, HE ADDED THAT THIS MIGHT ALSO BE USEFUL FROM TIME TO TIME AT THE MBFR TALKS.

3. SCHMIDT ALSO RAISED THE QUESTIONS OF VIETNAMESE REFUGEE AND A PRODUCER/CONSUMER DIALOGUE ON OIL. ON THE FORMER, KOSYGIN REPLIED EVASIVELY TO SCHMIDT'S POINT THAT THE ASEAN COUNTRIES SHOULD NOT BE LEFT TO DEAL WITH THE PROBLEM ALONE. ON THE LATTER, KOSYGIN SAID THAT THE IDEA WAS NEW TO HIM, WAS NON-COMMITAL ABOUT POSSIBLE SOVIET PARTICIPATION, BUT EMPHASISED THAT OIL PRICES COULD NOT BE CONSIDERED IN ISOLATION. THERE WAS ALSO SOME DISCUSSION OF COAL GASIFICATION TECHNIQUES.

WADE-GERY

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S A L T

This is a copy. The original
has been extracted and
closed, 40 years.

PRESIDENT CARTER

RHODESIA: Lord Hailey's + Mugomwa's missions.

Paragraph deleted and closed, 40 years.
under a FOI Exemption.

AWayland

27 October 2009

UK DETERGENT:

Decision on Polaris successor will
take some time.

But grateful for your agreement to
talks between our officials.

CTB:

We recognise importance of achieving
10 National Seismic Stations in Soviet Union.
but Soviet demand for 10 NSS in
UK is absurd: will need strong US
support if we are to bridge them.

In the light of your talks with
Brezhnev, how flexible do you think the
Russians might be?

We could propose UK withdrawal
from Separate Verification Agreement and
reconsider in light of Soviet reaction.
What do you think?

This is a copy. The original
has been extracted and
closed, 40 years.

PRIME MINISTER

Bilateral with President Carter

This was not discussed at your briefing meeting yesterday. Perhaps therefore I could offer a suggestion about handling, since clearly there is a limit to what can be covered in a working breakfast.

2. He will of course want to hear how you see the United Kingdom domestic situation. Apart from this I suggest that you could usefully group the discussion under 3 heads:

(i) The Summit itself

Your bilateral comes at the half-way point and depends on how things have gone. You could usefully impress on him the crucial importance of the United States letting oil prices rise both as a conservation measure and to encourage the development of alternative sources which would then become economic. It is no good having targets or communiqués unless the United States can act on this.

(ii) Political

In particular Rhodesia (our tactics over the next few months) and the Middle East, (where you will want to urge him, with his election in mind, to take action soon to mend fences with the moderate Arabs).

(iii) Defence

- (1) Our deterrent: no decision for some time yet but grateful to him for agreeing to talks.
- (ii) * ~~~~~ *
- (iii) Our intelligence relationship: reconfirm importance.
- (iv) SALT - above all the need to be clear about TNF before starting on SALT III.
- (v) CTB.

(John Hunt)

26th June, 1979

* ~~~~~ * Sentence deleted and
closed, 40 years, under a
FOI Exemption
Wayland
27.10.09

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H M Treasury

Parliament Street London SW1P 3AG

Sir Kenneth Couzens Switchboard 01-233 3000
KCB Direct Dialling 01-233 4225

~~XXXXXXXXXX~~

Second Permanent Secretary
Overseas Finance

26 June 1979

B Cartledge Esq
10 Downing Street
LONDON SW1

Sam Bayan

TOKYO : PRIME MINISTER'S OPENING STATEMENT

As requested, I attach some paragraphs which the Prime Minister may care to use as a chopping block in preparing an opening statement for Tokyo.

I am sending copies of this to the Private Secretaries to the Chancellor of the Exchequer, Foreign Secretary, Sir John Hunt, Sir Michael Palliser and Sir Jack Rampton.

Yours sincerely,

Graham Ingham

RP

K E Couzens

TOKYO

DRAFT FOR PART OF PRIME MINISTER'S OPENING STATEMENT

We are only half way through 1979 but so far this year we have had to watch the prospects for the world economy deteriorate month by month. We began the year with a good chance of a better balance of growth between the major countries and a better balance of payments surpluses and deficits also. There was greater currency stability. Because of what has happened on oil the prospects are now much worse, especially on inflation.

less exaggerated

2. For the second time in 5 years the vulnerability of the world economy to developments on oil has been brought home to us. The economic growth which looked like a natural law in the 60's looks a fragile thing in the second half of the 70's. This is a profound change for the developed countries. But among the biggest sufferers are the developing countries who have no oil. They lose through increased oil prices, through reduced world activity and through the fact that the developed countries are less well placed to help them. All this means more instability in the world, both economically and politically.

3. I believe the economies of the countries of the free world have the resilience to surmount these difficulties, as they did in and after 1974. But the room for manoeuvre in economic policy in our countries has been reduced.

John R. ...

4. In meeting here in these circumstances I believe we assume a heavy responsibility. We imply that we can offer leadership and guidance not only to our own countries, but to others. If we leave the impression that we are failing to face the facts, or are taking refuge in ~~verbiage~~ ~~or~~ ~~formality~~, the state of the world will be worse when we leave than when we came. ~~I speak with humility as a newcomer, but~~ It seems to me that our best course is to make the position on energy and the world economy clear in the simplest language we can find; to say what we can do; but not to be afraid to say ~~also~~ ^{can't} what we cannot do. We shall inspire more confidence by combining realism with simplicity, ~~and~~ ~~confidence is what the world badly needs.~~

*manipulates
process*

*How by
burying
concealing
the truth
in meaningless
phrases*

Cardow

5. ~~I think it is quite clear that our first~~ ^{most} ~~response to the~~ ~~situation which faces us has to be to do more about saving~~ ~~and producing energy.~~ I do not want to anticipate the detailed discussions we shall certainly have about this but I would like to pick out ^{two or three} ~~two or three~~ ^{most} ~~themes~~ which I see as ~~are~~ important. ^{The} ~~First~~ while we must do everything we can in the ~~short term~~, we have to prepare for the long haul. ^{too} ~~For every~~ ~~economic and political reason~~ we must keep up, year after year, ~~the effort~~ to reduce the dependence of the ~~major~~ ^{of oil} economies of the free world on uncertain sources of supply ~~of~~ a critical raw material.

*immediate
situation*

our efforts

*Now he does this apply more
than to the problems of energy.*

as well

future

6. Secondly, we should allow the price mechanism to do its job ~~to the full~~ in reducing demand and increasing supply, ~~without excluding direct action intended to accelerate these effects.~~ ~~Thirdly,~~ we have to face squarely the fact that nuclear power is going to be needed on a large scale to fill the energy gap. We must apply our ~~energies~~ ^{efforts} to developing it and at the same time do all we can to reduce ~~or eliminate~~ the risks associated with it.

This does not exclude other

And

time

7. ~~The~~ ^{time} second ~~area~~ where a major policy response is required of us is ~~of~~ inflation. I believe the lesson of what happened to us from 1974 onwards is that we ~~have to~~ ^{must} fight the inflation produced by oil price increases, and not accommodate it. To do that we have to convince our peoples that the oil price increase represents a loss of real income which has to be accepted.

After energy

not even

we must fight it.

as all hope of

8. This does not mean giving a low priority to growth. On the contrary, it ~~means providing~~ the best foundation for the resumption of growth. And we will have to back that up by doing all we can to improve the efficient working of ~~our~~ economies and the ~~flexibility of their response to change.~~ This too ~~is a medium term response calling for sustained effort.~~

this realistic approach provides

Spent with which they spend to

industry, agriculture & commerce

9. I regard all the precepts to which I have referred as applying to the United Kingdom. Like two other countries represented here, we are a major energy producer ~~but~~ we see

On energy altho

we know

our interests as closely identified with consumer countries.
~~and we have shown our readiness to join in energy saving.~~

The British consumer is taking perhaps even a bit more than
his share of the effort. Again, we have a particular
problem in the need to rebuild the strength and competitive

efficiency of our industries ~~but~~ what I have said about
fighting inflation and about promoting flexibility of
response applies to us also. It is in that spirit that I
look forward to joining in our further discussions.

then
were
fairly

adapting to change

and make them
competitive.

and is determined
take on rather we are pushing ~~strong~~ efforts to
including save energy.

We are ~~to~~ best to give a lead

I believe therefore that we should approach our
problem in the realistic but determined spirit.

26 JUN 1979

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FM OTTAWA 261928Z JUN 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 254 OF 26 JUNE

INFO IMMEDIATE TOKYO, PARIS, BONN, ROME

INFO ROUTINE HAGUE, BRUSSELS, UKREP BRUSSELS, DUBLIN, LUXEMBOURG, *Gen 2/10*

COPENHAGEN

CANADA - EURATOM INTERIM AGREEMENT.

1. I AND MY EEC COLLEAGUES DISCUSSED THIS TODAY AT OUR MONTHLY MEETING IN THE LIGHT OF THE STRONG VIEWS HELD IN THE PAST BY MR CLARK AND MISS MACDONALD AND THE OPPOSITION WHICH THE CANADIAN CONSERVATIVE PARTY VOICED WHEN THIS AGREEMENT WAS SIGNED BY THE LIBERAL GOVERNMENT. WE CONCLUDED THAT THERE WAS A REAL DANGER THAT THE NEW CANADIAN GOVERNMENT MIGHT WELL TAKE A TOUGHER LINE WHEN THE PRESENT AGREEMENT EXPIRES AND THAT ACTION SHOULD BE TAKEN SOON BEFORE THEY HAVE STARTED FIRING UP POLICIES BEFORE THE REASSEMBLY OF PARLIAMENT IN THE AUTUMN TO PERSUADE MR CLARK AND MISS MACDONALD IN PARTICULAR TO MODIFY THEIR VIEWS AND BE MORE UNDERSTANDING OF THE EEC POSITION IN THE LIGHT OF THE WORLD ENERGY SCENE.

IMMEDIATE
COPILED

Prime Minister

L

IMMEDIATE
CYRIL

WM EEC AMBASSADOR REPORTED THAT MR ROY JENKINS ^{Onu March} HAS ALREADY
MENTIONED MATTER TO MISS MACDONALD AT OECD MEETING IN PARIS ^{SW 2/16}
AND THAT SHE WAS NON COMMITTAL. PRESENT IMPRESSION AMONG OFFICIALS
IN DEA HERE IS THAT SHE WANTS TO CUT A GOOD FIGURE ^h AS A NUCLEAR
NON-PROLIFERATOR AND WILL TAKE A TOUGH LINE.

3. MY GERMAN, FRENCH AND ITALIAN COLLEAGUES ARE TELEGRAPHING
TO THEIR GOVERNMENTS THIS AFTERNOON SUGGESTING THAT THEIR
HEADS OF GOVT/STATE AND FOREIGN MINISTERS MIGHT USEFULLY MENTION ⁶
INFORMALLY IN TOKYO TO MR CLARK AND MISS MACDONALD THE
IMPORTANCE WHICH THEY ATTACH TO THE CONTINUATION OF THE
CANADA/EURATOM AGREEMENT. I PROMISED TO DO LIKEWISE AND BELIEVE
THAT THE PRESENT TIME WHEN MR CLARK AND MISS MACDONALD HAVE
HAD TO RETRACT FROM PROMISES TO MOVE THE CANADIAN EMBASSY IN ISRAEL
TO JERUSALEM IS A GOOD ONE IN WHICH TO URGE THEM NOT TO RISK GOING
OUT ON A LIMB OVER NUCLEAR MATTERS OF GREAT IMPORTANCE TO EEC IN
THE CONTEXT OF THE WORLD ENERGY PROBLEM.

FORD

15NN

0207/27



10 DOWNING STREET

S/S

*Marked passages
W. 10/6*

26 June, 1979

See Robin.

Prime Minister's Interviews Pre-Tokyo

I enclose full transcripts of interviews given by the Prime Minister on 25 June for the BBC World Service and for the COI (interview for television) on the prospects for the Tokyo Summit and other subjects.

The radio interview for the World Service has been used overnight in Japan and elsewhere and the COI television interview will be made available on a world-wide basis as from tomorrow, 27 June.

I am giving the text of these interviews a fairly wide distribution within Whitehall because of the Prime Minister's remarks on subjects such as energy, Indo-Chinese refugees, etc.

May I leave it to Overseas Information Department in the FCO, to whom this letter is also copied, to telegraph the main points in the Prime Minister's interviews to overseas posts as necessary?

*Yours ever,
Charles.*

C. V. ANSON

Robin Christopher, Esq.,
News Department, F.C.O.

cc. O.I.D., F.C.O.
C.O.I. (Peter Brazier)
Dept. of Energy (Lloyd Crump)
Treasury (Peter Browning)
Home Office (Jack Parker)

TEXT OF TWO INTERVIEWS GIVEN BY THE PRIME MINISTER ON 25 JUNE 1979

ON THE TOKYO SUMMIT

BBC WORLD SERVICE(FOR JAPAN)

Interviewer: Japan is the only Asian country represented. Do you think Japan has a special role to play at the Conference by virtue of the fact that she is an Asian power?

Prime Minister: I think she is one of the countries in that part of the world which believes in Western ideals of democracy. We know that she is surrounded by countries who just don't have that particular view and we are very much aware that she is rather alone there and it's rather in that way that I think she has a special role rather than as an Asian power.

Interviewer: A recent report by the Institute for the Study of Conflicts says that Japan relies wholly on America for strategy self protection. Therefore Japan's huge savings on her/defence costs is an additional boost to her already powerful competitive trading position. Will the Prime Minister consider asking Japan to accept more responsibility in this area?

Prime Minister: I don't think any one country could ask her to do that alone. I think in the first place it would be very important that Japan discusses the matter with the United States. As you just said, Japan does rely on the United States mainly for her defence. There will come a time when things change. But I think any discussion should take place first between the two countries concerned.

Interviewer: Prime Minister, you initiated the idea of an international conference on the Vietnamese refugees which is expected to take place shortly, President Carter, in Tokyo, has already raised the refugee problem. Will you be pursuing it at the Summit?

Prime Minister: I can't imagine that we should have a Summit and not mention it. But you know the first thing is to try to stop Vietnam behaving in this way. She's just trying to exclude her Chinese people and make it so difficult for them that they all want to go and then taking their money and their possessions. It is the coldest, most callous attitude we've seen for a very, very long time in the world. And we should put all possible pressure to bear on Vietnam to stop her from behaving in this uncivilised way. It is the action of a tyranny. So we mustn't just accept that she'll go on like this and all we've got to do is to try and make arrangements for refugees. We must remember that it's their lives

which are being made intolerable inside Vietnam. So that's one aspect. Of course we're very well aware that these refugees are having a terrible time. And if you and I were out there in a boat that is leaking, what would we think of the free world if someone didn't put out a hand to rescue us and to help us. And that problem too we have to tackle as members of the free world. And we can't do it all on our own so we have to get together to see what we can do together.

Interviewer: There have been many references to your visit in the Japanese media. The Japanese people are very much interested in you as a person. Many women in particular would like to know how you combine a job with a home life, what you like to do when you have time to spare, that sort of thing?

Prime Minister: Well, I don't have very much time to spare these days. But you know I couldn't have done it unless my children had been grown up. Certainly I became a Member of Parliament when my children were comparatively young although they were already at school, but thank goodness I did. At each stage fresh things have come and fresh advances have come. They have come at an age when I was able to take them because the children were older. Now both my children, I have twins, are aged 25. My son still lives in our own house but my husband and I have moved into No. 10 Downing Street. There isn't much spare time. I don't see a great deal of them except that they will come in in the morning and be there in the evening and if you only have a few precious minutes or hours then you do make the most of them. So somehow we cope and we cope because the whole family recognises that I have a job to do and they all think, thank goodness, that I am the right person to do it. So they help in every possible way. You can never do it unless the whole family is with you.

Interviewer: I understand that you like roses very much. I wonder if you remember some time ago.

Prime Minister: I love roses, and azaleas and rhododendrons, all sorts of flowers.

Interviewer: I wonder if you remember some time ago a young Japanese wrote to you asking if he could name a rose after you. The Thatcher rose.

Prime Minister: Yes, I do remember. But I haven't seen it yet.

Prime Minister: (contd)

I'm not quite sure what colour it is but perhaps I'll see it in Japan. Unfortunately they don't make roses in blue, which of course is my political colour.

Interviewer: Finally, Prime Minister, this is your second visit to Japan. Is there anything you are particularly looking forward to doing and seeing again?

Prime Minister: Well I think one of the troubles about attending a Summit meeting is that we see far too little of the country. You know you go from the airport to the hotel, to the conference centre and my great regret is that we won't be able to get about and see more of Japan, of her art and her culture and her history. That I'm afraid will have to wait until we go on a visit which is not a Summit.

Interviewer: Thank you Prime Minister.

SECOND INTERVIEW (BBC WORLD SERVICE)

Interviewer: Prime Minister, with the OPEC countries poised to increase the official price of oil, how perilously close is the world to a deep economic recession?

Prime Minister: That really depends on two things. One, whether all of the industrialised nations can modify their demand so that we only really use energy where we need it and we're very economical in its use because you know there's a difference between demand and supply and we mustn't be extravagant in use at all. So we all of us have to be thoroughly economical and try and cut down our demand. Each and every one of us. It's no good one nation doing it we all have to do it together. And the other is whether we can persuade the producers to try to just step up their production by the tiny amount by which the world is short. As a matter of fact it is less than 5 per cent by which we're short and there are certainly some of them who could produce just that little more to take the pressure off the price. So we have to our bit, and we hope that by doing ours we'll be able to persuade them to do theirs.

Of course quite apart from the demand-supply position, the price is an important factor. After all, if you and I have to pay more on rent and food we've less to spend on other things. So if nations have to spend more on their oil supplies, there's less to spend on other things and the prospects for growth are obviously hindered by that outlook and we shall probably not see the growth rate which we were seeing in the last decade for a very long time to come.

Interviewer: Well, let's take the first element - consumption. You and other EEC Heads of Government meeting in Strasbourg last week agreed to hold oil imports at 1978 levels for the next five years. How do you propose to broaden this position in Tokyo and so ensure that the United States, the biggest and most profligate consumer of all, also agrees to reduce consumption?

Prime Minister: That partly arises from the last answer I gave. That's exactly why we couldn't be more particular in Strasbourg. There is really no point in a few nations being really economical and holding our demand unless other nations agree to do exactly the same. And that's why we tried to make our own position in Strasbourg as strong as we could so that we were in a position to go to President Carter and to go to Japan and say, look this is what we're doing. Now, if you won't do your bit, then the position will still be as bad as ever and the price will be likely to rise even more. So it's just because we recognise the point that you're making that we have to act together that we took that view.

Interviewer: But so far President Carter has been singularly unsuccessful in persuading his countrymen to cut consumption, so can you have any confidence at all in any pledge that he might make in Tokyo?

Prime Minister: I think he'll be just as anxious as we are to try to find some solution to this problem. I think that some nations have had difficulties because they've run down their stocks. After all, we had a cold winter last winter and one of our problems is that we're trying to replenish stocks which are lower than they should be and so added to your normal consumption you've got the replenishment which of itself can put an extra demand at a time when supplies are short. But I really think that the situation is such that all of us will be trying to find a solution. Otherwise, we shall just not have enough to carry on with the present standard of living, let alone improve it.

Interviewer: Now the EEC countries have spoken in favour of opening a dialogue with the OPEC producers. How hopeful are you that such a conference could lead to increased levels of production, bearing in mind that the OPEC countries are sitting on a finite resource and they, not unnaturally, want to sell it over as long a period as possible at the highest price?

Prime Minister: Well, I think you've identified two aspects of the situation. First, there's the immediate part. There's an immediate shortage of slightly less than 5 per cent and they could help that by producing a little more and we could help it by using a little less. And that certainly is an immediate problem which we have to try to deal with in Tokyo. Now in the longer run, yes it is a finite source - it must by definition be a finite source of oil - so you really have to look in the longer run to alternative sources. Now coal is a very big problem, a very big one indeed and its ironic that just at a time when ten or fifteen years ago we thought that coal hadn't got such a big future, now it has a big future. Both as a source of fuel, it could be used to create oil as well and therefore we have to look at all the technology relating to coal. That won't be enough, and that and sun and tide and windmills I don't believe will be enough. If we're to have the industrialised standard of living that we now enjoy and we are to go on and advance even further, and after all every nation wants to do that because there are still enough people among us who wish to improve their standard of living, then we've got to look at nuclear, we really have. We've got to look at it with a view to expanding the amount of energy that comes from nuclear and we've got to make certain it's safe. And in this country, in Britain, we have an excellent nuclear inspectorate and we have always put tremendous emphasis on having systems which are as safe as they can possibly be made. But I don't think we can go on ducking the question very much more. We've been talking about it: I know that some environmentalists are worried about it but you know they should also be worried about the effect of constantly burning more coal and oil because that can create a band of carbon dioxide round the earth which could itself have very damaging ecological effects. We've been talking about it, but we must in fact do something about it. I was on a phone-in one day down in Plymouth when someone asked me what I thought about nuclear energy. I said that I

I said that I thought we'd have to have very much more of our supplies from it, and I could just hear the disappointment at the other end of the telephone. There was a horrible hush, and I could hear the disappointment and I said, yes, I suppose you're wanting me to reply that we can get it all from the wind, and the sun and the tides. Yes, they said, at least they are God-given. But when I said don't you think uranium is God-given - it is of course, uranium, radium, the radio-active elements are God-given, it's just that man has learnt to use them in a different way, learnt to use them for medical purposes, to very great advantage, to fight cancer and also to use on energy. So the thing to do is to learn to use them properly and not to reject them.

Interviewer: But you would accept that for Western democracies it is going to be difficult to pursue a nuclear strategy simply because, as you've mentioned, there are environmental groups and many others who are extremely worried about nuclear power, there has been mounting public alarm, particularly since the Harrisberg incident?

Prime Minister: Yes, there has indeed. And that's why I have to point out that in this country we put tremendous emphasis on safety. But look, putting the emphasis on safety, as we have been, I don't think one single person has lost their life because of a nuclear accident, not one. There have been those that have lost their life because of explosions at work, not because of a nuclear accident. The point we have to make is, either the standard of living of the world has to severely reduce in the long term or else we have to find alternative supplies of nuclear. Now do we go back to a kind of primitive village economy, or do we try to keep up the standard of living we have. Now this is a choice for people to make. We must put all the facts before them, and the risks. But you see the risks aren't all on the side of nuclear. There are tremendous risks on oil, tremendous risks on coal.

Interviewer: I'd like to come back to your hope that, in the short term, the OPEC producers might be prepared to boost production if only for a short period to help over the present crisis, the OPEC countries would obviously want something in return and the President of OPEC has said that any talks about increasing

production levels would have to be held in the context of the North/South dialogue. So failing the failure of the UNCTAD Conference in Manila would the rich industrialised countries now be prepared to modify their position on _____ and development and be more generous with countries on the Third World?

Prime Minister: Look, the thing that most harms the poor countries of the world is for the price of oil to rise and so if the OPEC countries are really genuinely concerned to help those countries then then should hold down the increase in the price of oil. It's they who have the tremendous surpluses of cash and if they put it up they'll also have even greater surpluses. It's they who can have the greatest single effect on raising the standard of living in those poorer countries and in helping them, so don't let's pass the buck.

Interviewer: If the world does plunge into a recession, can you foresee a day when your Government might have to reverse everything it stands for and in extremist have to introduce import controls?

Prime Minister: I don't think you should talk about a plunge into recession. You and I have lived through, not so long ago, an increase in the price of oil. Now it didn't plunge the world into a recession in the sense that some people might fear you mean when you use that language. It certainly meant we had tremendous problems and would mean again that we can't expect to grow as we have grown during the past decades but I do think it wrong to talk in that rather extravagant term. It certainly alters the outlook for the future and means it's not so good, and we have, of course, to point this out to the OPEC countries as well.

Interviewer: But if growth does slow down and if world trade is impaired, do you think one day you might have to introduce import controls?

Prime Minister: Well, I'm not sure that that helps. Who does that help? We are an exporting country. If we have import controls, then other people will, of course, react very rapidly on our exports, and I think most would react very strongly against general import controls. There are times when particular industries are in difficulty but then you do it by negotiating through GATT or you have voluntary agreements with the industries concerned.

But in the end and in the long run it would be to the damage of all our people if we had generalised import controls. There's one nation after another and those who were in the worst position of all would do worse.

Interviewer: High on the agenda in Tokyo is bound to be the continuing tragedy of the Vietnamese boat people. Would you expect other countries of the Summit to rally behind your call for an international conference?

Prime Minister: Yes, I would. But the real tragedy of that is Vietnam behaving the way she is and pushing out thousands upon thousands upon thousands, indeed hundreds of thousands. That's the tragedy and we must try to bring all pressure to bear on Vietnam, in a civilised world, not to behave in that way. This is the action of a tyranny and we must try to stop it. Now, there are refugees and of course we must try to lend a hand. If you and I had tried to escape from a tyranny and somehow had sacrificed and given up everything just to be pleased to have got away with our lives, I wonder what we would think of the free world if no-one was prepared to lend a helping hand, and between us perhaps, but no one country can do it alone and that's why we just have to have a conference to get together to see what we can do to help. These people are very active, very energetic, they like to earn and pay their own way. But it's a tragedy, a terrible tragedy their not being allowed to do so in the country which has been their home for many, many years.

Interviewer: We can't simply wring our hands in the face of this tragedy. Is Britain prepared to take a lead to give more of the Vietnamese boat people a home here?

Prime Minister: We have in fact all of us to get together. At the moment you know there are 55,000 who've gone to Hong Kong, 55,000. And Hong Kong also has a problem with Chinese people coming across the border from China into Hong Kong. We, too, have taken over 1½ million immigrants, which is a different problem, a different problem, into this country and that, of course, means that we can't do as much taking extra people as we would wish because you can't look at one aspect of the problem without looking at another. But we've taken in immigrants, not only on a temporary basis, not on the basis that they just come here for

jobs, but so many have come with parents, even brought their whole families with them, made their lives and their homes here and that, too, must be taken into account in deciding how many people.

Interviewer: So we would be prepared to take more?

Prime Minister: No, I haven't said that. I've said we're only prepared to go to an international conference and discuss this matter and see how best between us we can solve it.

Interviewer: Well, to come back to the source of the problem, how do you think the countries meeting in Tokyo later this week will be able to bring any pressure to bear on Hanoi?

Prime Minister: I think the country that could really put pressure to bear on Hanoi is Russia. She's perhaps closest to Vietnam and therefore we all of us have to make our own views felt. You know countries like Vietnam as well as countries like Russia are in the end a little sensitive to international opinion. They don't like the world to be obviously against them and in the end there is a pressure we have to bring to bear. I have looked into the position to Vietnam because, as you know, when we were in Opposition we were highly critical of this and this country, with taxpayers' money, is building four boats to go to Vietnam, heavily subsidised by the taxpayer, and of course the first thing I looked to see was that we stop it. Unfortunately it would cost us more to cancel the contract than it would to complete it. But we shall certainly not be giving more to Vietnam after that and I believe that some other countries will try to stop the aid they are giving in revenue terms, not in capital terms in current terms, and try to switch some of it to helping the refugees.

Interviewer: But to come back to the economic problems facing the world. Do you really believe that Tokyo will come up with truly international solutions or isn't this precisely the sort of situations in which government look for national salvation, in other words every man for himself?

Prime Minister: No. You're very cynical and I don't think you should be. Of course we each of us have to look after the world within our own countries. Part of the world within our own countries consists of relationships with other countries and part of leadership consists of getting that across, and we shall not help our own

countries if we just look at things wholly in the light of a short-term future of our own country. I mean we, for example, a trading nation, if we looked just at seeing that we're self-sufficient on oil and not being bothered at what happens to other countries how in the world do you think we should be able to get raw materials from other countries to keep our own industries going? Of course we shall need them. How do you think we should be able to get our merchant ships bunkered in other countries to bring raw materials back? How do you think we should be able to get aircraft refuelled in other countries to carry on trade from one country to another? We live in a world where one depends upon another and to ensure the future wellbeing of our own country. We have to consider the relationships with other countries and between groups of consumer countries like the one meeting at Tokyo next week, with groups of producer countries and even the producer countries have no future without the consumers. So you do have an interdependence. So let's not be cynical about it. This recognises the problem and see how best we can meet the terms.

Interviewer: What then is your bottom line at Tokyo? What must Tokyo produce

Prime Minister: Bottom line? I don't understand what you mean.

Inteviewer: Well what must Tokyo produce for the Summit to be a success. What's the minimum?

Prime Minister: Don't expect sudden solutions. On energy you really have to start at the beginning, each of us to try to have the most economical use of oil, to try to keep down the demand and to lower the demand, and to try by that means to stress to the OPEC countries that their interests, too, lie not in damaging the Western world, not in damaging it, but allowing the Western world to continue on its industrialised course with some hope of expansion. And that is our only hope of helping the under-developed countries.

C.O.I. TELEVISION INTERVIEWS

SOUND TRANSCRIPTION:

1.

MARGARET THATCHER: PRIME MINISTER: 25th JUNE 79

1 - 1: Cams A & B

QUESTION: Prime Minister, you are about to attend your first economic summit Conference, now what do you see as the major problems facing you and the other world leaders in Tokyo?

MARGARET THATCHER: Well at the moment there's one obvious major problem which is the whole oil supply situation and that is undoubtedly going to dominate the Tokyo conference as it rather dominated Strasbourg last week and then you get a sharp entry..increase in a major raw material of the kind We're seeing now. Of course that is one of the main problems that we have to consider, and particularly with oil , it enters into the cost of almost everything else and you know we have to pay more for one commodity it means you have less to spend on the rest and so it has a harmful effect on other world trade, it's what undoubtedly will be the main thing.

QUESTION: One of the decisions you took at Strasbourg was to freeze oil imports over the the next five years until 1978 level, is that the kind of thing you will be advocating in Tokyo at the end?

MRS.THATCHER: I think more important that trying to have specific targets because you know they can be a bit thrown off course by a cold winter or by one country which has expanded its output a little bit more than another - more than having its specific targets I think its absolutely vitally important to show a determination to keep down demand and to cut down demand then it will show the Opec countries that we're not going to put extra pressure on the limited resources.

MRS. THATCHER: (CONT'D) Now there are several ways you can do it, I think most was in our own home - cut it down because we have to anyway because it's so jolly expensive but as far as the public sector's concerned one just has to say that it isn't wasted at all for the standard heating is not over and above what we really need to be comfortable. All of those things can make just a marginal difference to the demand of all of us so it is vital to express a clear determined resolve on the part of each nations that we cut down our demans^d, and that will be ^{the} best thing we can do.

QUESTION: And as well of course as cutting the demand there is the question, can you persuade the OPEC countries for example to increase their production step up productiön there, is this something which you'll be discussing in Tokyo and trying to bring to bear in the...

MRS. THATCHER: I think we all know that the shortage in fact is less than 5% at the moment and we're all trying after all to economise by 5% so that we bring supply and demand into equilibram er but I think there are one or two countries without very much harm to their long term interests could step up demand at the moment if they wished.. If we do our part about cutting down we hope that some of them will manage just to keep the supply sufficient not to push up the price even more.

QUESTION: Er there does seem to be the er prospect Mrs. Thatcher of a world recession...it does seem to be growing and it also tends to be something that economists are getting more and more gloomy about... now you're a committed optomist, will you be able to make any headway in Tokyo do you think towards tacking this problem?

MRS. THATCHER: Do you know I think I'm a committed realist I suppose you're aware I'm an optimist too because there's not much point in being in politics unless you think you can help to shape and influence things for the better a bit. I think rather than talk about gloomy recessions I think it's better to say that we shall not have the prospect of growing and improving our standard of living which we had expected to have and the reason is very obvious - if you have to pay so much more for one raw material and oil is a vital raw material you haven't very much left to pay for others, and so therefore you can't buy goods from elsewhere, so in that sense the outlook for growth is very poor indeed. I think that's rather different from talking about a great big world recession because you know there's still people who think in terms of recession as the kind of recession which hit the world in the 1930's ^{which} ~~but~~ its totally different from anything we've known in the post-war period. Even when we've called it a recession, so yes you do get trade cycles even in the post-war period but they're nothing like as damaging as those we saw in the pre-war period because I think we've learned to handle and manage our affairs a bit better. We've managed to do it on a multinational scale and not only on a national scale.

QUESTION: So in that sense you are fairly optimistic?

MRS. THATCHER: In that sense I don't think we should be too pessimistic, let me put it that way.

QUESTION: The dialogue, Prime Minister between the developed and the developing world has particular problems for Britain I think because of the situation perhaps in Southern Africa, now will Britain be able to take a full part in the discussions on

QUESTION: (CONT'D) relations with developing countries at this summit?

MRS. THATCHER: Oh but of course, of course. Er we have so much experience of of trying to help and cope with developing countries, and after all our technical co-operation programme is excellent, and a very effective one and I used to be a Minister of Education for years ...we specialised in taking so many people into our colleges and universities and polytechnics, er to give them both not only technical subjects but to give them higher education of all kinds. That enables them to go back to their own countries and to teach others so we're pretty em experienced in doing that, we have been pretty helpful in it. When it comes really to helping the developing countries you know the most damaging thing to their interests would be a sharp increase in the price of oil, and the OPEC countries really ought to take this into account in what they're doing this week. Because those countries need oil in fact to get their development under way, and they'll never be able to get it under way if they have to pay such a high price for it where they can't afford it from exports of other goods and raw material, so that really goes right back into the court of the OPEC countries and they mustn't just pass it on to the industrialised countries who themselves will also be in difficulty.

QUESTION: You are particularly concerned Prime Minister about the ^{plight of the} South East Asia refugees the boat people now what should this summit be doing to try and solve this problem?

- 1: (C)NT'D)

MRS. THATCHER: Two things. First we'll try to do everything we can to bring pressure to bear on Vietnam not to act in this cold callous way as to try to get people to leave having taken all their currency and possessions from them and then just cast off in boats and not knowing what's going to happen to them. That is a cold callous uncivilised country that's doing and behaving...doing those things...behaving in that way ...and we shall try to bring the pressure of international public opinion to bear on them. Secondly refugees from that kind of tyranny really must be able to look to the free world to help them, no one country can do it, in Hong Kong the total goes up almost every week we've got about 55,000 people there.... in other countries have them too and Thailand has a tremendous problem, so the only way is to try and get together internationally to see what we can do about it, there's a staging camps and ultimately to try and settle them, but still we must remember we've got to bring pressure to bear on Vietnam and other countries who are behaving in that way, otherwise as soon as we try to deal with this wave of refugees they'll turn out another, and that would be terrible.

QUESTION: So what sort of pressure are you thinking of //TWO VOICES

MRS. THATCHER: No no you can only try to bring international pressure to bear upon them by acting together.

QUESTION: The summit itself Prime Minister, in the past er some people say that the results of summit conferences have tended to be philosophical rather than practical how do you feel it might be improved, do you think////

INTERUPPTION

MRS. THATCHER: (CONT'D)

No, I've been one of the people who've been very critical of some of the communiques that come out of summits I mean sometimes they are full of pious platitudes and I hope to goodness we shall do less of that and em do one or two more practical things, I think there have been times when one or two more general ideas have come out of a summit which really have been of immense practical value. For example the one that we had in London made a quite clear declaration that the world should not go generally protectionist. Now that was because I think all countries recognised that if we were to do that the effect would be accumulative, one country might be alright at first but then another country would restrict its trade and then a third, and in the end it would make us all poorer, but the fact that everyone met together and made that statement did have an effect upon the behaviour of each of the individual countries and did manage to keep world trade greater than it would have been otherwise, that I think is a specific example. This one I think can have an effect on the energy situation both in the short term and in the longer term because we just can't sit back and say well there's going to be enough oil to last for ever, we have to recognise that we must make provision for alternative sources of supply and seriously have a bigger look at nuclear than we are now.

QUESTION:

Finally Prime Minister as this is your first visit to Japan as Prime Minister are you looking forward to it?

MRS. THATCHER:

Yes I'm looking forward to it, em it's pretty intensive and of course jet lag is an awful nuisance when you're going at the last minute and going straight into talks and negotiations, but we'll cope..we'll cope alright. Thankyou.

Q;

Thankyou very much indeed.

2 - 1:

Q: Prime Minister, can you tell us why you've chosen to visit Australia so soon after your election?

MRS. THATCHER: Well as you ? because I'm very well aware that not a lot of Prime Ministers have visited Australia and I thought I would like to show the closeness of the ties between our two countries, that I do give it pretty high priority, so that's the first reason. Second Mr. Malcolm Fraser isn't at the Tokyo summit, and I thought it might help him to hear just exactly what went on from someone who was there rather than just ordinarily from the public pronouncements, and thirdly there are really quite a lot of problems to discuss and again I thought it would be very useful if he and I could have a talk before we went to the Commonwealth conference at Lusaka. That's 3 very good reasons.

QUESTION: When you say about the problems to discuss are you talking about the special relationship...the former special relationship between Britain and Australia which some people say ended when Britain joined the Common Market?

MRS. THATCHER: Oh no I don't think it did it is just a...it is just a special relationship it's there, or I mean there just are close ties between this country and Australia you don't need to explain them they're there, and it would be quite silly to try to act as if they weren't there. They're also with New Zealand for the same reason.

QUESTION: So what sort of problems will you specifically be discussing with Mr. Fraser which are common to both Britain and Australia? /OVERLAP

2 - 1: CONT'D

Specifically?

MRS. THATCHER: / Well on the Commonwealth of course we will need to discuss one or two things about the future of Rhodesia er and the relationship between some of the other commonwealth countries and countries like Australia and Britain. There is a very big energy problem which affects Australia and ourselves, er there is the problem of things that are happenning in Vietnam now, and also there's the general world economy, because it's very difficult for any country to thrive and prosper at a time when world trade is not expanding, and it's not going to expand very fast if the price of oil goes up very sharply.

QUESTION: So you will be as . . . as it were, at a mini-summit with Mr. Fraser?

MRS. THATCHER: A mini-summit - I suppose that's quite a good way to describe it.

QUESTION: Thank you very much indeed.

(Copied to
Mr. James)

Butler memo.

July
28th

Speech

Macale

(not word
for word)

We are only half way through 1979 but so far this year we have had to watch the prospects for the world economy deteriorate month by month. We began the year with a good chance of a better balance of growth between the major countries and less exaggerated balance of payments surpluses and deficits also. There was greater currency stability. Because of what has happened on oil the prospects are now much worse, especially on inflation.

For the second time in 5 years the vulnerability of the world economy to developments on oil has been brought home to us. The economic growth which looked like a natural law in the 60's looks a fragile thing in the second half of the 70's. This is a profound change for the developed countries. But among the biggest sufferers are the developing countries who have no oil. They lose through increased oil prices, through reduced world activity and through the fact that the developed countries are less well placed to help them. All this means more instability in the world, both economically and politically.

/I believe

I believe the economies of the countries of the free world have the resilience to surmount these difficulties, as they did in and after 1974. But the room for manoeuvre in economic policy in our countries has been reduced.

In meeting here in these circumstances I believe that we assume a heavy responsibility.

We imply that we can offer leadership and guidance not only to our own countries, but to others.

If we leave the impression that we are failing to face facts, or are taking refuge in pious platitudes, the state of the world will be worse than when we came.

It seems to me that our best course ~~is~~ is to make the position on energy and the world economy clear in the simplest language we can find; to say what we can do; but not to be afraid to say what we can't do. We shall inspire more confidence by combining realism with candour than by burying the truth in meaningless phrases.

/ Nowhere

Nowhere does this apply more than to the problems of energy.

I do not want to anticipate the detailed discussions we shall have about this but I would like to pick out two or three points which are important.

The first one is that while we must do everything we can in the immediate situation, we have to prepare for the long term too.

We must keep up, year after year, our efforts to reduce the dependence of the economies of the free world on uncertain sources of supply of oil.

Further, we ~~may~~ should allow the price mechanism to do its job to the full in reducing demand and increasing supply.

This does not exclude other action.

And we have to face squarely the fact that nuclear power is going to be needed on a large scale to fill the energy gap.

We must apply our efforts to developing it and at the same time do all we can to reduce or eliminate the risks associated with it.

After energy, the second theme where a major response is required of us is inflation.

I believe the lesson of what happened to us from 1974 onwards is that we must not accommodate the inflation produced by oil price increases.

We must fight it.

To do that we have to convince our peoples that the oil price increase represents a loss of real income which ~~has~~ has to be accepted.

This does not mean giving up all hope of growth.

On the contrary, this realistic approach provides the best foundation for the resumption of growth.

And we will have to back that up by doing all we can to improve the efficient working of industry, agriculture and commerce, and the speed with which they respond to change.

This too calls for a sustained effort.

I believe that if we can to achieve a balance of supply & demand in oil we must make real some understanding with producer countries. I regard all need to consider carefully what the basis of any approach to them should be.

I regard all these precepts as applicable to the United Kingdom.

On energy, although like two other countries represented here we are a major energy producer, we see our interests as closely identified with those of consumer countries.

We are therefore making determined efforts to save energy.

Again, we know we have a particular problem in the need to rebuild the strength of our industries and make them competitive.

.. What I have said about fighting inflation and about adapting to change applies even more forcibly to us.

We are here to give a lead. To succeed in that I believe that we should approach our problems in the realistic spirit I have described.

CONFIDENTIAL



H M Treasury

Parliament Street London SW1P 3AG

Sir Kenneth Couzens Switchboard 01-233 3000
KCB Direct Dialling 01-233 4225

~~XXXXXXXXXX~~

Second Permanent Secretary
Overseas Finance

26 June 1979

B Cartledge Esq
10 Downing Street
LONDON SW1

Dear Sir

TOKYO : PRIME MINISTER'S OPENING STATEMENT

As requested, I attach some paragraphs which the Prime Minister may care to use as a chopping block in preparing an opening statement for Tokyo.

I am sending copies of this to the Private Secretaries to the Chancellor of the Exchequer, Foreign Secretary, Sir John Hunt, Sir Michael Palliser and Sir Jack Rampton.

Yours sincerely,

Graham Ingham

RP K E Couzens

TOKYO

DRAFT FOR PART OF PRIME MINISTER'S OPENING STATEMENT

less exaggerated

We are only half way through 1979 but so far this year we have had to watch the prospects for the world economy deteriorate month by month. We began the year with a good chance of a better balance of growth between the major countries and a better balance of payments surpluses and deficits also. There was greater currency stability. Because of what has happened on oil the prospects are now much worse, especially on inflation.

2. For the second time in 5 years the vulnerability of the world economy to developments on oil has been brought home to us. The economic growth which looked like a natural law in the 60's looks a fragile thing in the second half of the 70's. This is a profound change for the developed countries. But among the biggest sufferers are the developing countries who have no oil. They lose through increased oil prices, through reduced world activity and through the fact that the developed countries are less well placed to help them. All this means more instability in the world, both economically and politically.

3. I believe the economies of the countries of the free world have the resilience to surmount these difficulties, as they did in and after 1974. But the room for manoeuvre in economic policy in our countries has been reduced.

Paris Ratitude

4. In meeting here in these circumstances I believe we assume a heavy responsibility. We imply that we can offer leadership and guidance not only to our own countries, but to others. If we leave the impression that we are failing to face the facts, or are taking refuge in ~~verbiage or formality~~, the state of the world will be worse when we leave than when we came. ~~I speak with humility as a newcomer, but~~ It seems to me that our best course is to make the position on energy and the world economy clear in the simplest language we can find; to say what we can do; but not to be afraid to say ~~also~~ what we ^{can't} cannot do. We shall inspire more confidence by combining realism with ~~simplicity, and~~ confidence is what the world badly needs.

manipulates physics

How by burying the truth in meaningless phrases

follows

Cardow

5. ~~I think it is quite clear that our first response to the situation which faces us has to be to do more about saving and producing energy.~~ I do not want to anticipate the detailed discussions we shall certainly have about this but I would like to pick out ^{two or three} ~~two or three~~ themes which I see as important. ^{The} First while we must do everything we can in the ~~short term~~, we have to prepare for the long ^{term too} haul. ~~For every economic and political reason we must keep up, year after year, the effort to reduce the dependence of the major economies of the free world on uncertain sources of supply of a critical raw material.~~ of oil.

immediate situation

our efforts

None does this apply more than to the problem of energy

→ all

6. ^{fully} Secondly, we should allow the price mechanism to do its job ~~to the full~~ in reducing demand and increasing supply, ~~without excluding direct action intended to accelerate these effects.~~ ~~Thirdly,~~ we have to face squarely the fact that nuclear power is going to be needed on a large scale to fill the energy gap. We must apply our ^{efforts} ~~energies~~ to developing it and at the same time do all we can to reduce ~~or eliminate~~ the risks associated with it.

This does not exclude other

And

7. ^{the} ~~the~~ second ^{area} ~~area~~ where a major ~~policy~~ response is required of us is ~~of~~ inflation. I believe the lesson of what happened to us from 1974 onwards is that we ~~have to~~ ^{must} fight the inflation produced by oil price increases, and not accommodate it. To do that we have to convince our peoples that the oil price increase represents a loss of real income which has to be accepted.

After energy

not clear

like must talk it.

my all hope of

8. This does not mean giving ~~a low priority to~~ growth. On the contrary, ~~it means providing~~ the best foundation for the resumption of growth. And we will have to back that up by doing all we can to improve the efficient working of ~~our~~ economies and the ~~flexibility of their response to~~ change. This too ~~is a medium term response calling~~ ⁵ for sustained effort.

this realistic approach provides

Speed with which they respond to

industry, agriculture & commerce

9. I regard all the precepts to which I have referred as applying to the United Kingdom. Like two other countries represented here, we are a major energy producer ~~but~~ we see

0 energy altho

we know

our interests as closely identified with consumer countries.
~~and we have shown our readiness to join in energy saving.~~
~~The British consumer is taking perhaps even a bit more than~~
~~his share of the effort.~~ Again, ~~we~~ have a particular
problem in the need to rebuild the strength ~~and competitive~~
~~efficiency~~ of our industries ~~but~~ what I have said about
fighting inflation and about ~~promoting flexibility of~~
~~response applies~~ to us ~~also~~. It is in that spirit that I
~~look forward to joining in our further discussions.~~

even
more
flexibly

adapting to change

and make them
competitive.

and
take on ~~what~~ we are ~~making~~ ^{determined} efforts to
~~including~~ ^{and} ~~the~~ energy.

We are ~~not~~ ^{not} ~~to~~ ^{to} give a lead
I believe therefore that we should approach our
problems in the realistic ~~but determined~~ spirit.

SECRET

of Defence (A2) 'CTB' /



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-9000000 218 2111/3

SECRET

26th June 1979

MO 12/2/5

Prime Minister

Handwritten initials

Dear Bryan.

At her briefing meeting yesterday morning the Prime Minister requested supplementary briefing on National Seismic Stations (NSS) in the light of the American decision (reported in Washington telno 1551 of 16th June) that it was impossible on political grounds to find provision from US funds for NSS on UK territory.

In our opinion, there is little indication of flexibility in the American position over possible funding of UK NSS. In view of the distinct possibility that the President will wish to explore options on NSS in the margins of Tokyo, the Prime Minister may wish to see our assessment of the more obvious options, at Annex.

American officials continue to urge that the UK move "more than half way" towards the Soviet demand for ten NSS in the UK and dependent territories as the only way of breaking the present impasse in the negotiations. The Prime Minister may wish to ascertain whether the President would be prepared to lend wholehearted support to any other option, particularly in the light of his appeal to President Brezhnev to stop obstructing progress by the unrealistic demand for ten NSS on UK territory (UKDEL Geneva telno 214 of 20th June).

The Annex has been developed in consultation with Foreign and Commonwealth Office officials, but you wish no doubt wish to check whether the Foreign and Commonwealth Secretary is content.

/ I am ...

B G Cartledge Esq
No 10 Downing Street

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SECRET

2.

I am sending copies of this letter to George Walden (FCO),
Martin Hall (Treasury) and Martin Vile (Cabinet Office).

Yours sincerely,

Roger Facer
(R L L FACER)

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ANNEX TO

MO 12/2/5

DATED 26TH JUNE 1979

PMVR(79)12 Supplement

26th May 1979

ECONOMIC SUMMIT, TOKYO

28TH-29TH JUNE 1979

COMPREHENSIVE TEST BAN (CTB) - UK NATIONAL SEISMIC
STATIONS (NSS) OPTIONS

Background Note

The US Administration has concluded that it was impossible on political grounds to fund the provision of NSS in UK territory. Consequently, unless the President can be persuaded to reconsider this position, the option adopted by Ministers on 24th May of offering four or possibly five NSS, but of financing no more than one (or at most two) would appear to be foreclosed. The Americans continue to urge that the UK should move "more than half way" to the Soviet position.

2. The Prime Minister may wish to explore with the President other options, amongst which are the following:

a. Restatement of our Present Position: There has been no indication to suggest any weakening in the Soviet view that this position is wholly unacceptable. The Soviets could make a persuasive case that we were responsible for preventing progress. Without more than the nominal American support we have so far received for this position, we could be hard pressed to counter this.

b. Reverting to Zero UK NSS: Our original proposal, supported by the Americans, was for association with the Separate Verification Agreement (SVA); we did not seek equal rights (or obligations), though we did seek the right to be involved in all aspects, notably the Joint Consultative Commission (JCC). In principle this is still our position, though we have conceded one NSS. Though they have never explicitly rejected the idea of "association" by the UK, by implication the Russian counter-proposal for ten UK NSS does just this.

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c. Withdrawal from the SVA: It is reported that this possibility was raised at the Vienna Summit and that the Russians indicated that they were not interested in this approach. Bilateral exchanges in Geneva suggest that the Russians would argue equality of obligation on NSS between the three negotiating nuclear weapon states and that membership of the SVA is not relevant. Since the prime purpose of the SVA is to provide for confidence between the two superpowers, and since we have no independent means of testing, there might be a limit to the extent to which the Russians could press for UK NSS were we to forego our place in the SVA. US reaction would depend on whether we could withdraw without prejudice to American NSS objectives. UK withdrawal for the SVA could involve us in certain penalties. Technically, under all possible verification arrangements, we would be dependent upon data and information from the US to satisfy us of Soviet compliance, and our withdrawal should not affect this providing it was done with minimal damage to the American negotiating position on verification. On a political level, withdrawal from the SVA could undermine our long-standing position on the importance of arms control verification, particularly if it were argued that we were not prepared to back this principle with financial support. We would be excluded from the JCC, where consultations on the whole test ban regime and its future would take place. Our reduced status in the CTB arrangements would contrast unfavourably with the leading role we have consistently taken on nuclear non-proliferation.

d. To offer more than one NSS but less than ten: Negotiability would depend on wholehearted American support - the general US view is that we should offer (and pay for) six NSS. It would also depend on whether the Soviets would in the event be prepared to drop equality of obligation and by how much, there are some small signs of flexibility in the Soviet position. If we were to make this offer in principle and it were accepted, there might be scope for negotiating a reduction in the financial impact. The possibilities include a selection of sites which minimise practical difficulties and hence costs and a relaxation of the timetable for UK NSS installations so as to push some expenditure so far to the right that it would not be incurred unless the Treaty were extended beyond three years. An offer of six UK NSS would entail a willingness to bear the whole costs because it is clear that the Americans are unable to commit themselves to a financial contribution.

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3.

This does not, however, rule out the possibility that, if the UK funded the NSS and so led to the achievement of a major objective of the US President, the US would recognise this in the financial terms for other US/UK co-operation in the nuclear field.

e. To accept ten NSS: Not only would this option be most expensive (even with cost reduction along the lines indicated above), but it would represent a total concession to the Russians, and one which neither they nor the Americans are likely to expect.

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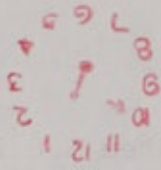
4.

LINE TO TAKE

1. We recognise the importance of achieving ten NSS in the Soviet Union.
2. Wholehearted American support needed if we are to budge the Russians from demands for ten NSS in UK.
3. We have a strong case for being treated differently from the two superpowers and see little justification to move from our present position of one NSS.
4. In the light of your discussions with President Brezhnev, how flexible do you consider Soviets are prepared to be on NSS in order to achieve a treaty?
5. There are a number of options. But many involve financial commitment beyond that which we would consider justifiable. One possibility would be a new UK negotiating position proposing UK withdrawal from the SVA. This might serve to impress upon the Soviets the unacceptability of their demands. We could re-consider the issue in the light of further Soviet reaction. We would welcome your views.

SECRET

SECRET



26 JUN 1979

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

26 June 1979

~~Prime Minister~~
by
2/6

Dear Bryan

International Nuclear Fuel Cycle Evaluation (INFCE)

At yesterday morning's Briefing Meeting for the Tokyo Summit the Prime Minister enquired about INFCE. You may therefore find it useful to have with you the enclosed paper on the subject which is slightly more detailed than anything the Prime Minister has seen so far.

I also attach, in case it is of use, a paper on the Japanese defence effort.

Yours GLEN

P Lever
Private Secretary

Bryan Cartledge Esq
10 Downing Street

CONFIDENTIAL

INTERNATIONAL NUCLEAR FUEL CYCLE EVALUATION (INFCE)

1. The International Nuclear Fuel Cycle Evaluation was set up at American initiative, following the 1977 Downing Street Summit, to examine ways in which the peaceful uses of nuclear energy can be promoted while minimising the risk of nuclear weapons proliferation. It is due to report in February 1980. More than 50 countries are participating, including all leading industrialised states and a cross-section of others. The United Kingdom is taking an active part.
2. INFCE is a technical rather than a political exercise. There will be reports from eight working groups dealing with different parts of the nuclear fuel cycle. These will be advisory, rather than binding on Governments. There will be no policy decisions or recommendations as such. Nor have any technical "fixes" emerged, in the sense of new fuel cycles which would be safe from being diverted to weapons purposes. The overall conclusion of INFCE is likely to be that, while current nuclear reactors using uranium can meet most needs for the rest of the century, fast reactors are likely to be increasingly necessary economically thereafter and that R&D programmes for them, including the separation of plutonium by reprocessing, will need to continue in the meantime.
3. At the outset of INFCE there was a clear difference of approach between the Americans and Canadians on the one hand and most of the rest of the industrialised countries on the other. US policy was based on President Carter's determination to eliminate the use of reprocessing and plutonium so far as possible, and to concentrate on the "once through" use of uranium in nuclear power reactors. During INFCE this gap has slightly closed. The Americans now seem willing to accept the need for some reprocessing. In this respect they have come closer to the UK and French position, although they still do not accept the case for reprocessing on environmental or waste management grounds. But the FRG and Japan are also interested in reprocessing for re-cycle in thermal reactors, about which we and the French share American misgivings because it would offer an argument in favour of early use of plutonium in third world countries.
4. A further issue in dispute has been the future availability of uranium. Here the uranium rich Americans take a rather more optimistic view than the Europeans. They put less weight on political factors which are important to those dependent on imports; and are more prepared to include in their forecasts estimated reserves which have yet to be fully proved. Again, discussions during INFCE have produced some narrowing of differences, and it should now be possible to find

/agreed

agreed language.

5. As in all international discussion of nuclear energy and non-proliferation, the nuclear ~~have-nots~~ have pressed hard for maximum access to the nuclear technology or at least the provision of equipment and materials from the nuclear haves. All the Tokyo Summit Governments share an interest in not yielding to this pressure to the extent of breaking down the barriers to proliferation of weapons technology.

6. Finally the Seven would probably all agree that some further international discussions will be needed after the end of INFCE next year. The Americans may press for some kind of continuation of INFCE itself under another guise. Others like the French will resist this. We think it should be possible to build on the results of INFCE and on existing institutions such as the International Atomic Energy Authority (IAEA) to provide a framework in which international discussions can continue, perhaps with the aim of getting the main countries with an interest in nuclear energy to subscribe to a common set of principles about nuclear trade and non-proliferation although we are only just beginning to explore our ideas on this with our partners. One particularly important issue remaining to be resolved, primarily between developed countries, is the terms on which uranium suppliers will permit reprocessing and the use of separated plutonium.

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JAPANESE DEFENCE EFFORT

1. Following the disbanding of the Imperial Army and Navy at the end of the war, and a constitutional prohibition against the maintenance of "war potential", Japan at first only hesitantly built up her "Self Defence Forces". These now total about 240,000 men (Ground 155,000; Air 45,000; Maritime 40,000). Defence expenditure in 1978 was about \$9 billion (0.93% of GDP). The Japanese Government have repeatedly undertaken to keep defence spending below 1% of GNP. But if they used the same method of calculation as Nato, which includes pensions, housing and other "social" expenditure, this percentage would already be exceeded; on that basis total Japanese defence expenditure is 70% of the comparable figure for the UK.

2. While the Japanese are continuing to improve the quality of their defence forces, there is no prospect in the near future of a major increase in numbers or their role, which is restricted to defence of Japanese territory and the immediate approaches. The SDF are not deployed overseas. Although the constitutionality of the SDF is still periodically challenged in the courts, discussion of defence matters has become more open and opinion polls show that the Japanese public supports the existence of the SDF subject to civilian control and the non-acquisition of nuclear weapons. (Japan ratified the Non Proliferation Treaty in 1976.)

3. Japan's strategic defence is dependent on the American "nuclear umbrella" and the treaty relationship with the United States. The Treaty of Mutual Cooperation and Security

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of 1960 has continued on a year to year basis since 1970. 45,000 American troops are based in Japan and there are regular consultations at Ministerial and staff levels, and guidelines for joint action in the event of hostilities. There is joint training and the SDF's equipment is still overwhelmingly American, often built under licence in Japan. There is as a result a sizeable defence industry but Japanese policy has been not to export weapons. However we have managed to sell some equipment to the SDF, including Rolls Royce propulsion units for the Navy, and hope to increase sales as a means of reducing the bilateral trade imbalance. Possible items for sale to Japan include Harrier, the FH70 Howitzer, and Chobham Armour. General Nagano, the Chief of Staff of the Ground Self Defence Forces, is expected to visit the UK in the spring of 1980 at our invitation.

Far Eastern Department
Foreign and Commonwealth Office
25 June 1979

CONFIDENTIAL

No action.

Mr
2/11



BRYAN CARTLEDGE
Secretary of State

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PS/EUS

Bureau Secret

P

AIRBUS

A

The High Commission in Ottawa has recommended (Ottawa telno 246) that the Prime Minister should be briefed to raise the possible purchase of Airbus by Air Canada with Mr Clark in Tokyo. This came too late to include in the formal briefing for the Summit.

2. Air Canada are on the point of deciding whether to add 12 Airbus A310s (in which the UK has a 20% stake) or Boeing 767s to their fleet. Neither would have Rolls Royce engines. The French and the German Ambassadors in Ottawa are also suggesting that their Heads of Government be briefed to encourage Mr Clark to steer Air Canada towards Airbus. It would be a major sales breakthrough if Airbus could capture a second large North American customer (after Eastern Airlines). If a suitable occasion arises, it would be useful if the Prime Minister could support her European colleagues in pressing the case for Airbus. It is in the long-term interests of third countries that the US should not monopolise the manufacture of civil aircraft, and the A310 is likely to be every bit as good an aircraft as its American competitor. Mr Clark might react by asking if HMG would agree to change the previous administration's airports policy (which is at present under review) which required Air Canada to move from Heathrow to Gatwick. But the Prime Minister could legitimately reply that this is an entirely separate issue.

MR Morland

M R Morland

Maritime, Aviation and Environment
Department

cc
Mr Butler
Miss Brown
FRD
NAD

25 June 1979

A letter has been sent quickly
to Mr 20.
Nickson
26/6

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CONFIDENTIAL

OTTAWA 220040Z JUN 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 246 OF 22 JUNE

INFO PARIS AND BONN

AIRBUS

1. DURING THE COURSE OF A CONVERSATION WITH MR MAZANKOWSKI, MINISTER OF TRANSPORT, THIS MORNING I RAISED THE QUESTION OF THE POSSIBLE PURCHASE BY AIR CANADA OF THE AIRBUS A310 AND SPOKE STRONGLY IN SUPPORT OF THIS. THE MINISTER SAID THAT THE TWO OFFICIAL COMMITTEES SET UP BY THE PREVIOUS CANADIAN GOVERNMENT HAD NOW REPORTED AND THAT HE THOUGHT THE NEW GOVERNMENT WOULD TAKE A DECISION BEFORE AIR CANADA'S NEXT BOARD MEETING ON 9 JULY. HE COULD NOT, HOWEVER, INDICATE TO ME WHAT THAT DECISION WAS LIKELY TO BE.

2. IN THESE CIRCUMSTANCES IT LOOKS AS IF THE DECISION MAY BE ONE OF THE FIRST MAJOR ISSUES WHICH MR CLARK HAS TO FACE ON HIS RETURN FROM TOKYO (SMI CLN) AND THAT IT MIGHT THEREFORE BE VERY HELPFUL IF IN TOKYO HE COULD BE INFORMALLY APPROACHED ON THE SUBJECT OF THE AIRBUS. MY FRENCH AND GERMAN COLLEAGUES ARE REPORTING ACCORDINGLY TO THEIR GOVERNMENTS AND SUGGESTING THAT THEIR HEADS OF STATE MIGHT USEFULLY BEAR THE AIRBUS ISSUE IN MIND AND SUPPORT THE A310 PURCHASE IF AND WHEN THEY HAVE INFORMAL TALKS WITH MR CLARK IN TOKYO (MY EEC COLLEAGUE IS RECOMMENDING LIKEWISE TO MR ROY JENKINS). I RECOMMEND THAT MRS THATCHER BE BRIEFED TO DO LIKEWISE.

FORD

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PS

PS/LPS

PS/MR RIDLEY

PS/PUS

SIR A DUFF

MR BUTLER

MISS BROWN

MR FERGUSON

MR FRETWELL

MR ROBERTSON

MR LEAHY

ADDITIONAL DIST:

EUROPEAN AIRCRAFT

INDUSTRY

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Foreign and Commonwealth Office

London SW1A 2AH

22 June 1979

Dear Bryan,

Prime Minister

*15/6
22/6*

Tokyo Despatches

I enclose copies of despatches from our Ambassador in Tokyo on Mr Ohira and on economic policy towards Japan. The Prime Minister may be interested to see them in advance of her visit to Tokyo for the Summit.

Jo even
Steph

J S Wall

B G Cartledge Esq
10 Downing Street

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FE
20BRITISH EMBASSY.
TOKYO.

2 May 1979

The Rt Hon Dr David Owen MP
Secretary of State for Foreign and
Commonwealth Affairs
London S W 1

FEJ 014/2		
RECEIVED IN REGISTRY No. 50		
10 MAY 1979		
DESK OF USER		REGISTRY
INDEX	PA	Action Taken
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Sir

MR MASAYOSHI OHIRA, PRIME MINISTER OF JAPAN

1. Mr Ohira has now been Prime Minister of Japan for more than four months, but remains a relatively unknown figure to the western world at large despite having occupied in the past the posts of Finance Minister (1974 - 76) and Foreign Minister (1962 - 64 and 1972 - 74). He became Prime Minister in December 1978 as he recently admitted much to his own surprise. In two months time he will be presiding at the Summit meeting, though by then he may have no less than three colleagues who have been heads of Government for less long.

2. Looked at through western eyes Mr Ohira has little charisma. He is 69, country born, a bureaucrat turned politician, rather short with greying hair. His mouth tends to turn down which gives him a slightly gloomy appearance, which is not improved by the fact that in normal circumstances his eyes tend to be mere slits with the result that he seems frequently to be asleep in the midst of Diet interpellations! But he can be animated in conversation, when his

/ eyes



eyes light up and he has a nice sense of humour. To his friends and colleagues he is called Oto-san, perhaps translatable as Big Daddy, but although a Christian he has never affected the habit of a western name, or indeed any familiar form of his given name. In conversation with his Private Secretary we were both at a loss to know how his Summit partners could find a short name to call him!

3. His most precious gift in Japanese eyes is willingness to search longer than most to achieve consensus, though he is not afraid to "go for bust" if he sees that consensus is impossible. His pushing through of the 1979 budget exemplified this. He is a good listener but a bad speaker. Indeed there is a clearly recognisable advertisement on television of a man who in response to questions never seems to get beyond the Japanese equivalent of "really", "is that so", "well" and so on till with a flourish he produces the goods from behind his back. In sum he is something of a father figure and it is this apparent ponderousness which seems to endear him to the Japanese population. Certainly his campaign when seeking the Presidency of the party was very well received in the provinces and he spoke more freely before those audiences than he does in the Diet or on television. Perhaps like some other countries the Japanese do not like their politicians to be too glib. In this respect he is favourably compared with Mr Fukuda.

4. His performance so far as Prime Minister has been typical of the man. There have been no dramatic gestures or events.

/ He



He quickly decided that his economic policy was all-important and sought to enlist maximum support for his proposals. We in Britain have thought him too conservative - that he should have gone for higher growth, cut taxes, increased deficit financing and so on, but he has judged his countrymen well. There is now almost unanimous support for his judgment of what is possible without throwing financial discipline to the winds. The result is growing confidence not only that Japan is now fully emerged from recession, but also that she cannot be knocked off course by the threat of a further oil shock. There is also confidence (again not apparently shared in Britain) that Japan's course for some time ahead, and I speak of up to 1981 at any rate, is set and will be of continuing success in all fields.

5. He lacks some of Mr Fukuda's knowledge of English, but I personally wonder if this has not given rise in the past to misunderstandings. His English was nothing like as good as people thought. Mr Ohira understands a good deal of English and will speak it for social purposes. He can make a speech from a written text as he used to do to the IMF and did to the Trilateral Commission this week and be entirely understandable (this may be helpful for prepared opening statements at the Summit), but in the cut and thrust of discussion he will not speak in English, and in my view would be unwise to try.

6. In fact of course he is not without experience of international discussions of the Summit type. As Finance Minister in 1975 he

/chaired



chaired two Group of Ten meetings. He attended the first two economic Summits, at Rambouillet in November 1975 and Puerto Rico in June 1976. In the preface to the English translation of his autobiographical work published last month and distributed by the Foreign Press Centre, he describes his deep personal appreciation of the value and significance of summit meetings, and pledges his efforts to make the Tokyo Summit fruitful and productive. His experience of previous summits has demonstrated to him, in his words, that it is important for Japan to deal with international economic problems with courage and good faith, and that summit conferences, although they cannot solve the world's currency and trade problems, nevertheless play a role in maintaining understanding and trust. This balanced approach is consistent with Mr Ohira's philosophy of avoiding dramatic gestures. He has written that it is better to eliminate wrongs than to take new initiatives. He has described his own goal as to go straight to the heart of the matter, yet deal with it objectively.

7. As for his intentions towards Europe and the United States
--- I cannot do better than send you what he said to the Trilateral Commission. I believe it should give grounds for optimism about his and Japan's policy. During his career Mr Ohira has consistently shown himself to be persuaded of the central importance of the Japan/US relationship. He has commented with appreciation on the power of the United States (and has ascribed it in part to the extent and boldness of US investment in research and development).

/ He

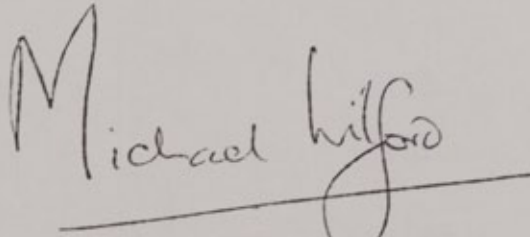


He has also however criticised the decline in the leadership exercised by the United States in the world economy since the suspension of the gold standard. Although the United States will remain of prime importance for Japan, I believe that Mr Ohira is ready to look on the contribution of other Summit participants, and on Europe in particular, with an open mind.

I am sending copies of this despatch to H M Ambassadors at Washington, Paris, Bonn, Rome, to the High Commissioner at Ottawa and to Sir D Maitland in Brussels.

I am, Sir

Yours faithfully


Michael Wilford



ECONOMIC POLICY TOWARDS JAPAN

SUMMARY

1. Japan has listened to the representations of her partners about her recent large current account surpluses. Domestic demand and import volume are up; export volume is down. The surplus has fallen dramatically. Aid is up. Policy is to ensure a balanced and sustainable pattern of trade and payments. (Paras 1-4).
2. The current account may return to surplus. If so, we should advocate medium-term adjustments not short-term palliatives. Important changes in the character of the economy are already in progress. (Paras 5-7).
3. Japan's surplus with Britain and the Community continues to grow, despite some helpful moves by Japan. The Japanese market is exceptionally difficult to penetrate although tariffs are low and quotas few. There are a number of sectoral problems which need to be addressed, but the fundamental problem is an instinctive reserve about buying from outside Japan which derives from history and the clannishness of Japanese society. (Paras 8-12).
4. This is changing and Japanese leaders are encouraging change, but national outlooks take time to transform. We can encourage change but cannot force the pace. (Paras 13-14).
5. We should not discourage our exporters by over-emphasising the difficulties of the market. There is room for much more effort, especially by our largest companies. Returns can be very respectable in the long run. The Japanese are interested in many forms of economic cooperation with us. The market is large and growing and becoming more open. (Paras 15-17).



BRITISH EMBASSY,
TOKYO.

24 May 1979

The Rt Hon the Lord Carrington KCMG MC PC
LONDON

My Lord

ECONOMIC POLICY TOWARDS JAPAN

1. Much attention has been focussed in recent years on Japan's balance of payments and on her commercial relations with the Community and the United States. With the leaders of the principal Western countries assembling in the Japanese capital at the end of June, it may be timely to review the present situation and to offer some suggestions for British policy both towards the wider issues and on the promotion of our own commercial interests here.
2. Japan has been in substantial surplus on current account since 1975 and we have argued that, as a result, she has taken less than her fair share of the consequences of the recession and has added to the strains imposed upon the world trade and payments system by the surpluses of the oil producers. In their dialogue with Japan her partners have generally pressed four requests: the stimulation of domestic demand, the further liberalisation of the Japanese market, the appreciation of the yen (all of these designed to bring down the surplus on current account) and an increase in aid and other net long-term capital outflows.
3. Japan's response has been substantial. Domestic demand has risen remarkably fast. The yen rose sharply in 1977 and 1978. The Government several times attempted to slow the rise, but have now been converted to the advantages of a fairly high rate and have spent very heavily from the reserves trying to brake the



recent decline. The deficit on long-term capital account last year substantially exceeded the surplus on current account. Aid disbursements rose by more than half (in dollar terms) and the Government is well on course in its programme of doubling aid in three years. The current account surplus fell by a third in yen terms in 1978. In dollar terms, the fall was not very great, but the fall this year has been dramatic. The current account was in deficit in April. The Government and the leaders of Japanese industry have campaigned to create an atmosphere favourable to imports. Import volume has risen, imports of manufactures have risen faster still and export volume has declined; in real terms, the adjustment has been most striking.

4. The Japanese Government's commitments on the management of the economy in the future were authoritatively stated recently in Washington by Mr Ohira. They will continue to seek economic growth through the expansion of domestic demand rather than exports. They will continue to encourage imports. And they will work for a "balanced and sustainable pattern of international trade and payments". Despite a tendency to stress the basic balance (which is in deficit), the Japanese understand that they must do what they can to ensure that any current account surpluses are modest.

5. Neither I nor other observers are certain that recent trends will continue. The recent weakening of the yen has not only restored much of the price competitiveness which Japanese exports had earlier lost, but has also reinforced anxieties about inflation which may inhibit expansionary policies. Savings still greatly exceed investment and a return to current account surplus is expected before long. The draft seven-year plan expects it to continue for some time.

6. If this proves to be the case, it will be important that Japan's friends should advocate medium term measures rather than press her to take short term steps which could only be palliatives and might serve to postpone the medium-term adjustments we need



to see (a subject on which my Financial Attaché has initiated correspondence with the Bank of England). Income tax cuts, for example, would add to excess savings and, by increasing the gigantic public debt burden, damage business confidence. Higher growth targets are scarcely attainable anyway, but if achieved would hardly make Japan an easier partner to live with. Pressures for immediate results might only result in repetitions of the recent emergency import schemes. An economy so large cannot be re-oriented in the space of a fiscal year or two.

7. Important changes are in fact in progress. The Government proposes to increase Japan's comparatively low tax revenues (by the introduction of VAT next year) and to increase Government expenditure on social security and infrastructure. This could in time help to bring down the volume of savings to a level more closely approximating to the likely levels of investment. The increasing proportion of elderly people should also have this effect. The behaviour of companies is changing. Reliance on bank finance, hitherto extraordinarily high, is being reduced and companies are seeking profits rather than market share. All these developments should, in time, make coexistence and competition with Japan more comfortable.

8. The underlying trends and the recent figures are therefore for the most part very much in the direction we would want to see. But there is one major exception, and it is unfortunately in the area of most direct concern to us. Although the trade deficit of the United States with Japan has been going down in recent months, Japan's surplus with the Community has continued to grow. As for the United Kingdom itself, our exports to Japan in 1977 and 1978 grew faster than our exports to the world as a whole, but our cover ratio did not improve and on Japanese figures (our own are not available) the trade gap has continued to widen this year.

9. Whatever the reasons for this (and the transport strikes and other disruptions in Britain in the first three months of this year have, of course, had an impact on our own figures), it



is not the case that the Japanese have turned a deaf ear to the suggestions made by the Community. The Commission pressed hard for purchases of the Airbus. Japan has now bought six - and indeed taken an option on three more planes. We expressed concern about Japan's new vehicle pollution standards. We were given a three year grace period. Some progress has been made on other sectoral problems though by no means all. European requests for voluntary restraint on Japanese exports (most notably our own request in respect of motor cars) have met with a universally helpful response.

10. But the problem remains. The Japanese market is an extraordinarily difficult one to penetrate. Language, culture and business methods make it uniquely so among the advanced countries. Obstacles of the traditional kind, such as tariffs and quotas, are few, and will be fewer still when the results of the Tokyo round are implemented. The Japanese can reasonably claim that their country is, in these respects, as liberalised as any other advanced country. Their bureaucratic requirements and procedures are however a problem and the Japanese increasingly recognise that these should be simplified and their standards brought more into harmony with those prevailing in other countries. The Cabinet itself has this week called for progress towards these objectives.

11. The Commission should continue its discussions of sectoral problems actively with the Japanese but we should not make too much of these problems. In some cases, concessions of any substance are politically almost impossible for the Japanese; every country has its sacred cows (in this country, one of the largest sacred cows is, appropriately, the leather industry). In other cases, the difficulties can be surmounted by well staffed and well organised firms. And even if every request we made were agreed to, the total impact on the trade figures would be far short of what is needed to transform the overall trading relationship.

/12.



12. The problem of penetrating the Japanese market is a more fundamental one. For reasons which can be traced to Japan's centuries of total seclusion from the rest of the world, to the autarkic policies by which she raised herself to the ranks of the advanced powers over the last hundred years, and, above all, to the unique clannishness of Japanese society, the Japanese approach to commercial relationships is quite different from that prevailing in Western countries. They accept dependence on external suppliers only with the greatest caution (and indeed their external sector, exports and imports, is comparatively small in relation to GNP). Equally, members of the Japanese business world feel a sense of solidarity with and obligation towards each other and do not lightly sacrifice each other's interests for short or even medium-term commercial advantage.

13. This situation is changing. Government and industry leaders alike recognise that it would be to Japan's advantage to achieve a better degree of integration with other advanced economies. Horizontal division of labour is now the watchword. The Japanese are now beginning to understand that they cannot expect to be the workshop of the world, importing only fuels, food and materials. They appreciate that continued export growth will not be acceptable to their partners unless accompanied by a more than equal rate of growth in manufactured imports.

14. But for this to work through to grass root levels will take a long time. National outlooks are not transformed overnight. We can help to foster the process. The way to do it is to encourage ordinary Japanese to believe that it is good for Japan to be fully integrated into the world community. We have to convince them that we are offering a permanent partnership, that we regard them as equals and mean to treat them with understanding and consideration. Attempts on our part to force the pace might only slow it down. The Japanese are not in much awe of us in Europe and do not in any fundamental sense feel dependent upon us.

15. Public pronouncements addressed to the Japanese are at least as audible in Britain as they are in Japan. There is a constant



risk that public emphasis on the difficulties of the market and the need for change will merely discourage our own businessmen from making the effort that the market requires. There is some truth in the Japanese claim that we do not try hard enough in the sense that many British businessmen cannot, or will not, recognise that they must do more to succeed in Japan than in other markets. This said, I realise that many companies have put in quite an effort over the past few years and they have been given exceptional support by the government services. But we need to do still more and this applies especially to some of our largest companies, which are the best able to invest in the cultivation of the market. They need long-term group strategies for Japan and new products to fit this market's needs. Returns can be very slow in coming, but they can be very respectable when they do come for all the difficulties I have outlined above.

16. There is also a growing interest in Japan in other forms of economic cooperation: in investment in Britain, in such forms of cooperation as the proposed BL/Honda arrangements, in joint industrial development such as the Rolls Royce aeroengine (RB 432) project and in collaboration in large third country projects.

17. I hope that while we continue to work away (largely through the Commission) at the obstacles we encounter in certain sectors we will give renewed encouragement to British businessmen to investigate thoroughly the opportunities which Japan presents. Japan is a stable country. The Japanese market continues to grow. If, as I have suggested, it will also continue to change in the general direction of openness, it must be of great importance to us.

18. I am sending copies of this despatch to the Chancellor of the Exchequer, the Secretary of State for Industry, the Secretary of State for Trade, the Governor of the Bank of England, the United Kingdom Permanent Representatives to the European Communities

/and the



and the OECD and Her Majesty's Representatives in Community capitals and in Washington.

I am, My Lord
Yours faithfully

Michael Wilford

Michael Wilford



Evan B.

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211 6402

Bryan Cartledge Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

*A.D. by
21/6*

22 June 1979

Dear Bryan,

ECONOMIC SUMMIT - TOKYO 28/29 JUNE 1979

I enclose herewith D/Energy briefing for the Prime Minister for next week's Summit in Tokyo. This brief has not been seen by my Secretary of State. He will be looking at it over the weekend and may have comments at the briefing meeting on Monday morning.

Yours ever,

Bill

W J BURROUGHS
Private Secretary

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PS TO FM NO 10 DOWNING ST

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TO IMMEDIATE FCO

TELEGRAM NUMBER 69 OF 22 JUNE

INFO PRIORITY UKREP BRUSSELS, WASHINGTON AND TOKYO

INFO SAYING PARIS

Prime Minister

27/6

INTERNATIONAL ENERGY AGENCY (IEA) AND THE SUMMIT

1. THERE ARE MOUNTING FEARS WITHIN THE IEA SECRETARIAT THAT ONE OUTCOME OF THE TOKYO SUMMIT WILL BE A NEW ENERGY GROUPING IN WHICH THE FRENCH WILL PARTICIPATE AND FROM WHICH THE IEA WILL BE EXCLUDED AT A POLICY MAKING LEVEL. !
2. A HASTILY DRAFTED AGENCY PAPER JUST RECEIVED (COPIES BY BAG) SETS OUT TO REMIND SUMMIT COUNTRIES THAT QUOTE A NEW INSTITUTIONAL APPROACH HAS SEVERAL RISKS UNQUOTE. IT CONTINUES ON THE LINES THAT EXCLUSIVE COOPERATION WITH THE SEVEN WILL INEVITABLY LEAD TO DISCOURAGEMENT AMONG THE SMALLER COUNTRIES. THE WASHINGTON CONFERENCE ESTABLISHED THE IEA AS AN INSTRUMENT TO BRING ABOUT POLITICAL CONSULTATION. THE CREDIBILITY OF A TOTALLY NEW APPROACH WITH THE SAME OBJECTIVE AS WELL AS THE CREDIBILITY OF COOPERATION WITHIN THE AGENCY WOULD BE QUESTIONED. QUOTE THUS THE MOST EFFECTIVE NEW MOMENTUM TO THE POLITICAL CHARACTER OF COOPERATION MIGHT BE FOUND BY CONVINCING FRANCE THAT THE ENERGY SITUATION HAS AGGREGATED IN A WAY WHICH JUSTIFIES FRANCE'S ACCESSION TO THE IEA UNQUOTE.
3. IN PRIVATE THE SECRETARIAT ARGUE CONVINCINGLY THAT THE IEA IS THE ONLY MECHANISM WITH A PROVEN CAPABILITY TO MONITOR THE OIL SITUATION ON A WIDE FRONT. ITS STAFF ARE TRAINED AND ITS COMPUTERS PROGRAMMED. IF THEREFORE THE FRENCH ARE NOW CONVINCED OF THE NEED TO CONCERT ACTION ON ENERGY THEY SHOULD BE PERSUADED TO PARTICIPATE IN THE IEA IN SOME FORM.
4. WE HAVE MADE TO THE SECRETARIAT THE POINT THAT THERE ARE SEEMINGLY INSURMOUNTABLE POLITICAL BARRIERS TO FRANCE JOINING THE IEA NOW. LANTZKE (EXECUTIVE DIRECTOR) AND OTHERS APPEAR TO ACCEPT THAT WHAT MIGHT EVENTUALLY BE NEEDED IS AN ENLARGED IEA (INCLUDING FRANCE) WORKING UNDER A NEW NAME WITH A REVISED SET OF RULES BUT BASICALLY

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To: Heads of State and Government of the Tokyo Summit

STATEMENT OF THE TRADE UNIONS TO THE
TOKYO MEETING OF HEADS OF STATE
AND GOVERNMENT

adopted by the Trade Union Leaders'
Meeting for the Tokyo Summit

June 22, 1979

STATEMENT OF THE TRADE UNIONS TO THE TOKYO MEETING OF HEADS
OF STATE AND GOVERNMENT

JUNE 22, 1979

1. The decisions adopted by the Heads of State and Government at Bonn a year ago have yielded some positive results, especially during the early stage of their implementation. These decisions were, however, not far-reaching enough to provide a coherent strategy for full employment and growth. Even if an aggravation of the energy crisis had not confronted both the industrialized and the developing countries, the positive effects of the Bonn Meeting were not sufficient to promote a sustained recovery leading to full employment, which is the main concern of the trade union movement. But they have shown clearly enough that concerted action can be productive, and the Heads of State and Government meeting in Tokyo are urgently requested to pursue this course of action and broaden its scope.

2. The limited development after the Bonn Summit was accompanied by a new aggravation of inflation. This confirms that restrictive measures do not have the lasting effect that has been the basic argument for such policies. It also revealed even before the sudden increases of oil prices, that the structural forces of the current recession - including the influence of market-controlling forces and especially the multinational enterprises on the price mechanisms and the way profits are transformed into productive investment - are much stronger than generally assumed. It would, therefore, be very dangerous to try and fight this new wave of inflation by more deflationary measures which would only aggravate the threat of a new wave of recession and seriously increase unemployment.

3. Unemployment has on the whole grown much worse during the last year, despite some improvements in a few industrialized countries. Medium-term projections show, furthermore, that the prospects for the future are now dimmer than after the Bonn or the London Meetings. There has been no real relief for distressed regions and sectors and for the hardest hit categories of workers, such as ethnic minorities, youth, certain groups of women, older workers, the long-duration unemployed, the handicapped etc. At the same time, in certain areas alarming shifts have taken place towards long-duration unemployment as well as from unemployment of the second or third wage-earner to the unemployment of the head of the household (whether male or female, married or single). The longer the recession lasts, the greater is the danger that unemployment will bring about social disintegration reminiscent of the 1930's. Any attempt to dismantle the existing social safeguards for the sake of greater flexibility aggravates this danger.

4. No serious efforts have been made during the past year to improve the situation of the developing countries. Unless major efforts are made to straighten out the present drift, there is a danger that the targets of an international economic and social order, as envisaged by the international free trade union movement and other international organizations, will not be achieved. Difficulties experienced by the weaker economies have grown bigger. Remedies prescribed to countries in difficulties by economically stronger countries and international institutions have not been adapted to the real situation. Measures imposed by the International Monetary Fund have in certain cases endangered the future of democracy. The seven countries meeting at Tokyo should set up a commission of enquiry, with the participation of the trade unions and other social groups, into the policies and practices of the IMF.

5. Growth in one area alone cannot be sustainable unless there is a balanced over-all development. In the OECD area, specific policies should be vigorously pursued to help the weaker economies. The participants at the Tokyo Summit should recognize their special responsibility for global development and further elaborate a coherent common strategy, elements of which were agreed to at the Bonn Meeting.

6. A severe aggravation of the energy crisis, which probably is still far from having reached its peak, has dramatized the need for much bolder, more sophisticated and more selective policies than those pursued hitherto.

7. Both the persistent recession and many of the measures adopted in order to overcome it put a great strain on the workers. Trade unions should everywhere be fully accepted as bargaining partners for the immediate and longer term benefits of their members. In the developed industrialized societies, the question of the day is of establishing and consolidating appropriate mechanisms through which the trade unions participate at all stages of economic decision making in order to reduce the strains caused by the present situation, and to devise suitable remedial actions, consultations with trade unions must be strengthened at all levels, including the international fora.

EMPLOYMENT AND ECONOMIC GROWTH

8. Full employment must be the immediate goal of all economic policy. It requires sound economic growth, with each country developing its own growth path in co-ordination with other countries. The aim of full employment cannot, however, be achieved by growth alone. Far-reaching structural changes and selective investment and employment policies, including direct job-creation programmes, are equally needed.

Such policies should be developed both nationally and in co-operation between countries. National authorities and international bodies should be directed to analyze the employment implications of all economic policies and measures in such a way as to maximize their job-creating potential and limit their adverse effects.

9. It cannot, however, be a question of growth as such but of growth which is socially meaningful and which does not impair but rather enhances the quality of life, including the living and working environment. If governments pursue restrictive and uncoordinated fiscal, monetary or expenditure policies, no significant job creation will be possible. Trade unions do not, however, call for an indiscriminate stimulation of demand. Together with the creation of meaningful employment, the conservation of natural resources and the environment must be central objectives for a planned and co-ordinated expansionary policy.

10. Growth and employment creation should be responsible and purposeful, with an over-all level of demand that makes full employment possible. In general, governments have to take all measures needed to assure a sufficient and selective increase of internal demand.

11. Expansionary and anti-inflationary policies are not mutually exclusive. Four interrelated courses of action are needed :

(a) a wide range of selective actions directed at specific factors of the price behaviour, especially through more effective anti-trust, selective credit policies and more careful monitoring of prices; in the fight against inflation, governments should not place greater emphasis on indirect taxation of basic goods;

(b) structural reforms designed not as a substitute for but as a driving force of healthy economic growth, the basic criterion of their effectiveness being the quantity and quality of employment they create;

(c) a comprehensive governmental investment policy aiming both at stimulating investment and at directing it to those sectors and areas where it is most needed from the point of view of economic recovery; and

(d) co-operation with the countries producing raw materials as well as policies aiming at a diversification of supplies and their more rational use, including scientific and technological research.

12. A great number of new jobs can be created in the service sector, especially in public services. These need to be considerably expanded, not for their own sake but to meet urgent needs for better health care, education, housing, infrastructure and environmental control. The expansion of services must be combined with a great variety of measures strengthening the manufacturing industry so as to maintain a balance between the secondary and tertiary sectors.

13. An over-all objective of reducing working time by 10% without loss of income should be achieved in the near future. The rapid pace of technical progress has made this perfectly feasible. Depending on national conditions, it can be obtained through different measures such as a reduction of the working week to 35 hours and no more than five days, an extension of the annual holidays, earlier retirement with full pension, raising the school leaving age, and extending the right to time off for vocational training and education. In this process, a special effort will be needed to harmonize working time throughout the industrialized part of the world.

14. It is urgent to intensify a process of international harmonization of labour standards and a more wide-spread and consistent implementation of ILO Conventions and Recommendations to promote living standards, employment and growth in both developed and developing countries. The fact that there are differences in labour standards among countries at comparable levels of economic development and strength has a protectionist effect which may lead into a proliferation of safeguard measures. Sustained efforts should be made to harmonize not only working hours but also the standards of social security, health and safety, working environment and trade union rights.

ENERGY

15. Energy has particularly aggravated the economic recession, with uncertainties of future prices and supplies making investors cautious in all sectors and dampening economic activity in a disastrous way. There is, furthermore, a growing realization that increases in the price of energy and, in particular, oil do not necessarily result in a greater availability of supplies. The present nationalistic policies of "sauve qui peut" are no guarantee of adequate and regular supplies of energy in the future.

16. An increase of the profits of oil companies does not guarantee that they would invest more in exploration and research so as to increase the available supplies. Only a fraction of these profits is used for this purpose while most of them are diverted by the companies to take over enterprises in other sectors. Therefore, governments must assume much greater responsibility of investment policies and of a planned development of new and greatly diversified sources of energy. There will also have to be investment in research on different sources of energy for different purposes.

17. A more economic use of energy will not be achieved merely through higher prices. Higher energy prices will also have deep and contractive effects on the economy as a whole. Energy conservation must be made mandatory and stringent standards must be laid down through legislation and regulation, wherever necessary complemented by a number of measures facilitating the conservation of energy. Recent price increases demonstrate that the criterion proposed by the International Energy Agency (the cost of saving a certain amount of energy compared with the same amount of imported oil) is inadequate. Conservation concerns the future as well as the present balance between supply and demand. The current cost of conservation must be seen against the future prices of oil which are liable to grow. Moreover, effectiveness of present conservation measures will affect the future cost of imported oil and gas.

18. Investment in energy saving technology will also have to contribute to improving the general employment situation. Measures needed call for a large scale rehabilitation of public transport and energy-saving standards in the housing sector. Throughout the manufacturing sector, there are many specific possibilities for shifting from energy intensive processes to more energy-saving production methods.

19. The effects of the oil price increases are particularly damaging to developing countries whose means and resources to cope with the growing cost of their projected development plans are extremely limited. Conservation measures and alternative energy sources cannot by themselves solve the already present and aggravating energy crisis. The immediate short-term crisis makes it necessary for the industrialized countries to urgently put their own house in order through a collective approach. It is therefore proposed that the Heads of States and Government meeting in Tokyo recommend to industrialized countries that they co-operate in order to arrive at a common

approach and organize a constructive dialogue leading into better arrangements about prices and supplies with the oil producing countries.

DEVELOPMENT POLICIES

20. The industrialized and the developing countries will have to engage in serious negotiations about their respective contributions to a common endeavour to bring about genuine and mutually beneficial social and economic development and eliminate the gap separating them. There is a need for development policies aimed at an international economic and social order which also comprises large scale national economic and social reforms and in which trade unions and other institutions play a key role in ensuring a broad distribution of the benefits of progress, especially to the poorest countries and the poorest groups.

21. With the production of primary commodities "living off the land" (with the direct producer having also to engage in subsistence agriculture to make a living), a vast area of the developing countries' economy tends to perpetuate archaic production structures instead of stimulating the creation of dynamic domestic markets. The agreement between industrialized and developing countries concluded at UNCTAD II, more than ten years ago, for the establishment of an internationally guaranteed minimum agricultural income has remained a dead letter. This failure is all the more deplorable as the experience that would have been gained could have been used to extend the same principle to the workers occupied in the production of non-agricultural commodities.

22. Manufacturing tends to impair the development of domestic markets and perpetuate the existing unjust economic and social structures unless goods of the same nature and quality are produced both for domestic consumption and export. Exclusively export-oriented industries whose workers cannot afford to buy their own products live "off the land" as well.

23. Unless the industrialized countries put their own house in order, all their development policies run the risk of declining. Important corrective measures and new orientations can, in any event, be introduced also at this time. These encompass the following areas :

(a) There is an urgent need for transparency studies on the entire chain of transactions in the commodities trade to eliminate the possibilities of buying from the direct producer when the price is at its lowest and selling to the final consumer when it is at its highest. Markets and world market prices have also to be negotiated for industrial sectors where the exploitation of low labour standards and multinational pricing mechanisms destroy the balance between supply and demand and threaten to wipe out entire national industries.

(b) It is necessary to stabilize raw material prices in the framework of a common fund at a level which gives a fair return to the producing countries and induces sufficient investment for sustained supplies. Taking that common fund as a global approach, it still has to be applied product by product. A system which includes the mutual advantages to all partners, such as the Stabex-system of the Lomé Convention, should be introduced for this purpose.

(c) International trade arrangements should aim at meeting the persistent employment problems of the day. Specifically, the safeguard system of GATT should contain a social clause. A tripartite committee should be established under the auspices of GATT to report on developments in trade, employment and social conditions, with the purpose of promoting negotiated improvements.

(d) In order to eliminate the negative effects of the activities of multinational enterprises and to orientate them to make a contribution to economic and social development, the instruments designed to control the activities of these enterprises adopted by the OECD and ILO, and currently prepared by the United Nations, have to be made effective through national and international implementation measures where the trade unions have an important role to play. Procedures should be worked out for reporting and consultation on a global level between multinational enterprises and governments and trade unions.

(e) Increased intergovernmental co-operation is needed to restrain the tendency of international banking to operations that impair economic recovery and development policies in all countries. Appropriate international instruments should be agreed upon to eliminate the existing banking havens and to subject the affiliates of international banks to rules and regulations that apply to national banks.

(f) Development assistance can be considerably increased if the donor countries agree on a set of criteria on which their participation is based. Their ability to contribute depends, apart from the Gross National Product, also on such factors

as the balance of their trade in manufactures with the developing countries (with some industrialized countries being net exporters while others are net importers). As an immediate step, it is essential that all industrialized countries commit themselves to honouring the target of 0.7 % of the GNP as Official Development Assistance, in accordance with a strict timetable, and also bind themselves to increasing this assistance to 1 % of the GNP in the foreseeable future.

(g) Industrialized countries should carefully survey their unutilized productive capacities in order to match them with the import needs of developing countries that remain unsatisfied due to balance of payments difficulties. Specific industry-by-industry programmes could be undertaken. For this form of development assistance, various means of financing, both private and public, must be combined and blended in new ways.

24. A massive transfer of resources to the developing countries is indispensable. The demand for goods in these countries has resulted in swiftly growing indebtedness which cannot go on forever. Resource transfers will have to be linked with improved living and working standards to provide for the basic needs of the population in these countries. The quality of growth in the developing countries is paramount importance for creating balanced development and new markets. Growth will have to be accompanied by a redistribution of income and wealth nationally, in order to create the necessary domestic infrastructures and demand in the developing countries.

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/
Secretary of State for Industry

22 June 1979

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

Dear Tim

Thank you for your letter enclosing a copy of Sir Kenneth Keith's letter to the Prime Minister.

As far as I am aware, the brief from the Foreign and Commonwealth Office does contain a reference to Rolls-Royce collaboration with Japan, but, in any event, I enclose a supplementary brief on the subject. Copies go to Tom Harris, Paul Lever and Martin Vile.

Yours sincerely

Peter Mason

PETER MASON
Private Secretary



ROLLS-ROYCE COLLABORATION WITH JAPAN

POINTS TO MAKE

- 1 HMG is aware of, and welcomes, the Rolls-Royce discussions with Japanese companies on a new aero-engine.
- 2 It is at this stage, a matter for the commercial judgment of the companies to establish a basis for both collaboration and launch of an engine. We believe this must be done thoroughly and will take time.
- 3 HMG's view of the project will also depend on the outcome of the discussions.

BACKGROUND

Following a long period of discussion with the Japanese on the joint development of a new commercial aero-engine, Rolls-Royce signed a Memorandum of Understanding with three Japanese companies in January 1979. This covered preliminary investigation of the technical and marketing aspects of a new aero-engine in the 7 to 9-ton size range. Such an engine would essentially be the RB432, which has been under limited development by Rolls-Royce as a replacement for their Spey engine for some time, although the Japanese have also carried out development work aimed at producing an engine of the same size.

The MOU did not commit Rolls-Royce or HMG (or the Japanese) to collaboration on launch of the engine. It did provide a framework for Rolls-Royce and Japanese companies to consider whether collaboration was possible.

The Japanese are anxious to enhance the position of the Japanese aerospace industry, and collaboration with countries possessing the required technology is an essential part of the policy. Thus a number of the Japanese companies are collaborating with Boeing on the new B767, and there are a number of licensing agreements between Japan and the major US aero-engine firms, General Electric and Pratt and Whitney and also Rolls-Royce. Japanese interest in joint development of the RB432 is consistent with this, and if Rolls-Royce are not partners, the Japanese will probably turn to the US companies. For Rolls-Royce, collaboration could substantially reduce the cost of launching a new engine.



While Rolls-Royce are anxious to proceed with their discussions with the Japanese, both the market and the funding of development (even on a collaborative basis) present problems. The market for an RB432 type engine remains uncertain; Rolls-Royce will have difficulty finding the finance to undertake major development, and recognise that there is no commitment from HMG to help. Consequently, Rolls-Royce would prefer decisions to be delayed but without discouraging the Japanese. Rolls-Royce would, in any event, require the approval of HMG before launching the development of a new engine.

As regards purchases of Airbus by Japanese airlines, in particular All Nippon Airlines, the current position is not clear; while one domestic airline TDA has already bought 6 A300s with General Electric engines, the important stake Japanese industry has in the new Boeing programmes would suggest a predisposition to look to the US for further requirements. ANA use Rolls-Royce engines on their Lockheed Tristars and a major UK objective should be to ensure that whether ANA buy Airbus or Boeing, Rolls-Royce engines are specified.

AIR DIVISION
Department of Industry
22 June 1979

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22 JUN 1977

FILE

DS



10 DOWNING STREET

From the Private Secretary

22 June 1979

We have just received the enclosed letter from Sir Kenneth Keith about possible future Rolls Royce contracts with the Japanese. Sir Kenneth says in his letter that details are covered in the Prime Minister's brief for Tokyo. The briefing which we have so far received does not appear to do so; I would be grateful if supplementary briefing could be prepared as necessary.

I am sending copies of this letter to Tom Harris (Department of Trade), Paul Lever (Foreign and Commonwealth Office) and Martin Vile (Cabinet Office).

J. P. LANKESTER

Peter Mason, Esq.,
Department of Industry.

DS

22 June 1979

I am writing on behalf of the Prime Minister to thank you for your letter of today's date. I will place your letter before the Prime Minister before she leaves for Tokyo.

TPL

Sir Kenneth Keith

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ROLLS-ROYCE LIMITED



65 Buckingham Gate, LONDON SW1E 6AT

Telex: 918091 Telephone: 01-222 9020

SIR KENNETH KEITH Chairman

22nd June, 1979.

My dear Prime Minister.

Prime Minister

See attached
note.

John
my

I know you have many issues to discuss with the Japanese Prime Minister in the course of the forthcoming Summit. I hope, however, that you will be able to mention to Mr. Ohira or to Mr. Esaki that you are aware of our ongoing discussions with the three leading Japanese aerospace manufacturers and the Japanese Government - details of which are in your brief.

Although we wish to make haste slowly, it is very important to ensure that it is with us and not with the Americans that the Japanese build their next engine. An expression of your Government's interest in a successful outcome of our discussions would be most helpful.

I have made clear to the Japanese that significant steps still have to be taken, notably to establish a sound commercial basis for any launch commitment. It is also absolutely clear that at this stage there is no commitment to launch, but only to pursue the conditions on which such a launch could be justified. A launch, in any case, would be a considerable time away.

Secondly, there are indications that the Japanese may raise the question of further purchases of Airbus. You should be aware of our interest in their buying RR-engined Airbuses which, from their point of view, would have the merit of engine commonality with the L-1011 aircraft currently used by All Nippon Airlines.

I hesitate to trouble you with such matters, but there are not many substantial opportunities for direct trading relations with the Japanese and these do now arise in the aero-engine field.

Yours sincerely
Kenneth

The Rt. Hon. Margaret Thatcher, MP.,
10 Downing Street,
S.W. 1.

ROYAL ROYCE LIMITED

22 JUN 1979





1. Prime Minister

2. P/W Brink.Su
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Foreign and Commonwealth Office

London SW1A 2AH

21 June 1979

Dear Mike,

Tokyo Summit

I enclose a copy of a statement which affiliates to the Trade Union Advisory Committee to the OECD (which includes major European and Japanese national trade union centres) intend to present to the Japanese Prime Minister on 22 June as their contribution to the discussion at the Tokyo Summit. The British representative will be Mr Tom Jackson, this year's Chairman of the TUC General Council and General Secretary of the Union of Post Office Workers.

The main elements of the statement are calls for:

- a) The strengthening at all levels of consultations with trade unions;
- b) Full employment as the immediate goal of all economic policies;
- c) The creation of new jobs in the service sector, especially in public services;
- d) 10% reduction in time worked without loss of income;
- e) Mandatory energy conservation with much greater Government involvement in investment and energy;
- f) A consumer/producer dialogue;
- g) The establishment of a tripartite committee under GATT auspices to negotiate improvements to international trade arrangements, including the safeguard system;
- h) Control of the multinationals and private banks;
- i) Immediate compliance with the 0.7% target for ODA within a specified time scale with a commitment to go up to 1% in the foreseeable future;
- j) A commission of enquiry, with trade union and other participation into the policies and practices of the IMF.

There is no indication how these steps should be paid for.

It has become conventional for the European Trade Unions Congress (ETUC) to lobby Presidents of the European Council

/ before

Mike Pattison Esq

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before meetings of the European Council and, with representatives of the American and Japanese trade unions, to meet the head of the host Government before world economic summits.

*Yours ever,
Stephen*

J S Wall

CONFIDENTIAL

21 JUN 1979



STATEMENT OF THE TRADE UNIONS TO THE TOKYO MEETING OF HEADS OF
STATE AND GOVERNMENT
JUNE, 1979

1. The decisions adopted by the Heads of State and Government at Bonn a year ago have yielded some positive results, especially during the early stage of their implementation. These decisions were, however, not far-reaching enough to provide a coherent strategy for full employment and growth. Even if an aggravation of the energy crisis had not confronted both the industrialized and the developing countries, the positive effects of the Bonn Meeting were not sufficient to promote a sustained recovery leading to full employment, which is the main concern of the trade union movement. But they have shown clearly enough that concerted action can be productive, and the Heads of State and Government meeting in Tokyo are urgently requested to pursue this course of action and broaden its scope.

2. The limited development after the Bonn Summit was accompanied by a new aggravation of inflation. This confirms that restrictive measures do not have the lasting effect that has been the basic argument for such policies. It also revealed even before the sudden increases of oil prices, that the structural forces of the current recession - including the influence of market-controlling forces and especially the multinational enterprises - are much stronger than generally assumed. It would, therefore, be very dangerous to try and fight this new wave of inflation by more deflationary measures which would only aggravate the threat of a new wave of recession and seriously increase unemployment.

3. Unemployment has on the whole grown much worse during the last year, despite some improvements in a few industrialized countries. Medium-term projections show, furthermore, that the prospects for the future are now dimmer than after the Bonn or the London Meetings. There has been no real relief for distressed regions and sectors and for the hardest hit categories of workers, such as ethnic minorities, youth, certain groups of women, older workers, the long-duration unemployed, the handicapped etc.

At the same time, in certain areas alarming shifts have taken place towards long-duration unemployment as well as from unemployment of the second or third wage-earner to the unemployment of the head of the household. (whether male or female, married or single). The longer the recession lasts, the greater is the danger that unemployment will bring about social disintegration reminiscent of the 1930's. Any attempt to dismantle the existing social safeguards for the sake of greater flexibility aggravates this danger.

4. No serious efforts have been made during the past year to improve the situation of the developing countries. Unless major efforts are made to straighten out the present drift, there is a danger that the targets of an international economic and social order, as envisaged by the international free trade union movement and other international organizations, will not be achieved. Difficulties experienced by the weaker economies have grown bigger. Remedies prescribed to countries in difficulties by economically stronger countries and international institutions have not been adapted to the real situation. Measures imposed by the International Monetary Fund have in certain cases endangered the future of democracy. The seven countries meeting at Tokyo should set up a commission of enquiry, with the participation of the trade unions and other social groups, into the policies and practices of the IMF.

5. Growth in one area alone cannot be sustainable unless there is a balanced over-all development. In the OECD area, specific policies should be vigorously pursued to help the weaker economies. The participants at the Tokyo Summit should recognize their special responsibility for global development and further elaborate a coherent common strategy, elements of which were agreed to at the Bonn Meeting.

6. A severe aggravation of the energy crisis, which probably is still far from having reached its peak, has dramatized the need for much bolder, more sophisticated and more selective policies than those pursued hitherto.

7. Both the persistent recession and many of the measures adopted in order to overcome it put a great strain on the workers. Trade unions should everywhere be fully accepted as bargaining partners for the immediate and longer term benefits of their members. In the developed industrialized societies, the question of the day is of establishing and consolidating appropriate mechanisms through which the trade unions participate at all stages of economic decision making in order to reduce the strains caused by the present situation, and to devise suitable remedial actions, consultations with trade unions must be strengthened at all levels, including the international fora.

EMPLOYMENT AND ECONOMIC GROWTH

8. Full employment must be the immediate goal of all economic policy. It requires sound economic growth, with each country developing its own growth path in co-ordination with other countries. The aim of full employment cannot, however, be achieved by growth alone. Far-reaching structural changes and selective investment and employment policies, including direct job-creation programmes, are equally needed. Such policies should be developed both nationally and in co-operation between countries. National authorities and international bodies should be directed to analyze the employment implications of all economic policies and measures in such a way as to maximize their job-creating potential and limit their adverse effects.

9. It cannot, however, be a question of growth as such but of growth which is socially meaningful and which does not impair but rather enhances the quality of life, including the living and working environment. If governments pursue restrictive and uncoordinated fiscal, monetary or expenditure policies, no significant job creation will be possible. Trade unions do not, however, call for an indiscriminate stimulation of demand. Together with the creation of meaningful employment, the conservation of natural resources and the environment must be central objectives for a planned and co-ordinated expansionary policy.

10. Growth and employment creation should be responsible and purposeful, with an over-all level of demand that makes full employment possible. In general, governments have to take all measures needed to assure a sufficient and selective increase of internal demand.

11. Expansionary and anti-inflationary policies are not mutually exclusive. Four interrelated courses of action are needed :

(a) a wide range of selective actions directed at specific factors of the price behaviour, especially through more effective anti-trust, selective credit policies and more careful monitoring of prices; in the fight against inflation, governments should not place greater emphasis on indirect taxation of basic goods;

(b) structural reforms designed not as a substitute for but as a driving force of healthy economic growth, the basic criterion of their effectiveness being the quantity and quality of employment they create;

(c) a comprehensive governmental investment policy aiming both at stimulating investment and at directing it to those sectors and areas where it is most needed from the point of view of economic recovery; and

(d) co-operation with the countries producing raw materials as well as policies aiming at a diversification of supplies and their more rational use, including scientific and technological research.

12. A great number of new jobs can be created in the service sector, especially in public services. These need to be considerably expanded, not for their own sake but to meet urgent needs for better health care, education, housing, infrastructure and environmental control. The expansion of services must be combined with a great variety of measures strengthening the manufacturing industry so as to maintain a balance between the secondary and

tertiary sectors.

13. An over-all objective of reducing working time by 10% without loss of income should be achieved in the near future. The rapid pace of technical progress has made this perfectly feasible. Depending on national conditions, it can be obtained through different measures such as a reduction of the working week to 35 hours and no more than five days, an extension of the annual holidays, earlier retirement with full pension, raising the school leaving age, and extending the right to time off for vocational training and education. In this process, a special effort will be needed to harmonize working time throughout the industrialized part of the world.

14. It is urgent to intensify a process of international harmonization of labour standards and a more wide-spread and consistent implementation of ILO Conventions and Recommendations to promote living standards, employment and growth in both developed and developing countries. The fact that there are differences in labour standards among countries at comparable levels of economic development and strength has a protectionist effect which may lead into a proliferation of safeguard measures. Sustained efforts should be made to harmonize not only working hours but also the standards of social security, health and safety, working environment and trade union rights.

ENERGY

15. Energy has particularly aggravated the economic recession, with uncertainties of future prices and supplies making investors cautious in all sectors and dampening economic activity in a disastrous way. There is, furthermore, a growing realization that increases in the price of energy, and, in particular, oil do not necessarily result in a greater availability of supplies. The present nationalistic policies of "sauve qui peut" are no guarantee of adequate and regular supplies of energy in the future.

16. An increase of the profits of oil companies does not guarantee that they would invest more in exploration and research so as to increase the available supplies. Only a fraction of these profits is used for this purpose while most of them are diverted by the companies to take over enterprises in other sectors. Therefore, governments must assume much greater responsibility of investment policies and of a planned development of new and greatly diversified sources of energy. There will also have to be investment in research on different sources of energy for different purposes.

17. A more economic use of energy will not be achieved merely through higher prices. Higher energy prices will also have deep and contractive effects on the economy as a whole. Energy conservation must be made mandatory and stringent standards must be laid down through legislation and regulation, wherever necessary complemented by a number of measures facilitating the conservation of energy. Recent price increases demonstrate that the criterion proposed by the International Energy Agency (the cost of saving a certain amount of energy compared with the same amount of imported oil) is inadequate. Conservation concerns the future as well as the present balance between supply and demand. The current cost of conservation must be seen against the future prices of oil which are liable to grow. Moreover, effectiveness of present conservation measures will affect the future cost of imported oil and gas.

18. Investment in energy saving technology will also have to contribute to improving the general employment situation. Measures needed call for a large scale rehabilitation of public transport and energy-saving standards in the housing sector. Throughout the manufacturing sector, there are many specific possibilities for shifting from energy intensive processes to more energy-saving production methods.

19. The effects of the oil price increases are particularly damaging to developing countries whose means and resources to cope with the growing cost of their projected development plans are extremely limited. Conservation measures and alternative

energy sources cannot by themselves solve the already present and aggravating energy crisis. The immediate short-term crisis makes it necessary for the industrialized countries to urgently put their own house in order through a collective approach. It is therefore proposed that the Heads of State and Government meeting in Tokyo recommend to industrialized countries that they co-operate in order to arrive at a common approach and organize a constructive dialogue leading into better arrangements about prices and supplies with the oil producing countries.

DEVELOPMENT POLICIES

20. The industrialized and the developing countries will have to engage in serious negotiations about their respective contributions to a common endeavour to bring about genuine and mutually beneficial social and economic development and eliminate the gap separating them. There is a need for development policies aimed at an international economic and social order which also comprises large scale national economic and social reforms and in which trade unions and other institutions play a key role in ensuring a broad distribution of the benefits of progress, especially to the poorest countries and the poorest groups.

21. With the production of primary commodities "living off the land" (with the direct producer having also to engage in subsistence agriculture to make a living), a vast area of the developing countries' economy tends to perpetuate archaic production structures instead of stimulating the creation of dynamic domestic markets. The agreement between industrialized and developing countries concluded at UNCTAD II, more than ten years ago, for the establishment of an internationally guaranteed minimum agricultural income has remained a dead letter. This failure is all the more deplorable as the experience that would have been gained could have been used to extend the same principle to the workers occupied in the production of non-agricultural commodities.

22. Manufacturing tends to impair the development of domestic markets and perpetuate the existing unjust economic and social structures unless goods of the same nature and quality are produced both for domestic consumption and export. Exclusively export-oriented industries whose workers cannot afford to buy their own products live "off the land" as well.

23. Unless the industrialized countries put their own house in order, all their development policies run the risk of declining. Important corrective measures and new orientations can, in any event, be introduced also at this time. These encompass the following areas :

(a) There is an urgent need for transparency studies on the entire chain of transactions in the commodities trade to eliminate the possibilities of buying from the direct producer when the price is at its lowest and selling to the final consumer when it is at its highest. Markets and world market prices have also to be negotiated for industrial sectors where the exploitation of low labour standards and multinational pricing mechanisms destroy the balance between supply and demand and threaten to wipe out entire national industries.

*Global
Stake*

(b) It is necessary to stabilize raw material prices in the framework of a common fund at a level which gives a fair return to the producing countries and induces sufficient investment for sustained supplies. Taking that common fund as a global approach, it still has to be applied product by product. A system which includes the mutual advantages to all partners, such as the Stabex-system of the Lomé Convention, should be introduced for this purpose.

(c) International trade arrangements should aim at meeting the persistent employment problems of the day. Specifically, the safeguard system of GATT should contain a social clause. A tripartite committee should be established under the auspices of GATT to report on developments in trade, employment and social conditions, with

the purpose of promoting negotiated improvements.

(d) In order to eliminate the negative effects of the activities of multinational enterprises and to orientate them to make a contribution to economic and social development, the instruments designed to control the activities of these enterprises adopted by the OECD and ILO, and currently prepared by the United Nations, have to be made effective through national and international implementation measures where the trade unions have an important role to play. Procedures should be worked out for reporting and consultation on a global level between multinational enterprises and governments and trade unions.

(e) Increased intergovernmental co-operation is needed to restrain the tendency of international banking to operations that impair economic recovery and development policies in all countries. Appropriate international instruments should be agreed upon to eliminate the existing banking havens and to subject the affiliates of international banks to rules and regulations that apply to national banks.

(f) Development assistance can be considerably increased if the donor countries agree on a set of criteria on which their participation is based. Their ability to contribute depends, apart from the Gross National Product, also on such factors as the balance of their trade in manufactures with the developing countries (with some industrialized countries being net exporters while others are net importers). As an immediate step, it is essential that all industrialized countries commit themselves to honouring the target of 0.7 % of the GNP as Official Development Assistance, in accordance with a strict timetable, and also bind themselves to increasing this assistance to 1 % of the GNP in the foreseeable future.

(g) Industrialized countries should carefully survey their unutilized productive capacities in order to match them with the import needs of developing countries that remain unsatisfied due to balance of payments difficulties. Specific industry-by-industry programmes could be undertaken. For this form of development assistance, various means of financing, both private and public, must be combined and blended in new ways.

24. A massive transfer of resources to the developing countries is indispensable. The demand for goods in these countries has resulted in swiftly growing indebtedness which cannot go on forever. Resource transfers will have to be linked with improved living and working standards to provide for the basic needs of the population in these countries. The quality of growth in the developing countries is of paramount importance for creating balanced development and new markets. Growth will have to be accompanied by a redistribution of income and wealth nationally, in order to create the necessary domestic infrastructures and demand in the developing countries.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 3130 OF 20 JUNE

AND TO PRIORITY PARIS

INFO PRIORITY BONN, TOKYO, WASHINGTON, OTTAWA, ROUTINE BRUSSELS
COPENHAGEN, THE HAGUE, ROME, LUXEMBOURG, DUBLIN.

COMMITTEE OF PERMANENT REPRESENTATIVES (AMBASSADORS): 20 JUNE

OTHER BUSINESS: PREPARATION FOR TOKYO SUMMIT

SUMMARY

COMMISSION REPORTED ON FURTHER MEETING OF PREPARATORY GROUP.
LITTLE PROGRESS PENDING OUTCOME OF EUROPEAN COUNCIL. GROUP WILL
MEET AGAIN IN TOKYO.

DETAIL

1. ON PROCEDURE TICKELL (CHEF DE CABINET, PRESIDENT OF THE
COMMISSION) SAID THAT:

(I) THE PREPARATORY GROUP HAD WORKED ON THE BASIS OF
JAPANESE AND U.S. DRAFTS OF A COMMUNIQUE AT ITS MEETING IN PARIS
LAST WEEK. COMMUNITY REPRESENTATIVES HAD RESISTED PRESSURE TO
ANTICIPATE DECISIONS OF THE EUROPEAN COUNCIL. A FURTHER MEETING
WOULD THEREFORE BE HELD IN TOKYO ON 27 JUNE. HEADS OF
GOVERNMENT WOULD OF COURSE NOT NECESSARILY BE BOUND BY THE
RESULTING DRAFT, WHICH WAS HOWEVER INTENDED TO SERVE AS A BASIS
FOR DISCUSSION.

(II) DELEGATIONS HAD DRAWN ATTENTION TO THE SIMILARITY
OF AGENDAS OF THE EUROPEAN COUNCIL AND THE SUMMIT. IN PARTICULAR,
CONCERN HAD BEEN EXPRESSED BY REPRESENTATIVES OF EEC COUNTRIES
IN THE GROUP THAT THE COMMUNIQUE OF THE SUMMIT SHOULD NOT SEEK
TO COMMIT MEMBER STATES OF THE COMMUNITY NOT PRESENT AT THE
SUMMIT TO ACTION. NON-EEC MEMBERS HAD EQUALLY REMINDED THEIR
EEC COLLEAGUES THAT THEIR GOVERNMENTS WOULD NOT WISH TO SEE

/HR STRASBOURG

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THE STRASBOURG COUNCIL TO TRY TO TAKE FINAL DECISIONS ON MATTERS WHICH WOULD REQUIRE THE CONSENT OF ALL PARTICIPANTS IN THE SUMMIT.

2. ON THE AGENDA:

(I) MACRO-ECONOMIC POLICY. PAPER FROM SCHULTZ (U.S.) DISCUSSED. MAIN CONCLUSION: RECENT OIL PRICE INCREASES WOULD LEAD TO A LOSS OF REAL INCOME IN CONSUMING COUNTRIES. THIS WOULD INEVITABLY WORK ITS WAY THROUGH TO THE REAL ECONOMY.

(II) ENERGY. VERY SIMILAR DISCUSSION TO THAT IN THE EEC ENERGY COUNCIL ON MONDAY. GROUP FOCUSED PARTICULAR ATTENTION ON IMPORT RESTRICTIONS, THE SPOT MARKET AND DEVELOPMENT OF ALTERNATIVE ENERGY RESOURCES.

(III) INTERNATIONAL MONETARY MATTERS. LITTLE DISCUSSION. TOPIC NOT CONSIDERED APPROPRIATE TO THIS FORUM. MAY BE NO PARAGRAPH IN THE COMMUNIQUE

(IV) TRADE. BRIEF EXCHANGE OF VIEWS. COMMISSION ASKED THAT THE COMMUNIQUE SHOULD CONTAIN A REFERENCE TO THE GATT AS THE PRINCIPAL INSTRUMENT OF FUTURE DEVELOPMENTS.

(V) NORTH-SOUTH DIALOGUE. A SCRAPPY DISCUSSION, INTO WHICH THE U.S. HAD INJECTED A NUMBER OF IDEAS. GROUP WOULD RETURN TO THIS TOPIC AT ITS MEETING IN TOKYO.

13. THERE WAS

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3. THERE WAS NO DISCUSSION.

FCO ADVANCE TO:-

FCO - PS/S OF S, PS/LPS, PS/MR HURD, BUTLER, FRETWELL, THOMAS
CAB - HUNT, FRANKLIN, ELLIOTT
TSY - JORDAN-MOSS, MRS H-MILLER, ASHFORD, MICHELL, BAKER
B/E - MCMAHON, BALFOUR
NO.10 - CARTLEDGE

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Mr Cortazzi
Mr Fretwell
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TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 693 OF 18 JUNE 1979

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PRIME MINISTER'S
PERSONAL MESSAGE

SERIAL No. *T26A/79T*

PRIME MINISTER'S MESSAGE TO THE PRESIDENT

1. THE PRIME MINISTER SIGNED ON 15 JUNE HER REPLY TO MR CARTER'S MESSAGE OF 13 MAY (OUR TELNO 502). SIGNED ORIGINAL FOLLOWS BY DAG BUT PLEASE NOW PASS TO THE WHITE HOUSE FOR TRANSMISSION TO THE PRESIDENT TEXT AS FOLLOWS.

DEAR MR PRESIDENT,

AS YOU KNOW I DEFERRED A FULL REPLY TO YOUR MESSAGE OF 13 MAY UNTIL MY COLLEAGUES AND I HAD BEEN ABLE TO TALK TO MR VANCE.

THOSE TALKS WERE MOST VALUABLE. CY VANCE WILL HAVE REPORTED TO YOU. BUT I THOUGHT YOU WOULD WISH TO KNOW MY THOUGHTS ON THE POINTS MADE IN YOUR MESSAGE.

YOUR RIGHTLY GAVE PRIDE OF PLACE TO SALT AND THE FUTURE STRATEGIC BALANCE. WE HAVE FOLLOWED THE SALT II DEVELOPMENTS WITH CLOSE ATTENTION AND ARE GRATEFUL FOR THE CARE YOU HAVE TAKEN TO KEEP US INFORMED. I SHARE YOUR CONVICTION THAT THE SUBSEQUENT DEBATE ON RATIFICATION OF THE TREATY WILL BE OF CRITICAL IMPORTANCE. AS I SEE IT, YOU IN THE UNITED STATES PARTICULARLY IN YOUR DIALOGUE WITH THE SENATE, AND WE AND OUR OTHER ALLIES HAVE TO STRIKE THE RIGHT BALANCE IN SUPPORTING THE RATIFICATION OF SALT II WHILE AT THE SAME TIME ENSURING THAT OUR PUBLIC OPINION UNDERSTANDS THE NEED FOR THE ALLIANCE TO MAINTAIN AND MODERNISE ITS NUCLEAR FORCES. CY VANCE ASSURED PETER CARRINGTON AT THE OUTSET OF HIS DISCUSSIONS THAT SALT II WAS WHOLLY COMPATIBLE WITH THE RETENTION OF A STRONG US DEFENCE CAPABILITY. WE WELCOME THAT. BOTH SIDES OF THE EQUATION WILL NEED TO BE EMPHASISED IN THE NEXT FEW MONTHS, IF WE ARE TO AVOID CREATING A FALSE SENSE OF SECURITY THAT MIGHT UNDERMINE THE CONTINUING DEFENCE EFFORT THE ALLIANCE MUST MAKE.

I NOTE WHAT YOU SAY ABOUT THE IMPORTANCE OF EUROPEAN VIEWS IN THE RATIFICATION DEBATE THAT LIES AHEAD OF YOU. AND I ACCEPT THAT THE ATTITUDE OF BRITAIN, AS A NUCLEAR POWER, WILL BE SCRUTINISED PARTICULARLY CLOSELY. ON OUR REACTIONS TO DATE WE HAVE

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/DONE OUR BEST

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DONE OUR BEST TO BE HELPFUL, BOTH IN OUR NATIONAL STATEMENTS AND IN THE COMMUNIQUE OF THE NATO DEFENCE PLANNING COMMITTEE AND FOREIGN MINISTERS' COUNCIL. WE HAVE CONSISTENTLY SUPPORTED EFFORTS TO ACHIEVE LIMITATIONS ON STRATEGIC ARMS AND I HAVE MADE IT QUITE CLEAR THAT I HOPE THE TREATY WILL BE RATIFIED. MAY I ASK YOU TO LET ME KNOW AT ANY STAGE HOW BEST YOU THINK WE CAN CONTINUE TO HELP ?

AS YOU KNOW, OUR REACTIONS SO FAR HAVE BEEN GOVERNED BY THE VIEW THAT A STATEMENT ON THE SUBSTANCE OF THE AGREEMENT MADE AFTER ONLY A BRIEF PERIOD IN GOVERNMENT AND BEFORE WE HAD THE OPPORTUNITY TO STUDY THE FULL TEXT OF THE TREATY WOULD NOT HAVE CARRIED CONVICTION EITHER WITH THE PUBLIC HERE OR WITH YOUR CONGRESS. BUT I ASSURE YOU THAT, WITHIN THE ALLIANCE AND IN OUR PUBLIC STATEMENTS, WE WILL DO ALL WE CAN TO ASSIST YOU IN SECURING RATIFICATION.

CY VANCE WILL HAVE CONFIRMED TO YOU THAT ONE ASPECT OF THE SALT II NEGOTIATIONS THAT HAD GIVEN US, AS IT HAD OUR PREDECESSORS, SERIOUS CAUSE FOR CONCERN WAS THE WORDING ON NON-CIRCUMVENTION AND THE POSSIBILITIES FOR NUCLEAR TRANSFERS IN THE FUTURE. I THEREFORE MUCH APPRECIATE THE CATEGORICAL ASSURANCES IN THIS RESPECT THAT HE GAVE US. THIS WILL ALLOW US WHEN QUESTIONED, IN PARLIAMENT AND ELSEWHERE, AS WE SHALL BE, TO CONFIRM UNEQUIVOCALLY THAT OUR INTERESTS ARE SAFEGUARDED.

LOOKING AHEAD, I FULLY SHARE YOUR VIEW OF THE IMPORTANCE OF FULFILLING THE LONG-TERM DEFENCE PROGRAMME. PETER CARRINGTON FRANCIS PYM AND I ALL UNDERLINED TO CY VANCE THE STRENGTH OF OUR COMMITMENT TO THE NATO TARGET OF 3 PERCENT GROWTH IN DEFENCE EXPENDITURE. I AGREE TOO THAT WE NEED TO ENSURE THAT CONCRETE DECISIONS ON THEATRE NUCLEAR FORCE MODERNISATION ARE TAKEN BY THE ALLIANCE BY THE END OF THIS YEAR, AND IN THAT RESPECT THE RECENT NATO COUNCIL MEETING MARKED A MAJOR STEP FORWARD. AS FOR SALT III, I HAVE NO DOUBT THAT CY VANCE'S VISIT HAS GIVEN ADDED IMPETUS TO WHAT I HOPE WILL BE A PERIOD OF INTENSIVE CONSULTATION BOTH WITHIN THE ALLIANCE AND BETWEEN OUR TWO GOVERNMENTS. FOR THIS REASON I VERY MUCH WELCOME YOUR POSTSCRIPT AND LOOK FORWARD TO HEARING YOUR VIEWS ON SALT III AT ANY TIME.

ON THE COMPREHENSIVE TEST BAN NEGOTIATIONS IT IS GOOD OF YOU TO HAVE ARRANGED FOR YOUR SCIENCE ADVISER TO COME OVER HERE TO BRIEF ME ON THE TECHNICAL ASPECTS AND ON YOUR OWN THINKING. CLEARLY WE NEED TO KEEP IN CLOSE TOUCH ON THIS.

YOU WILL HAVE HEARD THAT, IN RESPONSE TO THE CONCERN WHICH BOTH YOU AND HELMUT SCHMIDT HAD EXPRESSED, WE HAVE RECENTLY ANNOUNCED A DOUBLING OF THE CONTRIBUTION PROMISED BY THE PREVIOUS ADMINISTRATION TO THE TURKEY RESCUE OPERATION. I AM NO LESS PERSUADED THAN YOU OF THE STRATEGIC IMPORTANCE OF TURKEY, BUT I MUST STRESS THAT POUNDS STERLING 15 MILLION IS ABSOLUTELY AS FAR AS WE CAN GO, BEYOND THE SUBSTANTIAL SUMS WE ARE ALREADY PROVIDING TO THE TURKS THROUGH THE EEC, GIVEN OUR DETERMINATION TO CUT PUBLIC EXPENDITURE IN THE UK, AND I THINK WE ALL AGREE THAT THE TURKS MUST COME TO AN AGREEMENT WITH THE IMF BEFORE OUR CONTRIBUTIONS ARE PAID OVER.

I SHARE YOUR CONCERN ABOUT SOUTHERN AFRICA. I AGREE THAT CLOSE COLLABORATION BETWEEN US WILL BE OF GREAT IMPORTANCE AS WE TRY TO RESOLVE THE PROBLEMS WHICH CONCERN US EQUALLY IN THAT AREA. ON RHODESIA WE WELCOMED THE TALKS WITH CY VANCE. DAVID HARLECH IS NOW IN AFRICA FOR DISCUSSIONS WITH THE COMMONWEALTH AND OTHER AFRICAN GOVERNMENTS DIRECTLY CONCERNED. WE SHALL BE CONSIDERING THE WAY FORWARD IN THE LIGHT OF HIS REPORT: AND WE SHALL WISH TO KEEP IN THE CLOSEST TOUCH WITH YOU OVER THIS PROBLEM.

PETER CARRINGTON AND CY VANCE HAVE BEEN IN CLOSE TOUCH ABOUT THE VARIOUS IDEAS ON NAMIBIA WHICH WE PUT FORWARD AFTER RICHARD LUCE'S VISIT TO THE AREA, AND I THINK YOU, WE AND OUR OTHER PARTNERS ARE NOW LARGELY AGREED ON THE NEXT STEPS.

MY MEETING WITH MR BEGIN WAS PROFOUNDLY DISHEARTENING. I WELL UNDERSTAND YOUR CAUTION ABOUT THE POSSIBILITY OF MAKING PROGRESS IN THE WEST BANK NEGOTIATIONS. I EMPHASISED TO MR BEGIN THE DANGER WHICH CONTINUED EXPANSION OF ISRAELI SETTLEMENTS REPRESENTS TO THE AUTONOMY NEGOTIATIONS AND ALSO THE NEED TO HELP PRESIDENT SADAT, BUT HE WILL NOT LISTEN AND EVEN RESENTS THE SUBJECT OF SETTLEMENTS BEING RAISED AT ALL.

PETER CARRINGTON WILL DISCUSS WITH HIS COMMUNITY COLLEAGUES HOW THEY CAN BEST HELP. FOR OUR PART WE SHALL CONTINUE TO SUPPORT YOUR GENERAL APPROACH WITH ITS EMPHASIS ON THE NEED TO ACHIEVE A COMPREHENSIVE SETTLEMENT. WE SHALL BE HAPPY TO KEEP IN CLOSE TOUCH WITH MR STRAUSS AS YOU SUGGEST.

AS FOR THE DIVISIONS IN THE ARAB WORLD, I DOUBT WHETHER ANY EARLY PROGRESS TOWARDS RECONCILIATION BETWEEN PRESIDENT SADAT AND SOME OF THE MORE MODERATE ARAB GOVERNMENTS IS POSSIBLE. THE FIRST STEP MUST BE TO URGE PRESIDENT SADAT HIMSELF TO STOP HIS ATTACKS ON HIS

NATURAL ALLIES SUCH AS THE SAUDIS AND THE JORDANIANS. I WAS GLAD TO HEAR THAT YOUR AMBASSADOR IN CAIRO HAS BEEN ABLE TO HELP WITH THIS. I EXPECT TO SEE KING HUSSEIN IN THE NEXT WEEK AND SHALL URGE ON HIM THE NEED NOT TO COMMIT HIMSELF IRREVOCABLY AGAINST THESE PEACE NEGOTIATIONS.

BOTH FOREIGN MINISTER SONODA, AND HIS COLLEAGUE, MR ESAKI, WHOM I HAVE SEEN RECENTLY, UNDERLINED THE IMPORTANCE THE JAPANESE ATTACH TO THE TOKYO SUMMIT. I ACCEPT THAT SUCH MEETINGS CAN BE USEFUL AND I SHALL BE INTERESTED TO TAKE PART IN IT WITH YOU AND OUR FIVE OTHER COLLEAGUES. BUT I MUST ADMIT THAT PREVIOUS MEETINGS IN THE SERIES HAVE STRUCK ME AS SOMETIMES LONGER ON DIAGNOSIS THAN ON PRESCRIPTIONS. THE PROBLEM WE FACE THIS TIME ARE EVEN MORE ACUTE THAN BEFORE, WITH THE ENERGY SHORTAGE AGGRAVATING AN ALREADY UNCERTAIN SITUATION. I HOPE WE SHALL BE ABLE TO GET NEARER TO FINDING SOLUTIONS - BUT FRANKLY I AM NOT OPTIMISTIC. ON ONE POINT I WHOLLY AGREE WITH YOU. WE MUST TRY TO DEAL ONLY WITH A LIMITED NUMBER OF SPECIFIC ISSUES AND AVOID THE OVER-GENERALISED APPROACH. I HOPE ALSO THAT WE SHALL BE ABLE TO AVOID A COMMUNIQUE WHICH DEALS MAINLY IN PIOUS PLATITUDES.

WE WERE ABLE TO ASSURE BOTH JAPANESE MINISTERS OF THE IMPORTANCE WE ATTACH TO A HEALTHY AND CONSTRUCTIVE RELATIONSHIP WITH THE JAPANESE GOVERNMENT, BOTH BILATERALLY AND THROUGH THE EUROPEAN COMMUNITY. I THINK THERE IS A LIMIT TO HOW FAR OTHERS CAN OR SHOULD GO IN ADVISING THE JAPANESE HOW TO RUN THEIR AFFAIRS, BUT I AGREE THAT THE CONTINUING JAPANESE TRADE SURPLUS IS A CAUSE FOR CONCERN. FOR US ALL. ALTHOUGH THE LATEST FIGURES ARE SLIGHTLY MORE REASSURING, THIS MAY BE NO MORE THAN TEMPORARY, AS THE DEPRECIATION OF THE YEN ONCE AGAIN LEADS TO AN INCREASE IN JAPANESE EXPORTS.

FINALLY, I SHOULD LIKE BRIEFLY TO MENTION ONE SUBJECT NOT COVERED IN YOUR LETTER TO ME. I AM VERY CONCERNED ABOUT THE REFUGEE SITUATION IN SOUTH EAST ASIA, AND IN PARTICULAR ABOUT THE INCREASING FLOOD OF BOAT REFUGEES FROM VIETNAM. THE IMPACT IN HONG KONG, WHERE OVER 50,000 VIETNAMESE REFUGEES HAVE ARRIVED THIS YEAR, IS NOW VERY SERIOUS INDEED. THE UNITED STATES AND A HANDFUL OF OTHER COUNTRIES INCLUDING BRITAIN, ARE MAKING A SUBSTANTIAL CONTRIBUTION. BUT WHAT

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IS NEEDED IS A CONCERTED INTERNATIONAL EFFORT BOTH TO GET MORE COUNTRIES TO OPEN THEIR DOORS TO THESE UNFORTUNATE REFUGEES, AND TO EXERT MORE EFFECTIVE PRESSURE ON THE VIETNAMESE GOVERNMENT TO STOP EXPORTING THEIR UNWANTED PEOPLE. AND WE NEED TO ACT SOON - WHICH IS WHY I HAVE ASKED DR WALDHEIM TO CONVENE AN INTERNATIONAL CONFERENCE UNDER UN AUSPICES. I HOPE WE CAN COUNT ON YOUR SUPPORT. I AM LOOKING FORWARD TO OUR MEETING IN TOKYO.

YOURS TRULY
MARGARET THATCHER.

CARRINGTON

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HD/MED	MR. BULLARD
HD/FRD	MR. BUTLER
HD/FED	MR. CORTAZZI
HD/ES & SD	MR. LEAHY
HD/SEAD	MISS BROWN
HD/HK & GD	MR. P. H. MOBERLY
	MR. FERGUSON
	MR. WILLIAMS
	MR. P. C. MOBERLY

Ref: A09794

Econ Policy 2

Prime Minister

[Handwritten initials]

To note.

P.A. Sec 18/6
G.M. 18/6

MR. CARTLEDGE

The Prime Minister will probably know that it is customary during the Economic Summits for one meal to be set aside for a political discussion by Heads of Government only. This is not part of the Summit itself and no reference is made to the subjects discussed in the final communique. But sometimes this informal political discussion has been of considerable importance.

The Prime Minister may like to know that at the preparatory meeting in Paris on 14th-15th June Mr. Miyazaki gave some indication of the subjects which Mr. Ohira would like to discuss at this meal (lunch on Friday, 22nd June). In the main they were the obvious ones (the Carter-Brezhnev meeting, the Middle East and China) but he also said that Mr. Ohira particularly wished to discuss the question of Vietnamese refugees. I supported this and the proposal was welcomed by the representatives of all the other Summit countries who felt that their principals might wish to devote quite a bit of time to the matter.

I am mentioning this now because I have seen your record of the Prime Minister's talk with Sir Murray MacLehose on 14th June. Whether or not parts of the Press corps accompany Lord Carrington on his visit to Hong Kong after the Summit meeting, it is clear that all concerned want to discuss the problem of Vietnamese refugees in Tokyo: and even though the political lunch is not normally reflected in the communique there will be plenty of opportunity to brief the Press on the results of the discussion.

The FCO know about this and appropriate briefing will be provided for Tokyo.

[Handwritten signature]

(John Hunt)

18th June 1979

GR 395
 RESTRICTED
 FM TOKYO 160500Z

2

Prime Minister

Gm
18/6

TO PRIORITY FCO TELNO 281 OF 15 JUNE INFO WASHINGTON,
 EEC POSTS, UNDEL OECD,
 JAPANESE ECONOMY

1. THE ECONOMY HAS CONTINUED TO PROGRESS, BUT THE DETERIORATING OUTLOOK FOR ENERGY SUPPLIES, AND CONTINUED RAPID INCREASES IN WHOLESALE PRICES WHICH HAVE RISEN AT AN ANNUAL RATE OF NEARLY 18% IN THE PAST THREE MONTHS AND WHICH ARE BEGINNING TO BE REFLECTED IN CONSUMER PRICES, HAVE LED TO STATEMENTS FROM A NUMBER OF SENIOR GOVERNMENT SOURCES THAT THE EMPHASIS OF OFFICIAL POLICY ON THE EXPANSION OF DOMESTIC DEMAND MAY NEED TO BE MODIFIED. THE CONTINUED DIFFICULTIES OVER THE FINANCING OF THE GOVERNMENT DEFICIT IN THE BODN MARKET HAVE ALSO CONTRIBUTED TO THE APPARENT CHANGE IN EMPHASIS IN OFFICIAL THINKING IN THE PAST MONTH, AND HAVE RAISED SPECULATION ABOUT THE POSSIBILITY OF A FURTHER INCREASE IN THE OFFICIAL DISCOUNT RATE.
 2. THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS ADJUSTED, WAS AGAIN IN DEFICIT IN APRIL, (IT WAS ALSO IN DEFICIT NSA) AND FURTHER LARGE OUTFLOWS CAPITAL RESULTED IN A RECORD OVERALL MONTHLY DEFICIT OF DOLLARS 3 BILLION. THE YEN HAS WEAKENED SINCE THE MIDDLE OF MAY, BUT NO SIGNIFICANT INTERVENTION BY THE BANK OF JAPAN HAS BEEN REPORTED DURING THIS PERIOD. FOREIGN EXCHANGE RESERVES FELL BY DOLLARS 1.9 BILLION TO DOLLARS 24.2 BILLION IN MAY. THERE IS SOME EVIDENCE OF A RECOVERY IN EXPORTS. APPROXIMATE EQUILIBRIUM ON CURRENT ACCOUNT IS AGAIN LIKELY IN MAY. SOME FORECASTERS NOW ENVISAGE A CURRENT ACCOUNT DEFICIT IN FISCAL 1979 AND OFFICIALS OF THE BANK OF JAPAN HAVE INDICATED OFF THE RECORD THAT THEIR THINKING IS ALONG THESE LINES.
 3. GROSS NATIONAL EXPENDITURE, AT CONSTANT 1970 PRICES, WAS 5.5% HIGHER IN FISCAL 1978 THAN IN FISCAL 1977. THIS COMPARES WITH THE GOVERNMENT'S ORIGINAL FORECAST OF AN INCREASE OF 7%, AND REVISED FORECAST, ISSUED IN JANUARY 1979, OF AN INCREASE OF 6%. EXPORTS OF GOODS AND SERVICES WERE 2.2% LOWER, AT CONSTANT PRICES, IN FISCAL 1978 THAN IN FISCAL 1977 AND IMPORTS 14.7% HIGHER. AS A RESULT THE SURPLUS OF THE NATION FELL BY 28%, WHICH HAD A SIGNIFICANT RESTRAINING INFLUENCE ON OVERALL GROWTH. THE REDUCTION IN THE SURPLUS OF THE NATION WAS LARGER THAN EXPECTED: THE DEVELOPMENT OF DOMESTIC DEMAND WAS CLOSE TO THE REVISED FORECAST.
 4. OUR USUAL MONTHLY REPORT HAS BEEN DISPATCHED BY BAG.
- WILFORD

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Prime Minister

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FM OTTAWA 131930Z JUN 79

TO PRIORITY FCO

TELEGRAM NUMBER 209 OF 13 JUNE

INFO TREASURY, DEPT OF ENERGY, DOT, PARIS, BONN, WASHINGTON, TOKYO, ROME, UKREP BRUSSELS.

*SM
ly*

THE TOKYO SUMMIT

MS

1. GENERAL

THIS WILL BE MR CLARK'S FIRST INTERNATIONAL CONFERENCE. HE PLANS TO BE ACCOMPANIED BY MR CROSBIE (FINANCE) AND MISS MACDONALD (EXTERNAL AFFAIRS). PLEASE SEE MY TELNO 197 AND MIFT (NOT TO ALL) FOR PERSONALITY NOTES ON THEM. BOTH ARE EQUALLY NEW TO THE INTERNATIONAL SCENE.

2. MR CLARK WILL BE DISCUSSING ECONOMIC SUMMITRY WITH MR TRUDEAU BEFORE HE LEAVES. DESPITE THIS, I DO NOT EXPECT HIM TO PLAY A VERY ACTIVE PART. WHEN HE WAS LEADER OF THE OPPOSITION - AND I THINK THIS WAS TRUE TOO WHEN HE CALLED ON THE BRITISH MINISTERS IN SEPTEMBER 1976 AND JULY 1978 - HE SHOWED THAT HE PREFERS TO LISTEN AND QUESTION UNTIL HE IS THOROUGHLY AT HOME WITH A SUBJECT. HE SETS NO STORE BY IMPRESSING HIS AUDIENCE, BUT HIS RETICENCE COVERS MORE SHREWDNESS AND COMMON SENSE THAN THE PRESS AND MEDIA GIVE HIM CREDIT FOR. HE HAS NO EXPERIENCE, EITHER IN THEORY OR IN PRACTICE, OF ECONOMICS OR BUSINESS, AND DESPITE BEING AN ALBERTAN, NO BACKGROUND IN THE OIL INDUSTRY (THOUGH HIS CONSTITUENCY MINES COAL THAT IS EXPORTED TO JAPAN).

3. CANADA HOUSE ARE BEING INSTRUCTED TO REQUEST A SHORT PRIVATE MEETING FOR MR CLARK WITH MRS THATCHER. HE WILL NOT RAISE ANY BILATERAL ISSUES BUT DOES WANT TO TALK ABOUT HOW RHODESIA IS TO BE HANDLED AT THE CHGM IN LUSAKA.

4. ECONOMY

THE CANADIAN ECONOMY HAS MADE A SLOW RECOVERY FROM THE MID 1970S RECESSION AND ITS ACCOMPANYING INFLATION. REAL GNP GREW BY 3.8 PER CENT IN 1978, AND, FOLLOWING THREE YEARS OF TIGHT

MONETARY POLICY AND STATUICBSSKWRBJ SCE CONTROLS INFLATION HAS FALLEN TO 8.4 PER CENT. THE BALANCE OF PAYMENTS DEFICIT (A HUGE INVISIBLES DEFICIT OUTWEIGHS CANADA'S SURPLUS ON MERCHANDISE TRADE) GREW TO CAN DOLLARS 5.3 BILLION IN 1978 AND THE CENTRAL GOVERNMENT DEFICIT TO DOLLARS 10.0 BILLION. FORECASTS FOR 1979 ARE BASED ON THE ASSUMPTION THAT THERE WILL BE A MODERATE RECESSION IN THE USA (WHICH ACCOUNTS FOR OVER 70 PER CENT OF TOTAL CANADIAN TRADE). REAL GROWTH IS EXPECTED TO BE ABOUT 3 PER CENT, WITH INFLATION CONTINUING AT A MODEST RATE BUT NOT EXCEEDING 8-10 PER CENT FOR THE YEAR. THE BALANCE OF PAYMENTS DEFICIT IS UNLIKELY TO IMPROVE (INDEED THE TRADE FIGURES SO FAR INDICATE THAT IT IS DETERIORATING BADLY) AND THE FEDERAL DEFICIT IS ALSO LIKELY TO GROW. THE CANADIAN DOLLAR HAS BEEN UNDER PRESSURE FOR SOME TIME, AND SEEMS LIKELY TO REMAIN VULNERABLE. IT CURRENTLY STANDS AT AROUND US 85 CENTS.

5. ENERGY

CANADA IS A NET EXPORTER OF NATURAL GAS, COAL AND ELECTRICITY ALTHOUGH CANADA ALSO EXPORTS SOME OIL TO THE USA AND POSSESSES CONSIDERABLE CONVENTIONAL OIL RESERVES, DOMESTIC PRODUCTION ACCOUNTS FOR ONLY 69 PER CENT OF CONSUMPTION AND CANADA IS STILL DEPENDENT OF IMPORTS OF OIL (ABOUT 600,000 BPD) LARGELY TO SUPPLY ITS EASTERN PROVINCES.

6. THE WELL-HEAD PRICE OF DOMESTICALLY PRODUCED OIL IS FIXED BY AGREEMENT BETWEEN THE FEDERAL GOVERNMENT AND THE PROVINCIAL GOVERNMENT IN ALBERTA. SINCE 1974 IMPORTS OF OIL HAVE BEEN SUBSIDISED (FINANCED PARTLY BY A SURCHARGE ON EXPORTS) TO ENSURE A CONSTANT PRICE THROUGHOUT THE COUNTRY. THE DOMESTIC PRICE OF OIL IS NOW CAN DOLLARS 12.75 A BARREL, WELL BELOW THE WORLD PRICE. THE PREVIOUS GOVERNMENT INTRODUCED IN 1977 A POLICY OF INCREASING THE DOMESTIC PRICE BY DOLLARS 1.00 A BARREL AT 6 MONTHLY INTERVALS WITH THE LONG-TERM AIM OF BRINGING IT UP TO WORLD PRICE LEVELS. LAST YEAR THE INCREASE DUE ON 1 JANUARY 1979 WAS DEFERRED. THE NEW GOVERNMENT HAS NOT YET INDICATED ITS POLICY. THE CONFLICTING INTERESTS OF THE ALBERTAN PRODUCERS AND THE CONSUMERS IN THE OTHER PROVINCES MAKE THE ISSUE A POLITICAL HOT POTATO.

7. CANADA'S DEPENDENCE ON IMPORTS FOR PART OF ITS OIL CONSUMPTION WILL CONTINUE UNLESS AND UNTIL ITS UNCONVENTIONAL OIL RESOURCES (TAR-SANDS AND HEAVY OIL DEPOSITS) ARE DEVELOPED. THIS WILL

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REQUIRE ENORMOUS CAPITAL INPUTS (OFFICIALLY ESTIMATED IN 1976 AT DOLLARS 180 BILLION BETWEEN 1975 - 1990 AND MORE RECENTLY THE ROYAL BANK AT SOME DOLLARS 300 BILLION OVER THE NEXT 11 YEARS). DESPITE CONSERVATION CAMPAIGNS THERE ARE LIMITATIONS ON THE COUNTRY'S ABILITY TO REDUCE CONSUMPTION, BECAUSE OF THE SEVERE CLIMATE WHICH MAKES PER CAPITA CONSUMPTION OF ENERGY THE HIGHEST IN THE WORLD.

8. CANADIAN ATTITUDE TO INTERNATIONAL ECONOMIC ISSUES

THE CANADIAN GOVERNMENT HAS NOT YET GIVEN ANY INDICATIONS ABOUT THE LINE IT WILL FOLLOW ON THE ISSUES TO BE DISCUSSED AT TOKYO. ITS VIEW OF WORLD MACRO-ECONOMIC PROBLEMS WILL BE INFLUENCED BY THE DOMESTIC NECESSITY TO CONTAIN INFLATION, STABILISE THE DOLLAR AND REDUCE UNEMPLOYMENT. THE CLARK GOVERNMENT IS COMMITTED BY ITS ELECTION PROMISES TO A LONGER-TERM REDUCTION OF THE FEDERAL GOVERNMENT DEFICIT, BUT SEEMS UNLIKELY TO BE ABLE TO REDUCE THE CURRENT ACCOUNT DEFICIT IN THE SHORT TERM.

9. SO FAR AS ENERGY IS CONCERNED, CANADA IS PARTLY PROTECTED FROM THE IMPACT OF RISING WORLD OIL PRICES. YET THE GOVERNMENT IS CONCERNED ABOUT ITS VULNERABILITY TO CHANGES IN THE WORLD MARKET AND SHARES THE GENERAL DESIRE FOR GREATER SECURITY OF SUPPLY, AND STABILITY OF PRICE. CANADIAN OFFICIALS WOULD WELCOME A DIALOGUE WITH THE OPEC PRODUCERS BUT HAVE NOT YET, SO FAR AS WE ARE AWARE, RAISED THE ISSUE WITH THEIR MINISTERS. CANADA WILL ALSO HAVE TO DEVELOP ALTERNATIVE ENERGY RESOURCES. OFFICIAL ADVICE TO MINISTERS WILL ALMOST CERTAINLY BE THAT THE NUCLEAR OPTION IS THE ONLY REALLY FEASIBLE ONE; BUT HITHERTO MR CLARK AND HIS TEAM HAVE BEEN MOST CAUTIOUS ON NUCLEAR ISSUES AND PARTICULARLY SENSITIVE ON PROLIFERATION.

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SIR A. DUFF
SIR A. PARSONS
MR BUTLER
MR BULLARD
MR CORTAZZI
MR FRETWELL
MR THOMAS
MR HALL
MR MURRAY

MR HAYES
MISS BROWN

ADDITIONAL DISTRIBUTION:
ECONOMIC SUMMIT



10 DOWNING STREET

From the Private Secretary

12 June 1979

ECOM BR
BF
File 16
22/6/79

BILATERAL MEETINGS IN TOKYO

Thank you for your letter of 11 June about possible bilateral meetings in Tokyo between the Prime Minister on the one hand and the Canadian and Japanese Prime Ministers on the other.

The Prime Minister would be glad to have a bilateral meeting with Mr. Clark if this can be fitted into the programme: I should be grateful for advice on a possible timing and our High Commission in Ottawa may like to confirm to Mr. Clark's Office straightaway that the Prime Minister would be glad to have a meeting with him on the margin of the Summit.

The Prime Minister does not wish to take the initiative in proposing a bilateral meeting with Mr. Ohira who, she considers, will be too pre-occupied with hosting the meeting to be able to devote time to bilaterals.

I should be grateful if briefing for the Prime Minister's bilateral meeting with Mr. Clark could be prepared in time to reach me not later than Friday, 22 June.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

B. E. CARTLEDGE

J. S. Wall, Esq.,
Foreign and Commonwealth Office.

*Original filed in
PM Travels Abroad
April 79, Tokyo
Admin.*

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Elkin



Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

11 June 1979

If you agree in principle to a bilateral with Mr Clark, we shall work on the timing. Would you also like to suggest a bilateral with Mr. Ohira? Yes

Agreed with

Dear Bryan,

Bilateral Meetings in Tokyo

No. he will be too busy

The Prime Minister has already proposed a breakfast meeting with President Carter in the margins of the Tokyo Summit and you will have seen the President's response (Washington telno 1373 of 7 June enclosed).

The Canadian Prime Minister has now also asked for a meeting with the Prime Minister and has suggested late morning or early afternoon of 27 June. We have explained that this timing is unlikely to suit the Prime Minister. Lord Carrington recommends that the Prime Minister should have a bilateral meeting with Mr Clark and I should be grateful to know whether and when this might be arranged.

Since the Prime Minister will have seen her European colleagues at the European Council, Lord Carrington does not think it necessary for the Prime Minister to have bilaterals with them unless she so wishes. He would, however, advise the Prime Minister to propose a bilateral meeting with the Japanese Prime Minister, but not to press this if he is preoccupied with the Summit itself.

I am copying this letter to Martin Vile (Cabinet Office).

Yes ever.
Stephen

J S Wall
Private Secretary

Bryan Cartledge Esq
10 Downing Street

*Original filed on
PM Tours Abroad April 79
Visits to Tokyo & Canberra Admin.*

Original on:
France: PM's visit: May 79

PM/Giscard Meeting Note: 5 June 1979

At 1215 the Prime Minister and President Giscard were
joined by:

Econ Pol.

- M. Raymond Barre
- The Foreign and Commonwealth Secretary
- Mr. G. G. Walden
- M. Robin

* * * * *

Energy and the Tokyo Summit

President Giscard summarised the subjects which he and the Prime Minister had already covered during their tete-a-tete discussion and said that the Prime Minister had suggested that, with Lord Carrington and M. Barre, they should discuss the forthcoming Economic Summit in Tokyo and the problem of energy, before moving on to wider international issues.

The Prime Minister said that energy was expected to be the main item on the agenda of the Tokyo Summit. The problem was how the leading energy users could persuade the leading energy producers not to raise their prices still further and thereby cause a world recession. Western objectives were thus quite clear but the methods by which they might be achieved were very unclear. Specific ideas were needed. The problem was common to many Western countries, although France had moved further along the road to a solution than any other country in Europe, through her nuclear programme. The UK, for her part, had found only a temporary solution in her North Sea oil. President Giscard asked how temporary a solution this was. The Prime Minister said that it would last for 15 to 20 years. President Giscard commented that this was a help. The Prime Minister went on to say that the alternatives facing some countries were either to go all out for nuclear power, or, if they were unwilling to do this, to accept a significant reduction in their standard of living.

The Prime Minister said that she had never attended an Economic Summit but she had studied their communique closely: they were always the same. Meanwhile, the world's economic problems continued;

/ and so

and so did the communiques. President Giscard agreed and said that, although discussions at Economic Summits had become academic, the first such meeting, at Rambouillet, had produced useful results in the form of a stabilisation of exchange rates. Unfortunately, however, participation in the Summits had then been enlarged: their communiques were now just words. President Giscard agreed with the Prime Minister that the next Economic Summit should concentrate on energy. He thought that it should, despite everything, be possible to achieve some useful results. He would like to suggest what these might be.

Firstly, President Giscard said, the Summit could demonstrate a real determination on the part of the major energy users to reduce their consumption. France, for her part, would lower temperatures in public buildings and impose a ceiling on the amount of oil consumed by power stations. These measures could be discussed at the European Council meeting in Strasbourg.

Secondly, it was a fact that the operation of the spot market in oil produced unacceptable results. The international oil companies should be asked to keep out of the spot market during, in the first instance, the month of June. Chancellor Schmidt, in a recent discussion with M. Barre, had agreed that this measure should be taken in order to produce a moderating effect on prices. It was a fact that every Gulf ruler had the latest spot market price on his desk first thing every morning.

Thirdly, agreement should be reached on an annual approach by the major users to the major producers in order to assess whether the savings planned by the users during the coming year, as well as the production levels planned by the producers, would be sufficient and in phase with each other.

Fourthly, the Summit participants should discuss a programme for exploiting alternative sources of energy. This was mainly a problem for the Europeans, since the Americans and Canadians were already making progress in this field. President Giscard added,

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in parentheses, that he had just received a report from M. Francois-Poncet, who was in Washington, to the effect that press reports about the U.S. Administration's decision to subsidise oil imports were too pessimistic: President Carter was in fact working on the introduction of quite drastic conservation measures, on a possible approach to the oil producers and on steps to stabilise the spot market in oil - precisely those measures which he was himself advocating. President Giscard said that he thought that the American approach seemed quite constructive.

Lord Carrington commented that it was essential to formulate, during the European Council meeting in Strasbourg, a European approach to the Tokyo Summit. The Prime Minister said that, ever since the Yom Kippur war, the West had managed to absorb substantial increases in the price of oil, to the extent that it would soon be economic to extract oil from the tar sands and shale - this would require a price of \$40 per barrel. A situation had been created a year ago in which the West had once again found itself with a surplus of oil but this situation would not be repeated because of events in Iran.

Describing the French nuclear power programme, President Giscard commented that an anti-nuclear demonstration in Lorraine on the previous day had attracted only 500 participants. France was currently building ten new nuclear plants: he thought that if the Government continued to give a strong, clear line, there would not be a great deal of public opposition. It would be helpful if both France and the UK were to take a strong and positive line on nuclear power in Strasbourg. The Federal German Government found itself in difficulties on nuclear power, largely because of the constitutional powers of the Länder. Germany still had no reprocessing plant.

President Giscard went on to say that he fully shared the Prime Minister's view that the objective should be to arrive at practical conclusions, first in Strasbourg and subsequently in Tokyo. The Prime Minister said that the British Government was at present pursuing a policy of requiring power stations in the UK to substitute coal for oil: if continued, however, this policy could affect the UK's capacity to build up coal stocks, which

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/ would

would be needed against the possibility of further trouble from the miners during the coming winter. The Government might, therefore, have to reconsider.

President Giscard asked who in the British Government would be responsible for preparing the UK position on energy at the European Council in Strasbourg. The Prime Minister said that she thought she would. Lord Carrington asked whether President Giscard was suggesting that it would be useful to have bilateral consultations on energy in advance of the European Council and President Giscard confirmed that he was. It was agreed that bilateral consultations would be arranged, at the highest practicable level, as a matter of urgency.

South Africa

Lord Carrington explained that the proposals put forward by the Five on Namibia were still blocked by South Africa. The British Government, which might have^a little leverage with the South Africans who felt that the new Government had a better understanding of South Africa's internal problems than the Labour Government, had decided to send an Envoy, Mr. Luce, to assess the prospects for reviving the U.N. Secretary General's proposals. Mr. Luce's assessment was that there might just be a chance of succeeding in this; if so, it was important to take it since the consequences of abandoning the plan would be very serious. The Five had therefore agreed to have another try. Lord Carrington expressed the view that the prospect of a move to impose economic sanctions against South Africa had such grave implications for the Western world that every step towards that situation demanded very careful consideration. The Prime Minister said that the British Government, for their part, could not possibly contemplate sanctions against South Africa.

Turning to Rhodesia, Lord Carrington said that the British Government's position was that five conditions had been laid down for Rhodesia's return to legality and that, by the end of 1978, the only one of those remaining unsatisfied was that requiring any settlement to be put to the test of its acceptability to the Rhodesian

/ people

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File MJ
cc CO
Econ Pal

10 DOWNING STREET

From the Private Secretary

4 June 1979

Dear Stephen,

Tokyo Economic Summit, 28/29 June:
Meeting with President Carter

You will recall that, during their telephone conversation shortly after the Prime Minister's appointment on 4 May, the Prime Minister and President Carter agreed that they should have a bilateral meeting on the margin of the Economic Summit in Tokyo to discuss a number of issues of concern to them both. I am now writing to confirm that, as I told Paul Lever on the telephone this morning, the Prime Minister would like to suggest to President Carter, through HM Ambassador in Washington, that their meeting might take place over breakfast on the morning of 29 June. I should be grateful if this proposal could be put to the White House as soon as possible. We can discuss modalities, agenda and briefing when we have had an American response.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

Yours ever,
J. S. Wall

J.S. Wall, Esq.,
Foreign and Commonwealth Office.

PRIME MINISTER

Tokyo Summit, 28/29 June

I shall be putting to you next week, in the light of Sir John Hunt's next preparatory meeting for the Economic Summit, a number of detailed points about your visits to Japan and Australia. In the meantime, you will recall your agreement with President Carter, on your first day in office, that you and he would have a bilateral meeting on the margin of the Summit.

Having looked at the outline programme, I think the only possible time for this would be over breakfast on the morning of 29 June. If you are prepared to agree to this, I shall ask our Ambassador in Washington to put the suggestion to the White House immediately.

Yes,

Yes out.

1 June 1979

Original in G/R

SJN



10 DOWNING STREET

THE PRIME MINISTER

1 June 1979

Dear Julian,

Many thanks for your letter of 29 May, with your advice for my forthcoming visit to Japan. I will bear this in mind when I get to Tokyo.

I am grateful to you for letting me know these things.

Yours ever,

MARGARET.

Julian Ridsdale, Esq., C.B.E., M.P.

TMW



c fco

Original in file

10 DOWNING STREET

THE PRIME MINISTER

25 May 1979

Thank you so much for your letter.

Mr. Ohira is being much too kind,
and I look forward to meeting him in
Tokyo next month.

(SGD) MARGARET THATCHER

Sir Kenneth Keith

VB

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10 DOWNING STREET

Econ Pol. file
Japan
Original on: VISA of
Japanese Minister for International
Trade and Industry: May 79.

From the Private Secretary

25 May 1979

Dear Sir,

Call on the Prime Minister by the Japanese Minister for International Trade and Industry, Mr. Esaki, at 10 Downing Street on 25 May 1979

At the special request of the Secretary of State for Trade, the Prime Minister agreed to receive the Japanese Minister for International Trade and Industry, Mr. Esaki, for a brief courtesy call at No. 10 this morning at 1125 (Mr. Esaki arrived half an hour late). Mr. Esaki was accompanied by the Japanese Ambassador and an interpreter. The following is a summary of the main points which arose during a short discussion.

Mr. Esaki told the Prime Minister that he had valued his talks with the Secretaries of State for Trade, Industry and Energy. The Prime Minister asked Mr. Esaki whether he would be personally involved in the forthcoming Economic Summit in Tokyo at the end of June. Mr. Esaki said that he would and that he expected the conference to concentrate on energy issues. The Prime Minister told Mr. Esaki that, in her view, it was better that Economic Summit meetings should discuss a limited number of specific issues, rather than attempt a more generalised agenda. Mr. Esaki said that he agreed with this.

Mr. Esaki then stressed to the Prime Minister, at some length, the enthusiasm of the Japanese Government for intensified exchanges between Japan and the UK in the industrial field, referring in particular to co-operation between British Leyland and Honda - which he said was going ahead smoothly - and to collaboration with Rolls Royce on the manufacture of aircraft engines. Mr. Esaki said that, given the fortunate position of the UK with regard to energy supplies, the Prime Minister should be able to preside over a golden age for the UK economy; the Prime Minister commented that the UK would be fortunately placed on oil for a decade but not indefinitely. The Government now had a chance to set the British economy on a different course and they intended to succeed: investment in nuclear power, however, would have to be undertaken on a bigger scale than hitherto. Mr. Esaki paid tribute to the nuclear reactor which Japan had purchased from the UK, which was still operating very well: Japan would need the UK's co-operation in the nuclear field in the future and valued the arrangement for the reprocessing of nuclear waste at Windscale.

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Taking his leave, Mr. Esaki said that his Prime Minister, Mr. Ohira, had asked him to convey to Mrs. Thatcher his warm greetings: he was looking forward to exchanging views with the Prime Minister in Tokyo.

I am sending copies of this letter to Tom Harris (Department of Trade) and Martin Vile (Cabinet Office).

Yours ever,
Roger Carridge.

J. S. Wall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

Ref: A09636

MR. CARTLEDGE

Prime Minister

Rec'd 1

The Japanese evidently misinterpreted your remark that Summits were better at improving personal contacts than at finding specific solutions. I think it is important that you should correct this with Mr. Esaki by speaking as suggested at 'X' below.

Tokyo Economic Summit

At the recent Preparatory Meeting in Washington I argued, on the Prime Minister's instructions, that (i) we did not want a rerun of the Bonn Summit with macro targets and a long analytical communique and (ii) the Summit should concentrate on particular areas, notably energy, where progress could be made. In my minute A09599 of 21st May I reported that I had some success, although I warned that the Japanese themselves wanted a long and platitudinous communique.

[A]

I was therefore somewhat disconcerted to get a telephone call this afternoon from Mr. Henry Owen at the White House saying that the Economic Minister in the Japanese Embassy in Washington had told him that the Japanese Foreign Minister, Mr. Sonoda, had been relieved to discover when he met the Prime Minister on 21st May that Mrs. Thatcher shared the Japanese wish that the Summit should concentrate on generalities and not seek to reach any conclusions. Your record of the discussion between the Prime Minister and Mr. Sonoda does not lend support to his interpretation of the Prime Minister's approach, but it may be that he read too much into a remark of the Prime Minister's.

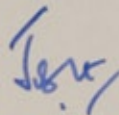
I understand that the Prime Minister is seeing the Japanese Minister for International Trade and Industry tomorrow. It would be very helpful in keeping the Japanese from lapsing into an over-generalised approach to the Tokyo Summit if the Prime Minister felt able to tell Mr. Esaki that she was encouraged by the report she had had from the recent meeting of personal representatives that there seemed general agreement that the Summit should concentrate on those areas where progress could be made, in particular energy.

X

If the Prime Minister is content I would also like to confirm to Henry Owen that this is the Prime Minister's view and to arrange for our Embassy in Tokyo to be informed so that they can put the matter in context if they get similar reports of the Prime Minister's views from the Japanese.

Agree?

I am sending a copy of this minute to Sir Michael Palliser, who was with me at the Washington meeting.

A handwritten signature in blue ink, appearing to read 'J. Hunt'.

John Hunt

24th May, 1979



10 DOWNING STREET

From the Private Secretary

23 May 1979

Tokyo Summit Preparations

The Prime Minister has seen Sir John Hunt's minute (AO9599) of 21 May about the preparations for the forthcoming Tokyo Summit. The Prime Minister is content with the approach which we are adopting towards the Summit in the preparatory meetings and would welcome a further report from Sir John Hunt before the next meeting of Personal Representatives on 14/16 June.

B. G. CARTLEDGE

M. J. Vile, Esq.,
Cabinet Office.



10 DOWNING STREET

cc co

From the Private Secretary

22 May 1979

Call on the Prime Minister by the Foreign Minister
of Japan, Mr. Sonoda, on 21 May 1979

The Japanese Foreign Minister, Mr. Sonoda, accompanied by the Japanese Ambassador and an interpreter, called on the Prime Minister at 10 Downing Street on 21 May at 1715. The following are the main points which arose during a conversation which lasted for 40 minutes.

After conveying his Government's warm congratulations to the Prime Minister on her appointment, and a personal message of good wishes from Mr. Ohira, Mr. Sonoda recalled a speech which the Prime Minister had made during her last visit to Japan about the importance of revitalising the British economy and commented that the British people had evidently found her philosophy as persuasive as had her Japanese audience. Mr. Sonoda said that, ever since the days of the Anglo/Japanese Alliance, the Japanese people had felt a close affinity with the people of the United Kingdom; he recognised that, owing to wartime experiences, the British people had rather different feelings about the people of Japan. This made it all the more important to develop closer relations between the two countries, not only in economic matters but also on political issues including the Middle East.

Mr. Sonoda said that the Japanese Government attached the greatest importance to the forthcoming Economic Summit in Tokyo: it looked as if energy would be a major issue at the Summit and an important contribution would be expected from the U.K.. The Prime Minister said that the Tokyo Summit would be the first meeting at that level in which she had participated although she had, of course, studied the communiqués of earlier meetings in this series with interest. Her conclusion was that it was easier to analyse the problems facing the world than to solve them: did Mr. Sonoda think it likely that the Summit could come up with any new solutions? Mr. Sonoda agreed that it would be difficult for the Summit to achieve solutions to economic problems but expressed the hope that it might contribute to the clearer identification of what could be done in the way of greater mutual co-operation and

/ detailed discussion,

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detailed discussion, especially on energy. The Summit could also consider the possibility of setting up some kind of permanent machinery to promote this process. The Prime Minister commented that Mr. Sonoda evidently had a more optimistic approach than her own. There could be a risk of setting up yet more bureaucracy without achieving anything practical.

In a short discussion of the world oil situation, the Prime Minister said that problems over oil resulted inevitably from political problems in the Middle East, first between Egypt and Israel and then in Iran; this was why the Western powers were striving for a political settlement in the Middle East which might have the effect of reducing oil prices. Perhaps there could be some discussion of the Middle East situation at the Tokyo Summit.

At the Prime Minister's request, Mr. Sonoda made some comments on China's policies. He said that the Japanese Government regarded the Chinese regime as very stable and dismissed rumours that China was planning to inflict further "punishment" on Vietnam. It was necessary to promote co-operation between the United States, the U.K. and Japan in assisting China's modernisation programme. This would have the effect of decreasing tension in Asia and of integrating China into the international trading system. Mr. Sonoda said that Japan was now exporting large quantities of heavy machinery and other capital equipment to China, particularly for the development of China's mineral resources.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

B. G. CARTLEDGE

J. S. Wall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

Ref. A09609

MR. CARTLEDGE

I understand that the Private Secretary to the Secretary of State for Trade is likely shortly to write to you suggesting that there would be advantage if Mr. Nott could be included in the Prime Minister's party for the Tokyo Economic Summit. I understand that the letter is likely to make it clear that Mr. Nott does not expect to be included in the Summit discussions (these are confined strictly to Heads of Government, Foreign Ministers and Finance Ministers) but that he would use his time in Japan in discussion of trade questions with members of the Japanese Government not involved in the Summit meetings and possibly on seeing something of Japanese industry. In other words Mr. Nott is proposing an early visit to Japan and would like to be included under the Prime Minister's umbrella and to travel in the aircraft.

I am sure it is right for Mr. Nott to make an early visit to Japan. Equally so we ought not to suggest including him in our formal delegation (but he will not, I think, be suggesting this). Whether it will be convenient for the Japanese Government to receive him during the Summit, even though he will not be talking to the "Summit Ministers" may need to be sounded out rather carefully. My impression is that the Japanese are putting such an effort into the arrangements for the Summit, that Mr. Nott might well get a better reception if he went at a different time. I suspect that our Ambassador ought to be asked for advice on this.

JOHN HUNT

(John Hunt)

22nd May, 1979



Foreign and Commonwealth Office

London SW1A 2AH

22 May 1979

Dear Bryan,

~~Mr. Stone.~~
So far, so good,
SJS
22/5

TOKYO SUMMIT

As agreed this morning on the telephone, the Lord Privy Seal raised the question of security arrangements for the Prime Minister at Tokyo at his lunch with the Japanese Foreign Minister today. While expressing the Prime Minister's appreciation of arrangements in hand, the Lord Privy Seal explained that the Prime Minister would prefer that, as in this country, her personal security were treated on the same basis as that of other Prime Ministers, and that she should not have, as some reports had suggested, a special detachment of female bodyguards. This point was reinforced by officials with Mr Sonoda's Private Secretary, and the Lord Privy Seal is satisfied that the point has been well taken and appreciated. We would propose to follow this up immediately by instructing HM Embassy in Tokyo to discuss the matter with the appropriate Japanese authorities, making clear the Prime Minister's wishes in this matter.

I am copying this letter to Martin Vile.

Yours ever,

Stephen Gomersall

S J Gomersall
Private Secretary
to the Lord Privy Seal

Bryan Cartledge Esq
No 10 Downing Street

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LIBRARY



22 MAY 1979



Ref. A09599

PRIME MINISTER

Tokyo Summit Preparations

You may like to have this brief report on the Preparatory Meeting which I attended in Washington on 17th-19th May.

2. We achieved a satisfactory measure of agreement on the following points:-
- (a) Tokyo should not be a rerun of the Bonn Summit. There was no case for pressing individual countries to take further action to stimulate world demand. The Summit should avoid percentages and targets.
 - (b) Given the short time available (only a day and a half not counting finalisation of the communique and Press conference), the Heads of Government ought to be selective in what they discuss. It was unlikely that they could take any useful decisions on international monetary matters (no great currency instability likely and too soon to judge the effect of EMS) or on trade (following reasonably satisfactory conclusion of the MTNs). UNCTAD would just have finished: and unless it ended in disaster some of the heat would be off the North/South question. The main topic which deserved discussion and on which progress could be made was energy and its relationship to the world economy.
 - (c) The communique should be shorter than usual: and both less analytical and more action-orientated.
3. This led us to feel that the main theme of the Summit might be:-
- (i) The Summit participants have largely honoured the undertakings they gave at Bonn.
 - (ii) However new factors have intervened. The rise in oil prices and the energy shortage could have serious implications for growth, inflation and unemployment if we do not face up to reality.
 - (iii) This leads to two main lessons:-
 - (a) The need for structural change.
 - (b) The need to ease the energy shortage.

Prime Minister

Are you content with the way this is shaping up? Sir John Hurt is clearly trying to keep manifestations at bay.

John
Hurt

///

me

(iv) Action to ease the energy shortage should include:-

- (a) What oil price strategy is envisaged? How do we play our cards with the oil producers?
- (b) Conservation measures.
- (c) Greater use of coal in some countries.
- (d) A determined international effort to ensure the highest standards of nuclear power safety, and to demonstrate this.
- (e) Investment in new sources and renewables.

(v) The under-developed countries could be particularly vulnerable to energy shortage and rising oil prices. The best way we can help them and they can help us to help them is by maintaining open markets. There are however a few specific measures which can be considered.

4. The next meeting of Personal Representatives is in Paris on 14th-16th June. I should like, if I may, to report further to you before this because in Paris we shall have a first discussion of the draft communique which the Japanese are preparing. At that stage I suspect we will have to re-fight some of the battles we won in Washington because the Japanese were alone in wanting a long and platitudinous communique. (At one point Mr. Miyazaki said "Mr. Ohira is a philosopher who does not mind platitudes".) In the meantime I shall be discussing with those concerned, including CPRS and the Department of Energy, how we can make most impact on the energy front: and Sir Jack Rampton and Sir Douglas Wass will be attending further meetings of the sub-groups on energy and inflation that have produced papers for the Personal Representatives.



John Hunt



21st May 1979

Tokyo
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John
JOHN HUNT

21st May, 1979

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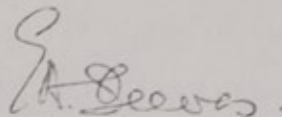
PS/Lord Privy Seal

ECONOMIC SUMMIT, TOKYO

1. Sir John Hunt telephoned this morning to speak about a report which appeared on British television, when the General Election results were announced, that when Mrs Thatcher attended the Tokyo Summit, 20 "karate ladies" would attend her. Sir John Hunt raised this with his Japanese colleague at last week's Washington Sherpas' Meeting; the latter told him that this report is in fact true. Sir John said that Mrs Thatcher will attend the Summit as Prime Minister and not as a woman per se and he was sure that she would not want these ladies; press reaction in particular would be unacceptable. He asked about action to be taken.
2. I said that on even minor Summit administrative arrangements the Japanese MFA have so far proved intractable and the police are reported to be even more so; a high-level approach is therefore necessary. Shortly afterwards I learnt that Sir Ian Gilmour is giving the Japanese Foreign Minister lunch tomorrow. Sir John Hunt spoke with Mr Stowe, who subsequently telephoned me to reiterate that the Prime Minister would not want karate ladies. It was agreed that Sir Ian Gilmour should be asked to raise the matter at tomorrow's lunch.
3. The Japanese police have received threats from various organisations that an effort will be made to disrupt the Tokyo Summit by various means; there is (as yet) no specific threat to the UK Delegation itself. The physical security arrangements for the safety of Ministers is always the responsibility of the host Government. The Japanese police will bring in 26,000 police to cope with what will clearly be very intensive security arrangements indeed. The Prime Minister would like to be treated in exactly the same manner as the other visiting Heads of Delegation; it is not the degree of protection that is in question but the particular means of carrying it out. If other Delegation leaders, for example are each being assigned 20 karate gentlemen, the Prime Minister would have no objection to this; but she does not wish to be singled out. She has not had in the past and does not have now, any female Special Branch officers.
4. On the assumption that this request is accepted, any subsequent press enquiries as to why the karate ladies will not appear should be played down as much as possible, both by the Japanese and ourselves.
5. I have consulted FRD, PUSD and Security Department; PCD is not the lead Department for physical security arrangements but in the

/interests

interests of speed it has been agreed that we should put this to you.



E A Deeves (Miss)
Conference and Visits Section
Protocol and Conference Department

21 May 1979

cc: PS/Secretary of State
PS/Permanent Under-Secretary
Financial Relations Department
Far Eastern Department
Permanent Under-Secretary's Department
Security Department

Mr K R Stowe, 10 Downing Street
PS/Sir John Hunt, Cabinet Office



21 MAY 1979

Economic
Policy

10 May 1979

The Prime Minister has seen Sir John Hunt's minute of 8 May, in which he proposes that he should attend the preparatory meeting for the Tokyo Economic Summit accompanied by Sir Michael Palliser and Mr. Couzens.

The Prime Minister is content with these arrangements.

M.A. PATTISON

M.J. Vile, Esq.,
Cabinet Office.

1.

PRIME MINISTER

You agreed that Sir John Hunt should travel to Washington for the 17-19 May meetings in preparation for the Tokyo Economic Summit.

You agreed that Sir M. Palliser should accompany him, but you asked whether Mr. Couzens could be spared in view of the Budget.

Mr. Couzens handles the Overseas Finance side of the Treasury. He is not directly involved in Budget preparations. It is important that the Treasury should be fully involved in Economic Summit preparation.

Are you content that Mr. Couzens should go?

Yes and

MAD

9 May 1979

Ref. A09501

PRIME MINISTER

You will probably know that the preparations for the Economic Summits are made by a group of Personal Representatives of the Heads of Government concerned rather than through the normal bureaucracy. I have represented the United Kingdom hitherto and I should be grateful if you would let me know whether you are content for me to continue to do so. *Yes - I can do. Mr.*

I have to ask this question now because, before the Election was called, a Preparatory Meeting was arranged to take place in Washington on 17th-19th May. This would mean me leaving by the Concorde on the evening of Thursday week (but I would of course be present for Cabinet that day) which should get me to Washington in time for a working dinner that evening. The meeting would continue through Friday and Saturday and I would fly back on Saturday night. For the meeting itself (but not for the working dinner which is confined strictly to Personal Representatives) I would be accompanied by Sir Michael Palliser and Mr. Couzens of the Treasury. *Can he be spared in view of the Budget.*

Although my main purpose in going to Washington would be in connection with the Economic Summit preparations, you should know that Dr. Brzezinski has asked me to have a working lunch alone with him at the White House on the Friday. This would provide a convenient opportunity to open up the reconfirmation of the various nuclear agreements as between you and President Carter if you have been able to hold the proposed Restricted Meeting of Ministers before I leave for Washington.

Agreed Mr.

John
JOHN HUNT

8th May, 1979

Please give him my warm regards.



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END

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February 2010