

# PREM19

# 126

USA

(President Carter's energy  
policy)

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President Carter's Energy Policy

U. S. A.

JULY 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>19.7.79</del>							
23.7.79							
19.9.79							
<del>11.11.79</del>							
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17.12.79							

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USA

Extract from Record of Meeting between  
PM and President Carter, Washington  
17. 12.79 (Pt 2)

Extract from discussion on Middle East -

The Foreign and Commonwealth Secretary said that the PLO bandwagon was rolling in Europe. The British Government was virtually the only Government not already on it. The reason for the reaction against Israel was their policy of establishing settlements on the West Bank. Mr. Brzezinski asked how the move in favour of the PLO would express itself. The President said that if it were to be in the United Nations he would not deplore this. The US Government was for the moment committed to Israel but the PLO had been very helpful of late. It would however be valuable if the isolation of Israel could be avoided where oil was concerned. He hoped that the United Kingdom, along with Norway and Mexico, might be prepared to sell the Israelis some oil if they asked for it. The Prime Minister pointed out that

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Britain was a member of the IEA and of the EEC. We were committed to sharing our oil with the other members of those organisations if there was a shortfall of 7 per cent. The President repeated that it would help if the UK could sell Israel a few tens of thousands of barrels of oil. The Foreign and Commonwealth Secretary recalled that our EEC partners had made it plain in Dublin that they expected the UK to sell them whatever spare oil they had. The President said that it was necessary to overcome difficulties rather than to enumerate them.

Energy

The Prime Minister asked whether the West Bank issue affected the views of the major oil producers on price. Or were the producing Governments simply selling their oil for whatever they could get? The President said that in his view the Middle East problem now made a minor contribution to rising oil prices. He noted that there were signs that recent events in Iran and Saudi Arabia was causing a reassessment by Middle East countries of their strategic alignments. It was very important in everyone's interest that Egypt and Israel should be strong and on good terms with their neighbours. He had written in his own hand to both President Sadat and Crown Prince Fahd saying how helpful it would be if there could be some easing of the animosity existing between their respective governments. There were encouraging signs of movement on this front.

The American Government was determined to carry forward the discussion begun at the recent meeting of the IEA. They were seeking an arrangement at the next IEA meeting in March on the allocation of oil in a time of shortage. They did not want a free for all. They wanted a specific formula to accommodate a shortfall of 1/1.5 million barrels per day. <sup>in world production</sup> The American Government thought that next year's production would fall below this year's level by that amount. They were ready

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for draconian action to keep imports under control. They already had the authority to impose import fees. The Prime Minister said that if consumption could be reduced imports would look after themselves. As prices moved upwards every household took steps to economise on their consumption. The present price rise was caused as much by uncertainty over future supply as by anything else.

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M WASHINGTON 232125Z NOV 79

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TELEGRAM NUMBER 3876 OF 23 NOVEMBER 1979

INFO UKDEL OECD, UKREP BRUSSELS, PARIS, BONN, ROME, OTTAWA, TOKYO, JEDDA, KUWAIT, ABU DHABI AND TEHRAN

U S ENERGY POLICY

LONDON REUTER REPORTS OF COMMENTS MADE BY U S TREASURY SECRETARY MILLER ON HIS WAY TO THE MIDDLE EAST ARE BEING FEATURED BY THE U S MEDIA TO-DAY. MILLER IS QUOTED AS SAYING THAT THE CARTER ADMINISTRATION PLANS TO RENEW AND REDOUBLE ITS EFFORTS TO CUT U S ENERGY USE, POSSIBLY THROUGH HIGHER PRICES OR MANDATORY LIMITS ON CONSUMPTION. A NEW PACKAGE OF CONSERVATION MEASURES MIGHT BE READY FOR SUBMISSION TO THE PRESIDENT IN MID-DECEMBER. MILLER IS ALSO REPORTED BY REUTERS AS HOPING THAT OIL CONSUMING NATIONS WOULD COMMIT THEMSELVES TO QUOTE SOME MORE FORCEFUL MEASURES UNQUOTE AT THE IEA MINISTERIAL MEETING IN DECEMBER, AND AS ACCEPTING THAT SOME INCREASE IN THE SAUDI OIL PRICE WAS INEVITABLE.

2. MILLER'S COMMENTS ON CONSERVATION REFER TO A PLANNING DOCUMENT PREPARED BY A TASK FORCE UNDER DEPUTY ENERGY SECRETARY SAWHILL AND NOW BEING DISCUSSED WITHIN THE ADMINISTRATION. THIS LISTS A NUMBER OF OPTIONS FOR CUTTING U S ENERGY CONSUMPTION QUICKLY. OUR UNDERSTANDING HOWEVER IS THAT THIS DOCUMENT DOES NOT IN ITSELF REPRESENT A DECISION TO LAUNCH A NEW U S CONSERVATION PROGRAMME. ITS PURPOSE SEEMS TO BE TO IDENTIFY MEASURES WHICH COULD BE DEPLOYED:

(A) IF THERE IS A NEW INTERRUPTION OF WORLD SUPPLIES EG: AS A RESULT OF THE SITUATION IN IRAN: OR

(B) IF THE DEMAND FOR IMPORTED OIL IN 1980 BEGINS TO EXCEED THE PRESIDENT'S 8.5 MBPD CEILING OR ANY LOWER U S TARGET ADOPTED AS PART OF THE CURRENT IEA EXERCISE.

3. BECAUSE MOST U S ENERGY OFFICIALS ARE AWAY FOR THE THANKSGIVING WEEKEND WE HAVE NOT BEEN ABLE TO OBTAIN DEFINITE ADVICE ON THE TREASURY SECRETARY'S COMMENTS. BUT WE BELIEVE THAT THEY WERE PROBABLY DESIGNED TO SUPPORT HIS ARGUMENTS FOR OIL PRICE MODERATION DURING HIS MIDDLE EAST TOUR, AND THAT NO DECISIONS HAVE IN FACT BEEN TAKEN TO PROCEED WITH THE MEASURES OUTLINED IN THE SAWHILL PAPER. IN ANY CASE MOST OF THE OPTIONS LISTED WOULD REQUIRE CONGRESSIONAL APPROVAL.

4. THE OPTIONS LISTED IN THE SAWHILL PAPER INCLUDE:

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- INCREASED TAXES ON GASOLINE AND POSSIBLY OTHER OIL PRODUCTS
- DECONTROL OF GASOLINE PRICES
- ACCELERATED GASOHOL PRODUCTION
- REVISION OF AIR TRANSPORT PATTERNS TO SAVE JET FUEL
- REOPENING OF CLOSED NUCLEAR POWER STATIONS
- RELAXATION OF ANTIPOLLUTION RULES
- OVERHAUL OF THE PRODUCT ALLOCATION SCHEME AND OF CONTINGENCY PLANS FOR GASOLINE RATIONING.

5. ON PARAGRAPH 2(B) ABOVE THE PRESIDENT IS OF COURSE COMMITTED TO APPLYING IMPORT QUOTAS IF HIS 1980 TARGET IS LIKELY TO BE EXCEEDED. BUT, ACCORDING TO ONE U S ENERGY OFFICIAL, IT IS NOW BEING REALISED WITHIN THE ADMINISTRATION THAT QUOTAS WOULD BE INFLATIONARY AND ADMINISTRATIVELY COMPLEX UNLESS INTERNAL OIL DEMAND BROUGHT BELOW THE QUOTA LEVEL BY OTHER PARALLEL MEASURES.

6. IN THE CONTEXT OF THE SAWHILL EXERCISE ENERGY SECRETARY DUNCAN MET WITH STATE GOVERNORS LAST WEEK AND ASKED THEM TO DRAW UP VOLUNTARY ENERGY CONSERVATION PLANS TO SAVE 5 PERCENT OF THE ENERGY CONSUMED IN THEIR STATES.

7. PLEASE ADVANCE TO MUIR CIP DEPT OF ENERGY, AND TORRY ESSD.

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*Prime Minister*

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FM WASHINGTON 111300Z NOV 79  
TO PRIORITY FOREIGN AND COMMONWEALTH OFFICE  
TELEGRAM NUMBER 3666 OF 11 NOVEMBER 1979  
INFO ROUTINE UKREP BRUSSELS, UKDEL OECD, ALL EEC POSTS, TOKYO,  
JEDDA OTTAWA  
INFO SAVING OTHER OPEC POSTS, MEXICO CITY.

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OIL PRICES AND US DOMESTIC POLITICS.

1. THE GROWING PESSIMISM HERE ABOUT WORLD OIL PRICES (MY TELNO 3578) WHICH IS INCREASINGLY REFLECTED IN THE PRESS, SEEMS BOUND TO ACCENTUATE DOMESTIC POLITICAL INFIGHTING ABOUT OIL PRICE CONTROLS. IT MAY BE HELPFUL TO OUTLINE THE BACKGROUND.

2. ENERGY POLICY HAS BEEN THE MOST CONSISTENTLY LIVE ECONOMIC ISSUE OF CARTER'S PRESIDENCY. HE HAS DECIDED, AFTER SOME INITIAL RELUCTANCE, TO MAKE USE OF THE PRICE MECHANISM. IN 1978 HE SIGNED LEGISLATION WHICH WILL LEAD TO THE EVENTUAL DECONTROL OF NATURAL GAS PRICES, AND IN APRIL THIS YEAR HE ANNOUNCED HIS INTENTION TO DECONTROL THE PRICE OF US CRUDE OIL BY LATE 1981. THESE DECISIONS HAVE BEEN GRUDGINGLY SUPPORTED BY REPUBLICAN PARTY REPRESENTATIVES WHO TEND TO ARGUE THAT ALL SUCH QUESTIONS ARE BEST DECIDED BY THE MARKET. BUT THEY ARE A LIVE ISSUE IN DEMOCRATIC POLITICS. SENATOR KENNEDY IN PARTICULAR HAS SEIZED ON OPPOSITION TO OIL PRICE DECONTROL AS A PLANK OF HIS CAMPAIGN FOR THE DEMOCRATIC PRESIDENTIAL NOMINATION. INCREASES IN WORLD OIL PRICES UNDOUBTEDLY SERVE TO STRENGTHEN THIS OPPOSITION.

3. OTHER FACTORS WHICH WILL SERVE TO BRING OIL INTO THE ELECTORAL ARENA ARE:-

1) HOWEVER GREAT THE NEED FOR AN EFFECTIVE US ENERGY POLICY, AMERICAN CONSUMERS WILL BE RELUCTANT TO ADJUST TO HIGHER ENERGY PRICES BY CHANGING THEIR DRIVING HABITS AND HEATING OR AIR-CONDITIONING STANDARDS. THERE ARE ALSO GENUINE BUILT-IN CONSTRAINTS FOR THOSE WHO HAVE NO ACCESS TO PUBLIC TRANSPORT OR WHO OWN ALL-ELECTRIC HOMES. ENFORCED CONSERVATION THROUGH HIGHER PRICES OR OTHER MEANS WILL THEREFORE BE AN UNPOPULAR THEME.

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II) THE OIL COMPANIES ARE THEMSELVES UNPOPULAR. THE RECENT ANNOUNCEMENTS OF UP TO 200 PER CENT INCREASES IN THIRD QUARTER EARNINGS HAVE HEIGHTENED PUBLIC HOSTILITY TOWARDS THEM, EVEN THOUGH THEIR AVERAGE RATE OF RETURN ON CAPITAL IS NOT ABNORMALLY HIGH BY INDUSTRIAL STANDARDS. PRESIDENT CARTER HAS HIMSELF HELPED TO FUEL THIS HOSTILITY BY HIS FREQUENT CRITICISM OF OIL COMPANY PROFITS AND THEIR LOBBYING ACTIVITIES IN CONGRESS, WHILE BOTH KENNEDY AND BROWN HAVE ATTACKED THE OIL COMPANIES EVEN MORE STRONGLY. CARTER'S SOLUTION IS THE WINDFALL PROFITS TAX, WHICH CONGRESS WILL NO DOUBT PASS IN SOME FORM. BUT DESPITE THIS, FURTHER OPEC PRICE INCREASES, AND THE UNDERLYING MARKET SITUATION, WILL CONTINUE TO INCREASE DOMESTIC OIL PRICES AND OIL COMPANY PROFITS. SO THE HOSTILITY IS UNLIKELY TO DISAPPEAR AND WILL REMAIN A TEMPTATION TO POLITICIANS.

III) A PARTICULAR FACET OF (II) IS THE PETROL QUEUES HAVE STARTED TO REAPPEAR IN A FEW AREAS AND MAY WELL SPREAD IN COMING MONTHS EVEN IF THERE IS NO NEW DISRUPTION OF WORLD OIL SUPPLIES. A MAJOR CAUSE IS THE INFLEXIBLE GASOLINE PRICE AND ALLOCATION SYSTEM WHICH WAS INTRODUCED BY THE NIXON ADMINISTRATION IN 1973. BUT SHORTAGES WILL INEVITABLY BE ATTRIBUTED BY MANY TO AN OIL COMPANY CONSPIRACY DESIGNED TO DRIVE UP PRICES AND PROFITS.

IV) IN ELECTORAL TERMS, THE PRICE AND AVAILABILITY OF HOME HEATING OIL WILL BE A PARTICULARLY SENSITIVE ISSUE IN THE NEW ENGLAND PRIMARIES NEXT FEBRUARY AND MARCH.

4. KENNEDY IS THEREFORE PROBABLY DISPLAYING POLITICAL SHREWDNESS IN IDENTIFYING OIL PRICES AS A KEY POLITICAL ISSUE. HIS SLOGAN THAT OIL PRICES IN THE US SHOULD NOT BE DETERMINED BY OPEC WILL HAVE SOME SUPERFICIAL ATTRACTION, AS WILL HIS EMPHASIS ON THE PLIGHT OF POOR CONSUMERS. ALL THIS WILL MAKE THE ADMINISTRATION'S TASK OF GRAPPLING WITH THE ENERGY REALITIES MORE DIFFICULT. IF WORLD OIL PRICES CONTINUE TO ESCALATE, AND CONGRESS PASSES A LESS THAN SEVERE WINDFALL PROFITS TAX, PRESIDENT CARTER WILL CERTAINLY COME UNDER STRONG PRESSURE TO ARREST OR AT LEAST DELAY THE PROCESS OF MOVING US OIL PRICES UP TO WORLD LEVELS.

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TELEGRAM NUMBER 2759 OF 19 SEPT 79.

INFORMATION SAVING BONN, PARIS, TOKYO, UK REP BRUSSELS, OTTAWA, ROME, MEXICO CITY, UK DEL OECD.

MY TEL NO 2720 (PARA 8)

US ENERGY SITUATION: GASOLINE RATIONING PLAN.

DURING THE IRAN CRISIS EARLIER THIS YEAR CONGRESS REJECTED THE STANDBY GASOLINE RATIONING PLAN PUT FORWARD BY THE CARTER ADMINISTRATION, BUT HAS SINCE BEEN RECONSIDERING THIS ISSUE AS PART OF A WIDER ENERGY CONSERVATION BILL. A COMPROMISE WAS FINALLY AGREED IN A HOUSE SENATE CONFERENCE YESTERDAY, AND IS THOUGHT LIKELY TO SURVIVE THE REMAINING STAGES OF THE LEGISLATION.

2. UNDER THIS COMPROMISE THE ADMINISTRATION WOULD NOW BE ABLE TO PUT FORWARD A STANDBY RATIONING SCHEME TO CONGRESS, WHERE IT COULD BE REJECTED ONLY BY A MAJORITY OF BOTH HOUSES. MOREOVER THE PRESIDENT WOULD BE ABLE TO VETO THAT REJECTION, WHICH COULD IN TURN ONLY BE OVERRIDEN BY A TWO THIRDS VOTE IN BOTH HOUSES AGAINST HIM. ACTUAL INTRODUCTION OF THE PLAN, HOWEVER, WOULD REQUIRE A PRESIDENTIAL FINDING THAT THERE WAS LIKELY TO BE A 20 PERCENT OIL SUPPLY SHORTAGE FOR AT LEAST 30 DAYS. AND EVEN THEN COULD BE BLOCKED BY A MAJORITY VOTE IN EITHER HOUSE WITHIN THE SUBSEQUENT 15 DAYS. IF THE ANTICIPATED SHORTAGE WAS LESS THAN 20 PERCENT THE PLAN COULD NOT BE PUT INTO EFFECT UNLESS BOTH HOUSES VOTED IN FAVOUR OF ITS INTRODUCTION.

3. CONGRESS HAS THEREFORE RETAINED A FAIRLY FIRM HOLD ON THE INTRODUCTION OF GASOLINE RATIONING, RATHER THAN GIVING THE ADMINISTRATION FULL POWERS TO DEAL WITH ANY FUTURE OIL EMERGENCIES. NEVERTHELESS THE FACT THAT THIS COMPROMISE HAS AT LAST BEEN REACHED IS SEEN HERE AS A SMALL BUT SIGNIFICANT GAIN FOR THE ADMINISTRATION, WHICH COULD HELP THEM PSYCHOLOGICALLY IN THEIR EFFORTS TO WIN CONSENT FOR THEIR MORE IMPORTANT ENERGY PROPOSALS.

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ALTHOUGH THERE IS OF COURSE NO INTENTION OF INTRODUCING RATIONING NOW, CONGRESS HAS FOR ITS PART GONE A LITTLE WAY TOWARDS MEETING PUBLIC CONCERN ABOUT ITS APPARENT INABILITY TO DEAL WITH ENERGY ISSUES.

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TELEGRAM NUMBER 2720 OF 17 SEPTEMBER, 1979,

INFO SAVING TO BONN, PARIS, ROME, TOKYO, OTTAWA, TEHRAN,  
UKREP BRUSSELS, UKDEL OECD AND MEXICO CITY.

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U S ENERGY SITUATION.

1. A YEAR AGO PRESIDENT CARTER HOPED TO TAKE A REST FROM ENERGY POLICY. HIS ADMINISTRATION HAD STRUGGLED WITH CONGRESS OVER THE 1977 ENERGY PACKAGE FOR NEARLY TWO YEARS, WITH ONLY PARTIAL SUCCESS. BUT THE IRAN CRISIS FORCED ATTENTION BACK TO THE SUBJECT AND LED TO PRESIDENT CARTER'S FURTHER ENERGY STATEMENTS IN APRIL AND JULY THIS YEAR. NOW THAT HIS NEW PROPOSALS ARE BEFORE CONGRESS, AND THE EFFECTS OF IRAN HAVE LESSENERED, IT SEEMS A GOOD MOMENT TO TAKE STOCK. A SUMMARY OF THE CURRENT POSITION MAY ALSO HELP IN PREPARING FOR THE POST-SUMMIT MEETING OF ENERGY MINISTERS ON 26 SEPTEMBER, AND MR. HOWELL'S VISIT HERE THEREAFTER.

2. THE CENTRAL ENERGY ISSUE FOR THE UNITED STATES IS ITS DEPENDENCE ON IMPORTED OIL. THE RISKS CREATED THEREBY FOR THE U S ECONOMY AND NATIONAL SECURITY HAVE BEEN PERCEIVED FROM THE START BY THE PRESIDENT AND DR SCHLESINGER; BUT NOT BY THE U S PUBLIC OR CONGRESS. IMPORT DEPENDENCE HAS SO FAR BEEN TREATED BY CONGRESS AS ONE OF SEVERAL ENERGY ISSUES TO BE RECONCILED WITH (RATHER THAN GIVEN PRIORITY OVER) DIFFERENT POLITICAL CONCERNS SUCH AS CONSUMER PRICES, ENVIRONMENTAL QUESTIONS AND WIDESPREAD HOSTILITY TOWARDS THE OIL COMPANIES AND THEIR PROFIT LEVELS. OTHER CONSUMING COUNTRIES, WHO SEE GROWING U S DEMAND FOR OIL AS A MAJOR CAUSE OF TIGHTENING SUPPLIES AND RISING PRICES, ARE NATURALLY IMPATIENT WITH THIS ATTITUDE.

3. PRESIDENT CARTER HAS COMMITTED THE U S TO SPECIFIC OIL IMPORT TARGETS AT SUMMIT DISCUSSIONS AND IN HIS POLICY STATEMENTS HERE. IT WAS SOON SEEN THAT HIS 1977 OBJECTIVE THAT IMPORTS SHOULD NOT EXCEED 6 1/2 MILLION BARRELS A DAY (MBPD) IN 1985 COULD NOT BE REALISED. HE HAS NOW ADOPTED NET IMPORT CEILINGS OF 8.2 MBPD THIS YEAR, 8.5 IN 1980 AND NOT MORE IN 1985. HE HAS ALSO SAID THAT HE WILL ENFORCE THESE TARGETS BY IMPORT QUOTAS IF NECESSARY.

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4. WHAT ARE THE CHANCES OF THESE TARGETS BEING MET? NET OIL IMPORTS HAVE GROWN FROM JUST OVER 3 MBPD IN 1970 TO 8.6 MBPD IN 1977, FALLING TO JUST UNDER 8 MBPD IN 1978 (THE EFFECT OF ALASKAN PRODUCTION). IN THE FIRST HALF OF 1979 NET IMPORTS WERE STILL BELOW 8 MBPD. GASOLINE CONSUMPTION IN THE SUMMER WAS HELD DOWN BY THE IRANIAN SHORTAGE, BY MISMANAGED ALLOCATIONS AND BY SHORTAGES OF THE LEAD-FREE PETROL REQUIRED BY NEW MODEL CARS. THE PEAK DRIVING SEASON IS COMING TO AN END AND HEATING OIL SUPPLIES ARE LIKELY TO BE ADEQUATE FOR A NORMAL WINTER. THE QUESTION NOW IS WHETHER ECONOMIC RECESSION WILL KEEP IMPORT LEVELS DOWN BY REDUCING INDUSTRIAL DEMAND. BUT IN ANY CASE IT SEEMS CERTAIN THAT THE U S WILL MEET THE PRESIDENT'S TARGET (AND THE MARCH 1 E A COMMITMENT) THIS YEAR.

5. THE PRESIDENT HAS NOT YET DEFINED HIS ACTUAL IMPORT TARGET FOR 1980, OTHER THAN THAT IT WILL BE 8.5 MBPD OR LESS. IN A RECESSION YEAR THERE IS A REASONABLE CHANCE, PERHAPS WITH SOME STATISTICAL JUGGLING, THAT THE U S WILL IMPORT LESS THAN 8.5 MBPD NEXT YEAR AND THAT RESTRICTIVE QUOTAS WILL BE UNNECESSARY.

6. ONCE THE ECONOMIC RECESSION IS OVER U S OIL IMPORT LEVELS WILL START TO RISE AGAIN. MOST OF THE PRESIDENT'S ENERGY MEASURES ARE LONGER TERM AND CANNOT HAVE MUCH IMPACT BEFORE 1985. IT DOES NOT LOOK TO US AS THOUGH A LIMIT OF 8.5 MBPD CAN BE SUSTAINED IN THE EARLY 1980'S WITHOUT THE INTRODUCTION OF QUOTAS.

7. THE ADMINISTRATION'S MAIN ENERGY INITIATIVES, AND THEIR CURRENT STATUS, ARE IN SUMMARY:

(A) THE 1978 ENERGY LEGISLATION. THE PACKAGE WHICH WAS FINALLY ENACTED IS ESTIMATED BY THE ADMINISTRATION TO SAVE 2 1/2 MBPD OF OIL IMPORTS BY 1985. A MAJOR, HIGHLY CONTROVERSIAL ITEM IN THIS WAS THE EVENTUAL DECONTROL (BY 1986) OF NATURAL GAS PRICES. BUT THE HOPED FOR INCREASE IN GAS PRODUCTION THROUGH BUILDING THE ALASKAN GAS PIPELINE IS NOW THOUGHT UNLIKELY TO COME ABOUT BEFORE THE LATE 1980'S. OTHER ITEMS IN THE PACKAGE CONTRIBUTING TO THE OIL IMPORT SAVINGS INCLUDE VARIOUS ENERGY CONSERVATION MEASURES, CHANGES IN ELECTRICITY TARIFF STRUCTURES AND (WITH MANY EXEMPTIONS) POWERS TO ENFORCE COAL USE IN POWER STATIONS.

AN IMPORTANT POINT IS THAT PROPOSALS TO INCREASE CRUDE OIL PRICES, TAX GASOLINE AND TAX INDUSTRIAL USE OF OIL AND GAS WERE ALL DEFEATED IN CONGRESS. IT WAS A USEFUL PACKAGE, BUT IT IS UNLIKELY TO ACHIEVE THE SAVINGS ORIGINALLY PREDICTED.

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(B) CRUDE OIL PRICE DECONTROL. THIS WAS ANNOUNCED BY THE PRESIDENT IN APRIL AND WILL LEAD TO THE FULL WORLD PRICE IN OCTOBER 1981, INCLUDING ANY FURTHER OPEC PRICE INCREASES.

IT WOULD REMOVE A KEY DISTORTION IN THE US ENERGY ECONOMY. NO APPROVAL IS NEEDED FROM CONGRESS AND ATTEMPTS TO PASS BLOCKING LEGISLATION HAVE SO FAR FAILED. BUT IT IS HARD TO SEE POLITICALLY HOW PRESIDENT CARTER COULD CONTINUE WITH DECONTROL IF THE WINDFALL PROFITS TAX WERE TO BE REJECTED BY CONGRESS.

(C) WINDFALL PROFITS TAX. THIS WOULD TAX THE OIL INDUSTRY'S PROFITS FROM DE CONTROL AND IS SUBJECT TO APPROVAL BY CONGRESS. THE ADMINISTRATION'S PROPOSALS WERE STRENGTHENED SLIGHTLY BY THE HOUSE BUT WILL PROBABLY BE WEAKENED BY THE SENATE. THE BEST GUESS NOW IS THAT CONGRESS WILL PASS THE TAX, PROBABLY IN A FORM MORE FAVOURABLE TO THE OIL INDUSTRY. IN ITSELF THE TAX WILL NOT HAVE MUCH EFFECT ON US ENERGY PERFORMANCE. ITS SIGNIFICANCE LIES IN UNDER-PINNING DECONTROL, BY DEFUSING POLITICAL CONCERN ABOUT OIL INDUSTRY PROFITS, -AND IN THE REVENUE WHICH THE TAX WILL PROVIDE FOR THE SYNTHETIC FUEL PROGRAMME.

(D) ENERGY SECURITY CORPORATION. THE CONCEPT ANNOUNCED BY THE PRESIDENT IN JULY WAS AN INDEPENDENT CORPORATION CHARGED WITH INVESTING DOLLARS 88 BILLION OF WINDFALL PROFITS TAX REVENUE TO YIELD 2 AND ONE HALF MBPD OF SYNTHETIC FUELS PRODUCTION BY 1990. THIS PROGRAMME WOULD INCLUDE COAL LIQUEFACTION AND GASIFICATION, OIL SHALE, BIOMASS AND UNCONVENTIONAL GAS PRODUCTION. THE PROPOSAL IS NOW BEFORE CONGRESS, WHERE THERE IS GENERAL AGREEMENT ON A DOMESTIC SYNFUEL PROGRAMME. BUT THERE ARE PRACTICAL DOUBTS ABOUT THE SCALE OF THE ADMINISTRATION'S PROGRAMME. A HOUSE COMMITTEE HAS SUGGESTED A REPHASED PLAN, WITH A SMALLER NUMBER OF SYNFUEL PLANTS INITIALLY, TO BE FOLLOWED BY A SECOND LARGER ROUND IF ALL GOES WELL. IT REMAINS LIKELY THAT THE LEGISLATION WILL EVENTUALLY BE PASSED IN SOME FORM, BUT TECHNICAL DIFFICULTIES AND ENVIRONMENTAL OPPOSITION WILL PROBABLY DELAY THE 2 AND ONE HALF MBPD TARGET BEYOND 1990.

(E) ENERGY MOBILISATION BOARD. THIS NEW BODY WOULD HAVE THE TASK OF SPEEDING UP CONSENTS FOR IMPORTANT (NON-NUCLEAR) ENERGY

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PROJECTS, PARTICULARLY THOSE IN THE SYNFUEL PROGRAMME. ENVIRONMENTAL OPPOSITION TO ENERGY DEVELOPMENTS HAS BEEN A MAJOR CAUSE OF THE U.S. ENERGY PROBLEM. CONGRESSIONAL DISCUSSIONS ARE AT AN EARLY STAGE. ONE HOUSE COMMITTEE HAS RECOMMENDED STRENGTHENING THE BOARD'S POWERS TO ALLOW IT TO OVERRIDE, RATHER THAN JUST SPEED UP, FEDERAL AND STATE CONSENT PROCEDURES. ANOTHER HOUSE COMMITTEE HAS OPPOSED THIS STRENGTHENING. THE FULL FORCE OF OPPOSITION FROM THE ENVIRONMENTAL MOVEMENT, PART OF THE PRESIDENT'S OWN POLITICAL CONSTITUENCY, HAS YET TO BE FELT AND IT SEEMS UNLIKELY THAT A VERY EFFECTIVE BODY WILL EMERGE.

8. THESE ARE THE FIVE KEY ITEMS, BUT THERE ARE OTHER IMPORTANT ENERGY PREOCCUPATIONS HERE. ENERGY CONSERVATION IS ALREADY THE OBJECT OF MANY USEFUL MEASURES, SUCH AS MANDATORY STANDARDS (IN MILES PER GALLON) FOR CARS, DOMESTIC APPLIANCE EFFICIENCY STANDARDS AND LIMITS ON THERMASTAT SETTINGS IN NON-RESIDENTIAL BUILDINGS. IN HIS JULY STATEMENT THE PRESIDENT ANNOUNCED FURTHER STRENGTHENING OF THE CONSERVATION PROGRAMME. FUEL SWITCHING IN THE ELECTRICITY SYSTEM FROM OIL TO NATURAL GAS OR COAL IS BEING ENCOURAGED. MUCH TIME HAS BEEN TAKEN THIS YEAR IN THE YET UNRESOLVED STRUGGLE TO OBTAIN CONGRESSIONAL APPROVAL FOR A STANDBY GASOLINE RATIONING PLAN: CONGRESS IS RELUCTANT TO ALLOW THE ADMINISTRATION ANY DISCRETION ON THE DETAILS OF THE PLAN OR ITS INTRODUCTION. CONCERNS ABOUT HEATING OIL SUPPLIES IN THE COMING WINTER HAVE BEEN A MAJOR POLITICAL FACTOR, BUT ARE NOW FADING. ONE INTERNATIONALLY OBJECTIONABLE EFFECT OF THIS CONCERN WAS THE DECISIONS TO INTRODUCE, AND LATER TO CONTINUE, SUBSIDIES FOR IMPORTED HEATING OIL.

9. DESPITE THIS LENGTHY PROGRAMME MUCH REMAINS TO BE DONE IF THE U.S. IS TO REDUCE ITS RELIANCE ON OIL IMPORTS BY THE END OF THE NEXT DECADE. PARTICULAR NEEDS ARE:-

A) A HIGHER TAX ON GASOLINE THAN THE CURRENT DERISORY LEVEL OF 10 TO 15 CENTS A GALLON (FAR MORE IMPORTANT AS A REASON FOR THE MUCH LOWER COST OF GASOLINE TO THE U.S. MOTORIST THAN PRICE CONTROLS). THE ADMINISTRATION'S 1977 PROPOSAL TO INCREASE GASOLINE TAXES WAS REJECTED BY CONGRESS ALMOST WITHOUT DEBATE:

B) GREATER USE OF COAL. DESPITE MANY STATEMENTS OF INTENT THE ADMINISTRATION HAS NOT YET REALLY GRAPPLED WITH THE ENVIRONMENTAL OBSTACLES WHICH PREVENT INCREASED USE OF COAL:

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C) A MAJOR NUCLEAR PROGRAMME. THE WHITE HOUSE ATTITUDE TO NUCLEAR ENERGY HAS BEEN LUKEWARM AND THE THREE MILE ISLAND INCIDENT WAS A SERIOUS SETBACK. BUT THE ADMINISTRATION APPEARS TO HAVE GONE THROUGH A LEARNING PROCESS AND PRESIDENT CARTER HAS NOW SAID PUBLICLY THAT THE COUNTRY CANNOT DO WITHOUT NUCLEAR POWER. THE KEY POINT WILL BE TO REDUCE THE PRESENT 10 YEAR LEAD-TIME FOR NUCLEAR PLANTS BY SPEEDING UP LICENSING PROCEDURES. A NEW INITIATIVE ON THIS BEFORE THE 1980 ELECTION IS UNLIKELY.

10. AN EFFECTIVE DEPARTMENT OF ENERGY WILL ALSO BE ESSENTIAL IF THE U.S. PROGRAMME IS TO BE CARRIED THROUGH SUCCESSFULLY. DESPITE HIS OTHER MERITS DR SCHLESINGER WAS NOT STRONG ON MANAGEMENT QUALITIES. SECRETARY DUNCAN SHOULD CERTAINLY BE BETTER ON THIS FRONT BUT NEARLY ALL THE TOP OFFICIALS IN THE DEPARTMENT ARE BEING REPLACED AND THE DEPARTMENT'S STRUCTURE IS BEING REORGANISED. IT WILL TAKE SOME TIME FOR THE NEW ORGANISATION TO SETTLE DOWN.

11. IN SUMMARY MUCH WILL NOW DEPEND ON WHETHER CONGRESS PASSES EFFECTIVE VERSIONS OF THE WINDFALL PROFITS TAX, THE SYNFUELS PROGRAMME AND THE ENERGY MOBILISATION BOARD. THE GASOLINE SHORTAGES EARLIER THIS YEAR CREATED THE RIGHT POLITICAL CLIMATE FOR ACTION BUT, UNFORTUNATELY IN THIS SENSE, THE SAUDI OIL PRODUCTION INCREASE MAY HAVE REDUCED THE SENSE OF URGENCY. RECENT OPINION POLLS HAVE HOWEVER SHOWN GROWING PUBLIC COMPREHENSION OF THE NATURE AND SERIOUSNESS OF THE U.S. ENERGY SITUATION. BUT EVEN IF THE CONGRESS ENACTS THE BILLS DESCRIBED ABOVE, IT SEEMS CERTAIN THAT FURTHER MEASURES WILL BE NEEDED IF U.S. DEMAND FOR IMPORTED OIL IS TO BE HELD BELOW 10 OR EVEN 15 MBPD IN THE LATER 1980'S.

F.C.O. PASS SAVING (BONN, PARIS, ROME, TOKYO,  
OTTAWA, TEHRAN, UKREP BRUSSELS, UKDEL OECD, AND MEXICO CITY.

HENDERSON

[REPEATED AS REQUESTED]

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NAD

E S & S D





10 DOWNING STREET

*From the Private Secretary*

23 July 1979

I am writing on the Prime Minister's behalf to thank you for your letter of 23 July, with which you enclosed a message to the Prime Minister from President Carter.

I have of course brought President Carter's message to the Prime Minister's attention.

EE CARTLED

His Excellency the Honourable Kingman Brewster

9B

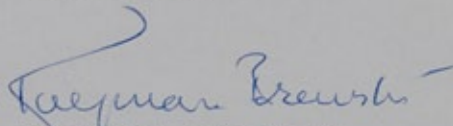
EMBASSY OF THE UNITED STATES OF AMERICA  
LONDON

July 23, 1979

Dear Prime Minister:

I have been asked to deliver the attached message to you from President Carter, which was received at the Embassy early this morning.

Sincerely,



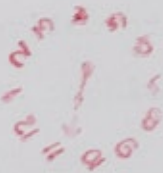
Kingman Brewster  
Ambassador

Enclosure

The Rt. Hon. Margaret Thatcher, M.P.,  
Prime Minister,  
10 Downing Street,  
London, S.W. 1.

EMBASSY OF THE UNITED STATES OF AMERICA

LONDON



23 JUL 1979

cc FW

T49/79T

SUBJECT

cc. Master  
Ops  
Energy Policy: Pt 2

Prime Minister

**PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T49/79T**

du  
23  
7

Dear Prime Minister:

I very much appreciate your statement of July 16 concerning my announcements on energy policy. Your support is valued here, and is very much in the spirit of the Tokyo Summit.

Sincerely,

/s/ Jimmy Carter

PS 219  
CONFIDENTIAL

CONFIDENTIAL

FM FCO 191130Z JULY 79  
TO PRIORITY WASHINGTON  
TELEGRAM NUMBER 880 OF 19 JUL

*Enter you*  
*207/1*

MIPT: PRESIDENT CARTER'S SPEECH: ENERGY POLICY

FOLLOWING IS TEXT OF PRIME MINISTER'S REPLY:

DEAR MR PRESIDENT,

THANK YOU VERY MUCH FOR YOUR LETTER OF 15 JULY GIVING ME  
ADVANCE NOTICE OF YOUR STATEMENT ON US ENERGY POLICY.

IF I MAY SAY SO, I FIND THE SCALE OF THE PROGRAMME, WITH  
ITS IMMEDIATE COMMITMENT TO REDUCING US OIL IMPORTS FOR 1979  
AND 1980 TO BELOW THE TOKYO LEVELS AND ITS LONGER TERM  
OBJECTIVE OF REDUCING US IMPORTS BY 4.5 MILLION BARRELS PER DAY  
BY 1990, IMPRESSIVE, AND COURAGEOUS. THIS IS PARTICULARLY SO  
WHEN ACCOUNT IS TAKEN OF YOUR EARLIER DECISION ANNOUNCED IN APRIL  
TO MOVE TOWARDS DECONTROL OF DOMESTIC OIL PRICES BY SEPTEMBER  
1981. I SHALL CERTAINLY BE TAKING AN EARLY OPPORTUNITY TO  
EXPRESS PUBLICLY MY ADMIRATION FOR YOUR EFFORTS, WHICH SHOULD HAVE  
A MAJOR IMPACT ON THE OIL SUPPLY PROBLEMS WHICH WE FACE, BOTH NOW  
AND IN THE YEARS TO COME.

ON THE QUESTION OF THE FOLLOW-UP TO TOKYO, I AGREE WITH YOU  
THAT A MEETING OF ENERGY MINISTERS TO REVIEW THE ACHIEVEMENT  
OF THE GOALS WE SET OURSELVES COULD USEFULLY BE ARRANGED. I  
ALSO AGREE THAT THE ENERGY MINISTERS SHOULD DISCUSS THE TIMING  
AND THE ROLE OF THE MEETING IN RELATION TO WHAT IS GOING ON  
IN THE EEC AND THE IEA.

YOURS SINCERELY  
MARGARET THATCHER  
CARRINGTON

FILES  
ESSD  
NAMD  
FRD  
PS  
PS/LAS  
PS/MR RIDLEY  
PS/PUS

SIR A DUFF  
MR BUTLER  
MISS BROWN

COPIES TO  
MR JONES DEPT OF ENERGY  
MR BREHERTON " " "  
PS/SMS FOR ENERGY

[COPIES SENT TO  
NO 10 DOWNING ST]

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GRS 159

CONFIDENTIAL

*UJA*

CONFIDENTIAL

FM FCO 191105Z JULY 79  
TO PRIORITY WASHINGTON  
TELEGRAM NUMBER 879 OF 19 JULY

*Enter via  
BYW  
20/7*

YOUR TEL 1970: PRESIDENT CARTER'S SPEECH: ENERGY POLICY FLAG A

1. ON 15 JULY PRESIDENT CARTER SENT THE PRIME MINISTER A MESSAGE OUTLINING IN ADVANCE THE DETAILS OF HIS TELEVISION STATEMENT. FLAG B. THE PRESIDENT EXPRESSED THE HOPE THAT THE PRIME MINISTER WOULD FIND AN EARLY OPPORTUNITY TO SUPPORT HIS STATEMENT PUBLICLY. THE PRESIDENT ALSO WELCOMED FRENCH SUGGESTIONS FOR A MEETING OF ENERGY MINISTERS TO REVIEW PROGRESS OF SUMMIT COUNTRIES TOWARDS ACHIEVING THE GOALS AGREED AT TOKYO AND SUGGESTED THAT ENERGY MINISTERS CONCERT ABOUT THE TIMING OF SUCH A MEETING. TEXT OF THE PRESIDENT'S MESSAGE FOLLOWS BY BAG.

2. THE TEXT OF THE PRIME MINISTER'S PRESS STATEMENT IN SUPPORT OF THE PRESIDENT'S SPEECH IS IN OUR RETRACT 21617. MIFT CONTAINS FOR YOUR INFORMATION ONLY, THE TEXT OF THE PRIME MINISTER'S REPLY TO THE PRESIDENT WHICH WAS SENT ON THE 'HOT LINE' ON 16 JULY.

CARRINGTON

FILES

ENS + SD

NAMD

FRD

PS

PS/LPS

PS/MR RIDLEY

PS/PUS

SIR A DUFF

MR BUTLER

MISS BROWN

COPIES TO

MR BRETHERTON D OF ENERGY

PS/CHANCELLOR OF THE EXCHEQUER

PS/S OF S FOR ENERGY

MR JONES D OF ENERGY

*COPIES SENT TO No 10 D. ST.*

CONFIDENTIAL

## Cabinet / Cabinet Committee Document

The following document, which was enclosed on this file, has been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES.

Reference: CC(79) 10th Conclusions, Minute 2 (extract)

Date: 19 July 1979

Signed A Wayland Date 5 November 2009

**PREM Records Team**

RESTRICTED

GR 900

RESTRICTED

DESKBY 180830Z

FM WASHINGTON 180025Z JUL 79

TO IMMEDIATE F C O

TELEGRAM NO 1970 OF 17 JULY

INFO PRIORITY UKREP BRUSSELS, UKDEL OECD, PARIS, BONN, TOKYO,  
OTTAWA, ROME

INFO SAVING OTHER EEC POSTS, UKDEL NATO AND ALL US POSTS.

MIPT: PRESIDENT CARTER'S SPEECHES: ENERGY POLICY

1. IN HIS TELEVISION SPEECH ON 15 JULY CARTER SET OUT HIS BROAD STRATEGY FOR ACHIEVING AN ENERGY-SECURE AMERICA BY 1990.
2. FROM NOW ON, AMERICA WOULD NEVER USE MORE FOREIGN OIL THAN IN 1977. THE GOAL WAS TO CUT OIL IMPORTS BY HALF (IE BY 4.5 MBPD) BY 1990.
3. TO THIS END, IMPORT QUOTAS FOR 1979 AND 1980 WOULD BE ESTABLISHED BY PRESIDENTIAL AUTHORITY AT LEVELS LOWER THAN THOSE AGREED AT TOKYO. IN KANSAS CITY CARTER ANNOUNCED THAT THE 1979 QUOTA WOULD BE SET AT 8.2 MBPD (300,000 BPD BELOW THE TOKYO GOAL AND 400,000 BPD BELOW THE 1977 FIGURE).
4. IN ADDITION, CARTER WOULD SEEK CONGRESSIONAL APPROVAL AND AUTHORISATION OF FUNDS TO:
  - (I) ESTABLISH AN ENERGY SECURITY CORPORATION, INDEPENDENT OF THE FEDERAL GOVERNMENT, WITH FUNDING OF DOLLARS 88 BILLION, TO DEVELOP ALTERNATIVE FUEL SOURCES, FROM COAL, OIL SHALE, BIO-MASS, DEEP GAS AND SOLAR ENERGY; THE CORPORATION WOULD ISSUE UP TO DOLLARS 5 BILLION IN ENERGY BONDS;
  - (II) SET UP A SOLAR BANK TO PROVIDE SUBSIDISED LOANS FOR SOLAR ENERGY SYSTEMS IN RESIDENTIAL AND COMMERCIAL BUILDINGS TO HELP IN ACHIEVING THE GOAL OF PROVIDING 20% OF THE NATION'S ENERGY FROM SOLAR DERIVED POWER BY YEAR 2000;
  - (III) REQUIRE ELECTRIC UTILITIES TO REDUCE THEIR OIL CONSUMPTION BY 50% BY 1990 BY SWITCHING TO COAL AND OTHER FUELS;
  - (IV) CREATE AN ENERGY MOBILISATION BOARD TO CUT THROUGH RED TAPE AND TO MEET DEADLINES FOR KEY ENERGY FACILITIES;
  - (V) INDUCE A BOLD MANDATORY CONSERVATION PROGRAMME, INCLUDING FINANCING BY UTILITIES OF IMPROVEMENTS, AND AUTHORISE A STANDBY PLAN FOR GASOLINE RATIONING;
  - (VI) STRENGTHEN PUBLIC TRANSPORTATION SYSTEMS AND AUTO EFFICIENCY BY EXPENDITURE OF DOLLARS 16.5 BILLION BY 1990.

RESTRICTED



5. THE PRESIDENT ALSO CALLED FOR FURTHER EFFORTS BY EVERYBODY TO CONSERVE ENERGY AND SAVE GASOLINE.

6. THIS MASSIVE 10-YEAR PROGRAMME, ESTIMATED TO COST DOLLARS 2 BILLION, WILL BE FUNDED FROM AND PINNED TO REVENUES ACCRUING TO AN ENERGY SECURITY TRUST FUND, UNDER THE WINDFALL PROFITS TAX PROPOSAL (ESTIMATED TO BRING IN DOLLARS 146 TO DOLLARS 270 BILLION DURING THE SAME PERIOD). THE PRESIDENT ASKED CONGRESS FOR SWIFT PASSAGE OF A STRONG AND PERMANENT TAX.

7. THE OIL IMPORT SAVINGS OF 4.5 MILLION BPD WOULD BE DERIVED AS FOLLOWS:

(A) SYNTHETIC FUELS AND UNCONVENTIONAL GAS AT A NEW INCENTIVE PRICE - 2.5 MBPD

(B) SEPARATE ADMINISTRATIVE SECTION TO DE-CONTROL HEAVY OIL PRODUCTION - 0.5 MBPD

(C) REDUCTION BY UTILITIES - 0.75 MBPD

(D) RESIDENTIAL AND COMMERCIAL CONSERVATION - 0.5 MBPD

(E) PUBLIC TRANSPORT AND AUTO EFFICIENCY - 0.25 MBPD.

8. IN HIS KANSAS CITY SPEECH CARTER ACKNOWLEDGED THAT IN THE SHORT TERM LITTLE COULD BE DONE TO ALLEVIATE SHORTAGES OTHER THAN TO PROMOTE CONSERVATION AND ALLOCATE OIL PRODUCTS MORE EFFICIENTLY AND FLEXIBLY. HE ASKED FOR THE COOPERATION OF THE OIL INDUSTRY, BUT WARNED THAT ITS ACTIVITIES WOULD BE CLOSELY MONITORED AND ITS DATA INDEPENDENTLY VERIFIED TO PREVENT PROFITEERING OR CHEATING. HE RENEWED HIS CALL FOR CONGRESS TO GIVE HIM AUTHORITY TO SET MANDATORY STATE-BY-STATE CONSERVATION GOALS AND TO DEVELOP A STANDBY GASOLINE RATIONING PLAN.

9. HE ALSO TOUCHED ON TWO ISSUES WHOSE OMISSION FROM HIS TELEVISION SPEECH HAD BEEN CRITICISED:

(I) HE STRESSED THAT THE U S WOULD CONTINUE TO BE QUOTE A GOOD CUSTOMER, A GOOD NEIGHBOUR AND A GOOD TRADING PARTNER UNQUOTE WITH MEXICO AND CANADA. THE U S WAS ALREADY BUYING 80 PER CENT OF MEXICO'S OIL EXPORTS AND WAS NEGOTIATING TO BUY MEXICAN NATURAL GAS. CANADA AND THE U S WOULD CONTINUE TO SHARE HYDRO-ELECTRIC POWER AND CONSTRUCTION OF THE ALASKAN GAS PIPELINE WOULD INCREASE SUPPLIES OF NATURAL GAS FROM ALASKA AND CANADA.

(II) WHILE EVIDENTLY ANXIOUS NOT TO PREJUDGE THE FORTHCOMING KEMENY REPORT ON THE THREE MILE ISLAND ACCIDENT, CARTER NOTED THAT NUCLEAR POWER ALREADY PROVIDED 13 PER CENT OF ELECTRICITY CONSUMED NATIONALLY AND MUST PLAY AN IMPORTANT PART IN SECURING THE COUNTRY'S ENERGY FUTURE.

RESTRICTED

10. THE PRESIDENT'S NEW PROPOSALS WILL PROVIDE A MASSIVE SHIFT OF EFFORT AND RESOURCES TO DOMESTIC ENERGY DEVELOPMENT, IF THEY ARE ENACTED IN THEIR ENTIRETY. THE CONGRESS, WHOSE STANDING WITH PUBLIC OPINION IS A GOOD DEAL LOWER THAN CARTER'S IS IN A MOOD TO BE SEEN TO BE ACTING CONSTRUCTIVELY AND SOME ASPECTS OF THE PRESIDENT'S PROGRAMME ARE COMPATIBLE WITH INITIATIVES ALREADY UNDER WAY IN CONGRESS. AN ATTEMPT WILL BE MADE TO RUSH THROUGH THE WINDFALL PROFITS TAX. BUT OTHER MEASURES WILL TAKE LONGER TO PREPARE AND DEBATE. THE CONFLICTING INTERESTS WHICH HAVE FRUSTRATED COMPREHENSIVE ENERGY LEGISLATION IN THE PAST WILL NOT DISAPPEAR AND THERE IS CONSIDERABLE SCEPTICISM IN CONGRESS ABOUT THE CREATION OF STILL MORE FEDERAL AGENCIES. IT IS DIFFICULT TO SEE THIS PACKAGE SURVIVING UNSCATHED IN THE RUN-UP TO THE ELECTION YEAR.

#### WIDER ECONOMIC IMPLICATIONS

11. THE SPEECHES MADE LITTLE REFERENCE TO THE ECONOMIC IMPLICATIONS OF THE ENERGY PROPOSALS, OR TO THE WIDE ECONOMIC PROBLEMS FACING THE PRESIDENT. HE REAFFIRMED THAT INFLATION IS THE COUNTRY'S MOST SERIOUS ECONOMIC PROBLEM AND THAT HE STILL INTENDED TO WORK TOWARDS THE GOAL OF A BALANCED BUDGET. HOWEVER, HE WOULD NOT HESITATE TO ACT TO AVOID A SERIOUS RECESSION. IN RESPONSE TO A QUESTION IN DETROIT HE SAID THAT IF UNEMPLOYMENT STARTED TO GET TOO HIGH HE WOULD CUT TAXES, WITH A PREFERENCE FOR A LOWER PAYROLL TAX.

FCO PASS SAVING BRUSSELS, COPENHAGEN, DUBLIN, LUXEMBOURG, THE HAGUE, UKDEL NATO.

HENDERSON

[REPEATED AS REQUESTED]

FCO|WH DISTN  
NAD



10 DOWNING STREET

File  
cc FCO  
NMT  
CO

From the Principal Private Secretary

16 July 1979

Dear Bill,

Thank you for your letter of 16 July about President Carter's statement about future United States' energy policy.

I attach a copy of the final version of the press statement by the Prime Minister welcoming President Carter's announcement. Since both the French and the Germans had made statements earlier today welcoming the American programme, the Prime Minister decided that she should not delay her comments until tomorrow, and we accordingly issued the press statement from here this evening. As you will see, the statement differs in only two minor respects from the draft attached to your letter.

I also attach a copy of the final version of the Prime Minister's reply to President Carter's message of 15 July. This was sent over the hot-line to the White House this evening.

The last paragraph was amended on the lines suggested by the Foreign and Commonwealth Office and your Department in the light of the French proposal that the meeting of Energy Ministers should take place in July.

As you know, we had hoped to concert our line on the French suggestion with the Germans, but Dr. Ruhfus in Chancellor Schmidt's office told me earlier this evening that they would be unable to settle their line on this until tomorrow afternoon because of the absences from Bonn of Chancellor Schmidt, Herr Genscher and Count Lambsdorff. He thought, however, that the Germans response would be that they did not wish to be the stumbling block which prevented a meeting in July which everybody else wanted. But if they agreed to such a meeting, they would make it plain that they saw it as a one-off occasion and that they would want to see subsequent international action on the energy problem pursued through existing machinery such as the IEA or the OECD. I explained to Ruhfus our reservations about both the substance and timing of the French proposal and I read over to him the final paragraph of the Prime Minister's message to President Carter. He was grateful for this information.

/In view

In view of his earlier contacts with us, I shall be seeking later this evening to let M. Wahl in President Giscard's office know the content of the Prime Minister's press statement and of her message to President Carter, including what is said about the proposed meeting of Energy Ministers.\*

I am sending copies of this letter and of its attachments to Paul Lever (Foreign and Commonwealth Office), Tony Battishill (HM Treasury) and Martin Vile (Cabinet Office).

*Yours ever,*

*Alan White.*

\* Not done.

*WJL.*

W.J. Burroughs, Esq.,  
Department of Energy.

*WJL*

STATEMENT BY THE PRIME MINISTER

US ENERGY POLICY

I very much welcome President Carter's latest announcements about US energy policy. The action he is taking is a courageous and impressive response to the serious oil situation which we all face. It will have the effect of reducing American oil imports for 1979 and 1980 below the levels to which the US committed itself at the recent Tokyo Summit and his longer term commitment to reduce US oil imports by 4½ million barrels per day by 1990 (ie. by more than twice our own current consumption) is dramatic.

We applaud his determination to achieve these objectives; they should have a major beneficial effect on the world's longer term energy prospects.

The UK is fortunate in its own energy wealth. But that will not protect us from the recessionary effects of world-wide energy shortages. It is therefore essential that we and our trading partners take effective action to reduce demand for oil both the long and the short term, as we agreed at Tokyo. The President's programme is an essential part of this common effort.

Following is message for President Carter, White House from Prime Minister Thatcher. Unclassified. 16 July 1979. Begins:-

Dear Mr President,

Thank you very much for your letter of 15 July giving me advance notice of your statement on US energy policy.

If I may say so, I find the scale of the programme, with its immediate commitment to reducing US oil imports for 1979 and 1980 to below the Tokyo levels and its longer term objective of reducing US imports by 4.5 million barrels per day by 1990, impressive, and courageous. This is particularly so when account is taken of your earlier decision announced in April to move towards decontrol of domestic oil prices by September 1984. I shall certainly be taking an early opportunity to express publicly my admiration for your efforts, which should have a major impact on the oil supply problems which we face, both now and in the years to come.

On the question of the follow-up to Tokyo, I agree with you that a meeting of Energy Ministers to review the achievement of the goals we set ourselves could usefully be arranged. I also agree that the Energy Ministers should discuss the timing and the role of the meeting in relation to what is going on in the EEC and the IEA.

Yours sincerely

Margaret Thatcher

**SUBJECT**

*cc* Maiter  
Dps  
Energy: Policy  
Pt 2

CAB/WTE 001/16

IMMEDIATE

161850Z JULY 79

FM CABINET OFFICE  
TO WHITE HOUSE

BT

UNCLAS

FOLLOWING IS MESSAGE FOR PRESIDENT CARTER, WHITE HOUSE FROM  
PRIME MINISTER THATCHER. UNCLASSIFIED. 16 JULY 1979.

BEGINS:-

**PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T45B/79T**

*Encl on.*  
*HW*  
*7/7*

DEAR MR PRESIDENT,

THANK YOU VERY MUCH FOR YOUR LETTER OF 15 JULY GIVING ME  
ADVANCE NOTICE OF YOUR STATEMENT ON US ENERGY POLICY.

IF I MAY SAY SO, I FIND THE SCALE OF THE PROGRAMME, WITH ITS  
IMMEDIATE COMMITMENT TO REDUCING US OIL IMPORTS FOR 1979 AND 1980  
TO BELOW THE TOKYO LEVELS AND ITS LONGER TERM OBJECTIVE OF REDUCING  
US IMPORTS BY 4.5 MILLION BARRELS PER DAY BY 1990, IMPRESSIVE,  
AND COURAGEOUS. THIS IS PARTICULARLY SO WHEN ACCOUNT IS TAKEN OF  
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OF DOMESTIC OIL PRICES BY SEPTEMBER 1984. I SHALL CERTAINLY BE  
TAKING AN EARLY OPPORTUNITY TO EXPRESS PUBLICLY MY ADMIRATION  
FOR YOUR EFFORTS, WHICH SHOULD HAVE A MAJOR IMPACT ON THE OIL  
SUPPLY PROBLEMS WHICH WE FACE, BOTH NOW AND IN THE YEARS TO COME.

ON THE QUESTION OF THE FOLLOW-UP TO TOKYO, I AGREE WITH YOU  
THAT A MEETING OF ENERGY MINISTERS TO REVIEW THE ACHIEVEMENT OF  
THE GOALS WE SET OURSELVES COULD USEFULLY BE ARRANGED. I ALSO  
AGREE THAT THE ENERGY MINISTERS SHOULD DISCUSS THE TIMING AND  
ROLE OF THE MEETING IN RELATION TO WHAT IS GOING ON IN THE EEC  
AND THE IEA.

YOURS SINCERELY

MARGARET THATCHER

BT

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SENT AT 16/1919Z DAB

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161850Z JUL

Following is message for President Carter, White House from Prime Minister Thatcher. Unclassified. 16 July 1979. Begins:-

Dear Mr President,

Thank you very much for your letter of 15 July giving me advance notice of your statement on US energy policy.

If I may say so, I find the scale of the programme, with its immediate commitment to reducing US oil imports for 1979 and 1980 to below the Tokyo levels and its longer term objective of reducing US imports by 4.5 million barrels per day by 1990, impressive, and courageous. This is particularly so when account is taken of your earlier decision announced in April to move towards decontrol of domestic oil prices by September 1984. I shall certainly be taking an early opportunity to express publicly my admiration for your efforts, which should have a major impact on the oil supply problems which we face, both now and in the years to come.

On the question of the follow-up to Tokyo, I agree with you that a meeting of Energy Ministers to review the achievement of the goals we set ourselves could usefully be arranged. I also agree that the Energy Ministers should discuss the timing and the role of the meeting in relation to what is going on in the EEC and the IEA.

Yours sincerely

Margaret Thatcher





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

C.A. Whitmore Esq.,  
 Private Secretary to the Prime Minister,  
 10 Downing Street,  
 London SW1.

1. *H. James*

Prime Minister.

*You agreed this evening  
 the press statement and the  
 reply to President's letter. But  
 you did not have time to look  
 at the commentary below on  
 16 July 1979. The President's  
 proposals.*

*Att  
 16 vii*

*mb.*

*Dear Clive,*

US ENERGY POLICY

Thank you for your letter of 15 July in response to mine about the US follow up to the Tokyo Summit. I now attach as requested:

- a) a preliminary assessment of the President's latest proposals;
- b) a short draft statement by the Prime Minister, which would be put out as a press release;
- c) a draft reply for the Prime Minister to send to the President in response to his letter.

Overall the President's statement is impressive, particularly the decision to introduce oil import quotas, initially for 1979 and 1980, and the scale of the synthetic fuels programme. However the synthetic fuels programmes and many of the other various proposals will require Congressional approval which will not be easy to obtain. In particular the proposal for an Energy Mobilisation Board to override environmental opposition and state regulations will be highly controversial. Other doubts are the failure to use the pricing mechanism (eg. increase in the currently very low gasoline taxes), and the omission of any nuclear initiatives.

While we are very dubious about the desirability of an early meeting of Energy Ministers of the 7 Summit countries for the reasons set out in the recent correspondence between my Secretary of State and Lord Carrington, we do not think it realistic to veto it now that the Americans have supported it.

The draft reply to the President, therefore, welcomes the French suggestion, but makes it clear that we believe that this should not be all that soon and that it is important not to undermine the effectiveness of the energy work already being carried out in the IEA and the EEC. The reference in the last paragraph of the President's letter to reviewing "the contributions that each of us will be making" is in fact rather ominous, in that it could imply that we will be under pressure to complement American programmes by eg. adopting import quotas ourselves, increasing Government expenditure

Contd/2.

on renewables, or by agreeing to high levels of North Sea production. We must clearly watch these points very carefully but best not to refer to this in any reply.

We understand President Giscard, at present in Abu Dhabi, gave general support in a statement today and that Chancellor Schmidt will be doing likewise.

I am sending copies of this letter and the attachments to the recipients of yours. FCO and Treasury officials have been consulted about the contents and are happy.

*Yours Sincerely*

*Bill*

W.J. Burroughs,  
Private Secretary.



16 JUL 1979





PRESIDENT CARTER'S ENERGY STATEMENT: 15 JULY 1979

Main Features and assessment

Import Quotas. The President has committed himself to mandatory oil import quotas for 1979 and 1980, at levels below 8.5 million barrels per day (mbd). He has the legal power to do this and could probably harness enough support in Congress to sustain a veto of any attempt to remove these powers. His 1979 target of 8.2 mbd is in fact the current projection for this year, which reflects the reductions of supply brought about by the Iran crisis. The 1980 target could prove much more onerous unless the US moves into an economic recession. If world oil supplies improve in 1980 the President will risk being accused of creating an artificial shortage in the US by imposition of the quota. The mechanism for operating the quota, and its internal consequences, has yet to be decided but will certainly be administratively burdensome. The US does however have previous experience of such a system on which to draw.

2. The 1990 Target. The aim is to reduce oil imports to about  $4\frac{1}{2}$  mbd in 1990, as against an original expectation of 13 mbd. The 1978 energy legislation and the measures announced in the President's 5 April energy statement, and the June solar energy message are projected to reduce imports by 4 mbd in that period. The new measures are intended to yield a further reduction of  $4\frac{1}{2}$  mbd. This is clearly an ambitious target which is very much dependent on whether alternative sources of domestic energy production can be deployed quickly and on a considerable scale. Congress has to approve a number of key measures.

3. Synthetic Fuels. This programme is to be carried through/a new <sup>by</sup> independent Energy Security Corporation which will have the remit of producing up to 2.5 mbd of synthetic fuels from coal, biomass, oil shale and unconventional gas by 1990. Congressional approval will be required for establishing the Corporation and for financing its activities from the proposed windfall profits tax on US oil production. Major regulatory and environmental constraints will need to be overcome if production on this scale is to be achieved. There must also be considerable doubts about the success of the solar programme announced in June. But it is clearly welcome that the US will now give greater priority to exploiting its massive indigenous resources, particularly of coal and oil shale.



4. Energy Mobilisation Board. This further body will have the remit of speeding up consents for major energy projects and if necessary overriding precudural requirements raised at national or local level. This will apply not only to the new synthetic fuels programme but also to conventional projects such as the Alaska gas pipeline. It will not however apply to nuclear projects. Given the major delays experienced in recent years this is clearly a helpful move, but it will not be an easy task to cut through the jungle of Federal and State controls. Again Congressional consent will be needed for establishing the Board and granting it effective powers. This will not be easy to obtain.

5. Utility Oil Use. Electricity utilities would be required to halve their present use of oil by 1990, yielding a saving of 0.75 mbd. This follows the administration's attempt in 1977/8 to enforce conversion away from oil, which was largely rejected by exceptions added to the legislation and by Congress's refusal to tax the use of oil and gas. Again new Congressional legislation will be required, although the Iran crisis may now have improved the chances of success. Increased use of coal by utilities may also require environmental emission standards to be eased.

6. Heavy Oil Production. Reserves of heavy crude oil in the US have not been fully exploited because of the price control system. The President has decided to decontrol heavy oil prices immediately, and to exempt the resulting resouces from windfall profits tax. This is estimated to yield 0.5 mbd of additional production by 1990.

7. Gasoline Consumption. The President has appealed once more for savings by motorists and will ask Congress for an additional \$16½ billion in the 1980s to improve mass transmit and automobile efficiencies. He has however decided against decontrolling gasoline prices and against raising the tax on gasolines currently only 10 to 15 cuts a gallon.

8. Gasoline Rationing. Following the Administration's failure to negotiate its standby coupon rationing plan through Congress earlier this year, the President has decided to submit a revised plan to Congress. The plan would however be intended for use in crisis situations rather than to enforce the President's longer term policy aims.



9. Conservation. The President will invite Congress to enact legislation allowing him to set State targets for conservation of gasoline and other oil fuels. He has currently signed an order laying down mandatory thermostat settings for non-residential buildings. Congress's approval will also be sought for a new conservation programme in the residential sector, estimated to save 0.5 mbd by 1990. This will be based on financial assistance for insulation and switching from oil to natural gas.

10. Oil Import Savings. A table of the estimated savings from these and previously enacted measures is annexed.

I. ESTIMATED IMPACT OF ADMINISTRATION INITIATIVES TO  
REDUCE 1990 OIL IMPORTS

SAVINGS (MMB/D)

IMPORT SAVINGS FROM PRESIDENTIAL PROGRAMS

-- ESTIMATED IMPORT SAVINGS FROM  
NATIONAL ENERGY ACT, INCLUDING 2.5

----- NATURAL GAS POLICY ACT  
----- FUEL USE ACT  
----- ENERGY TAX ACT  
----- PUBLIC UTILITIES REGULATORY  
----- POLICY ACT

----- NATIONAL ENERGY CONSERVATION  
----- POLICY ACT

-- ESTIMATED IMPORT SAVINGS FROM  
APRIL 5 PRESIDENTIAL PROGRAM,  
INCLUDING 1.5

----- PHASED DECONTROL OF DOMESTIC  
----- CRUDE OIL  
----- JUNE SOLAR ENERGY MESSAGE

----- TOTAL ESTIMATED SAVINGS FROM  
----- ACTIONS TO DATE 4.00

-- ESTIMATED IMPORT SAVINGS FROM  
JULY 16 INITIATIVES, INCLUDING

----- SYNTHETIC FUELS AND  
----- UNCONVENTIONAL GAS 2.50  
----- HEAVY OIL .50  
----- UTILITY REDUCTION .75  
----- RESIDENTIAL CONSERVATION .50  
----- MASS TRANSIT AND AUTO EFFICIENCY .25

----- TOTAL ESTIMATED SAVINGS FROM  
----- NEW PROGRAM 4.5

TOTAL ESTIMATED SAVINGS FROM PAST AND PRESENT  
PROGRAMS 8.50

File with Energy  
letter that this  
covered. ACKM

DRAFT STATEMENT BY THE PRIME MINISTER

US ENERGY POLICY

I very much welcome President Carter's latest announcements about US energy policy. The action he is taking is a courageous and impressive response to the serious oil situation which we all face. It will have the effect of reducing American oil imports for 1979 and 1980 below the levels to which the US committed itself at the recent Tokyo Summit and his longer term commitment to reduce US oil imports by 4½ million barrels per day by 1990 (ie. by more than twice our own current consumption) is dramatic.

We ~~applaud~~ <sup>applaud</sup> his determination to achieve these objectives, ~~which they~~ <sup>which they</sup> should have a major beneficial effect on the world's longer term energy prospects.

The UK is fortunate in its own energy wealth. But that will not protect us from the recessionary effects of world-wide energy shortages. It is therefore essential that we and our trading partners take effective action to reduce demand for oil both the long and the short term, as we agreed at Tokyo. The President's programme is an essential part of this common effort.



Following is message for President Carter, White House from

~~DRAFT MESSAGE FOR THE PRIME MINISTER TO SEND TO PRESIDENT CARTER~~

~~Prime Minister Thatcher. Unclassified. ~~By~~ 16 July 1979. Re: -~~  
Dear Mr President,

Thank you very much for your letter of 15 July giving me advance notice of your statement on US energy policy.

If I may say so, I find the scale of the programme, with its immediate commitment to reducing US oil imports for 1979 and 1980 to below the Tokyo levels and its longer term objective of reducing US imports by 4.5 million barrels per day by 1990, impressive, and courageous. This is particularly so when account is taken of your earlier decision announced in April to move towards decontrol of domestic oil prices by September 1984. I shall certainly be taking an early opportunity to express publicly my ~~support~~ <sup>admiration</sup> for your efforts, which should have a major impact on the oil supply problems which we face, both now and in the years to come.

On the question of the follow-up to Tokyo, I agree with you that a meeting of Energy Ministers to review the achievement of the goals we set ourselves could usefully be arranged [~~(presumably by the Japanese as hosts of the Summit). It might take place towards the end of the year when it would in effect constitute the High Level Monitoring Group which we agreed to set up. But, as I am sure you agree, we will need to watch that this meeting does not undermine the work and effectiveness of existing organisations in this field - notably the IEA and EEC with which the main responsibility for the international follow-up to Tokyo must inevitably rest.] I also agree that the Energy Ministers should discuss the timing and the role of the meeting in relation to what is going on in the EEC and <sup>the</sup> IEA.~~

Yours sincerely

Margaret Thatcher,

PRIME MINISTER

*Seen by the Prime Minister.*

President Carter's Energy Proposals

Dr. Ruhfus telephoned at 1245 to let us know the line on President Carter's energy proposals which it was being recommended to Chancellor Schmidt (who is on a visit to Norway) that the Federal German spokesman should take at his regular press briefing in the early part of this afternoon. The Federal Government welcomed President Carter's declaration on energy policy. His announced intention to reduce American oil imports by half by 1990 was in line with the responsibility for the stability of the world economy which the United States bore as the largest oil consuming country of the world.

The Federal Government was convinced that the energy problem could be solved in the long-term only if the major industrial states made greater efforts to save energy and in particular to reduce oil consumption and to make more use of alternative sources of energy. President Carter's statement was an important contribution to the achievement of these objectives. His proposals for the industrial production of synthetic fuel, for the reduction of the use of oil in electric power plants and for the energy saving in private accommodation ~~was~~<sup>was</sup> courageous.

The Federal Government was convinced that the active implementation of President Carter's plans was of great importance for the world's energy supply and for the development of the world economy. They hoped therefore that his programme would be supported by the United States Congress and the American people.

In response to a question from me Dr. Ruhfus said that they had decided not to include a critical comment about President Carter's apparent failure to do anything to raise the domestic price of oil. In coming to this view they had taken account of ~~the~~<sup>their</sup> understanding that President Giscard was going to make this point in his public comment.

Dr. Ruhfus

Dr. Ruhfus added that the Germans were still considering their reaction to the proposal that there should be a meeting of Energy Ministers to review the follow-up to Tokyo. I told him that the line which was likely to be put to you for approval was that we accepted that such a meeting was inevitable now that both the French and Americans had agreed upon the need for one but that we would want it to take place in the late autumn rather than in early September, as the French were proposing. Dr. Ruhfus said that the Germans would take account of our views (which we know are close to those of officials in the Federal Ministry of Economics) in deciding what their line should be.

*KML.*

16 July 1979

1. Mr. Whitmore

2. PRIME MINISTER

*Sum by the Prime Minister.*

PRESIDENT CARTER'S ENERGY PROPOSALS

President Giscard's chef de Cabinet, M. Wahl, telephoned at 0830 this morning to say, with reference to his earlier conversation with you, that President Giscard (who is on his way to New Caledonia in the Pacific) had stopped off in Abu Dhabi for talks with the President of the United Arab Emirates and would be meeting the press at 0830 London time. The President proposed to use this occasion to make his first public comment on President Carter's energy proposals, since he would not have another opportunity until his second stop-over in Singapore, much later today.

M. Wahl said that the President proposed to speak on the following lines.

He would express his approval and warm support for the programme announced by President Carter. Action of this order by the United States was essential. President Carter's programme concerning US imports of oil in 1979/80, and his target for the period up to 1990, were in conformity with the decisions of the Tokyo summit. The programme as a whole was courageous and indicated US appreciation of the gravity of the energy crisis. It was important that the programme should be implemented without delay and President Giscard hoped that it would be supported by the US Congress and by the American people.

President Giscard would go on to say that President Carter's programme required two corollaries if the Tokyo commitments were to be fully satisfied, namely:-

- i. a narrowing of the gap between the internal price of oil in the US and the rest of the world; and
- ii. a further effort to moderate transactions of the spot market.

/Now that

Now that President Giscard has given such a rapid public reaction, without any attempt at the "harmonisation" of European reactions which M. Wahl originally proposed, we shall have to consider whether to stick to our planned timetable for a UK reaction, i.e. co-ordination of today and public reaction in Prime Minister's Questions tomorrow (Tuesday); or whether it would be desirable to leave a smaller gap between the French reaction and our own. On the whole, I should have thought that we should stick to our plan; but you will first wish to find out what the Germans are proposing to do.

*BM.*

16 July 1979



File 26

10 DOWNING STREET

*From the Principal Private Secretary*

15 July 1979

Thank you for your letter of 13 July 1979 about the American follow-up to the Tokyo Summit.

I now attach the expected message from President Carter to the Prime Minister about the statement on energy which he is due to make on American television this evening. I discussed the message briefly on the telephone with Jack Rampton and Michael Butler earlier today, and we agreed that officials from the Departments concerned should meet tomorrow morning to consider the President's proposals, with a view to letting the Prime Minister have advice in the course of Monday afternoon on the American programme and in particular on the President's request for the Prime Minister's public support. This will give us time to concert our views with the French, Germans and Italians in the course of Monday evening or Tuesday morning, if the Prime Minister decides, in the light of your advice, that this is what we should do. The Prime Minister would then be in a position to make known publicly her support for President Carter's proposals later on Tuesday, perhaps in answering Questions that afternoon. I am consulting the Prime Minister about this proposed timetable and I will let you know as early as possible tomorrow morning whether she is content with it. If she is, I should be grateful if you would let me have by 16.30 tomorrow, Monday, :-

- (a) Advice, agreed by the Departments concerned, on the content of President Carter's message to the Prime Minister.
- (b) A short draft statement of support for the President's proposals for the Prime Minister to use publicly.
- (c) A draft reply from the Prime Minister to the President.

I am sending copies of this letter and enclosure to George Walden (Foreign and Commonwealth Office), Tony Battishill (H.M. Treasury) and to Martin Vile (Cabinet Office).

C. A. WHITMORE

W. J. Burroughs, Esq.,  
Department of Energy.

rc

PRIME MINISTER

UNITED STATES' ENERGY PROGRAMME:  
MESSAGE FROM PRESIDENT CARTER

The expected personal message from President Carter about the energy programme which he is to announce on American television at 10 p.m. local time tonight has arrived, and a copy is attached. It sets out the oil import goals which he is pressing the United States to adopt for both the short-term (1980) and the longer-term (1990). They are ambitious and, in the case of 1980, tougher than the targets set at Tokyo. The message then describes in some detail the measures which the President plans to introduce in order to achieve his goals. It also contains a welcome for the French idea that there should be a meeting of Energy Ministers at the end of August or beginning of September to discuss the follow-up to Tokyo. The President concludes by seeking, as we expected, your public support for his proposals.

I have discussed the message briefly with Sir Jack Rampton (Department of Energy) and Michael Butler (Foreign and Commonwealth Office). Their initial reaction is that the President's programme is a serious attempt to tackle the United States oil problem. But so much depends on Congress: this is particularly true of his long-term goals, the achievement of which will need very substantial expenditure for which he will require Congressional approval. Unless the President can secure the co-operation of Congress, many of his proposals will remain, like some of his earlier ones, no more than good intentions.

The President's message is a long one and will obviously need to be studied carefully before you decide what your public reaction should be. I have therefore agreed with Sir Jack Rampton and Michael Butler that they should meet tomorrow morning to consider the American proposals, with the aim of getting advice to you in the course of tomorrow afternoon. This will give us time to concert our views with the French and Germans, if you decide that that is desirable, on Monday evening or

/Tuesday

Tuesday morning. You would then be in a position, if you wish, to make known your reaction to President Carter's announcement on Tuesday, perhaps in answering Questions.

You said when I told you of M. Wahl's telephone call letting you know of the conversation between President Giscard and President Carter that we must not be rushed in taking a public line on the American programme. I think that if we can follow the timetable outlined above, we shall avoid unnecessary haste and give ourselves time to reach a properly considered view. On the other hand, if you delay a public expression of support much beyond Tuesday, there may be a risk that your statement will lose some of its impact.

I rang Dr. Ruhfus in Chancellor Schmidt's office on Friday evening to see how the Germans were proposing to proceed on President Carter's message, and it is clear that they too are thinking of a timetable very much on the same lines as us.

We may have a problem over the idea that Energy Ministers should meet in 6 - 8 weeks' time. This is a French proposal which they have been pushing hard recently. We have not hitherto been very enthusiastic about it: nor have many other countries, especially the smaller nations. But President Giscard now seems to have sold the idea to President Carter. We do not wish to find ourselves isolated unnecessarily in continuing to oppose a meeting, and it is likely that the FCO will suggest tomorrow morning that I should speak to Dr. Ruhfus early in the day to see what Chancellor Schmidt thinks of the proposal. We could then take account of German views in deciding what our own reaction should be on this point.

Do you agree that we should proceed on the lines above?

C.W.

15 July 1979



MESSAGE NO 1

FROM NO 10 TO CHEQUERS

15.7.79

FOR THE PRIME MINISTER FROM THE PRESIDENT OF THE UNITED STATES  
OF AMERICA

15 JULY 1979

DEAR MARGARET:

I AM WRITING TO INFORM YOU IN CONFIDENCE OF WHAT I WILL  
SAY TO THE AMERICAN PEOPLE ON SUNDAY EVENING ABOUT STEPS TO  
FULFIL THE COMMITMENTS I JOINED YOU IN MAKING AT TOKYO.

I WILL SET GOALS SUBSTANTIALLY MORE AMBITIOUS THAN THE  
COMMITMENTS MADE AT THE ECONOMIC SUMMIT. THE MAJOR THEME OF  
MY SPEECH WILL BE THAT THE US IS NOW AT A POINT AT WHICH IT  
REQUIRES AN UNPARALLELED PEACETIME INVESTMENT OF MONEY, NATURAL  
RESOURCES, AND HARD WORK TO ACHIEVE TWO GOALS:

FIRST, THE US MUST NEVER AGAIN IMPORT MORE OIL THAN IT  
DID IN 1977. (THIS IS THE SAME CONSTRAINT AS THE 1979 US IMPORT  
CEILING ADOPTED AT TOKYO.) WHATEVER ENERGY REQUIREMENTS THE US  
HAS ABOVE THIS LEVEL MUST COME FROM US CONSERVATION AND  
RESOURCES, NOT FROM OPEC OR OTHER FOREIGN OIL PRODUCERS.

SECOND, BY 1990, THE US MUST CUT THE AMOUNT OF OIL IT NOW  
IMPORTS IN HALF.

~~11-19-79~~  
OUR GOAL IS TO IMPORT NO MORE THAN FOUR MILLION BARRELS PER  
DAY BY 1990.

TO MEET THESE TWIN GOALS, THE US MUST TAKE A NUMBER OF  
MAJOR ACTIONS:

I WILL SET OIL IMPORT QUOTAS BOTH FOR 1979 AND QOIPM CORRECTION AND 1980. THESE QUOTAS WILL RESTRAIN NET US IMPORTS OF CRUDE OIL AND OIL PRODUCTS TO LEVELS BELOW THOSE I PLEDGED AT THE TOKYO ECONOMIC SUMMIT. WHILE THAT IS ALL I WILL SAY ON THIS POINT IN THE SPEECH, YOU MAY WISH TO KNOW THAT THE US WILL BE 300,000 BARRELS PER DAY BELOW THE TOKYO PLEDGE IN 1979. I WILL AIM TO REPEAT THIS PERFORMANCE IN 1980, BUT CANNOT MAKE A FIRM COMMITMENT AS TO HOW FAR WE WILL BE BELOW THE TOKYO PLEDGE IN THAT YEAR UNTIL WE COME CLOSER TO 1980 AND CAN APPRAISE OUR ECONOMIC SITUATION WITH GREATER ACCURACY AND CONFIDENCE. WHILE I HAVE NOT YET DECIDED ON THE MEANS OF ALLOCATING THESE QUOTAS, MY ADVISERS FAVOUR THE AUCTION ROUTE.

I WILL PROPOSE TO THE AMERICAN PEOPLE THAT THE US LAUNCH A NEW PROGRAMME TO INVEST OVER ONE HUNDRED BILLION DOLLARS IN THE DEVELOPMENT OF SUBSTITUTES FOR IMPORTED OIL. THE PROGRAMMES I AM PROPOSING ARE DESIGNED TO REDUCE OVERALL IMPORTS BY 4.5 MILLION BARRELS PER DAY BY 1990. AS PART OF THIS PROGRAMME, I WILL CALL FOR THE ESTABLISHMENT OF AN INDEPENDENT ENERGY SECURITY CORPORATION MANDATED TO PRODUCE BY 1980 THE EQUIVALENT OF UP TO 2.5 MILLION BARRELS PER DAY OF SYNTHETIC FUELS FROM COAL AND BIOMASS, OIL SHALE, AND UNCONVENTIONAL GAS BY 1990. I WILL CALL UPON THE US CONGRESS TO PROVIDE THIS CORPORATION WITH BROAD AUTHORITY, SIMILAR TO THAT GIVEN THE SYNTHETIC RUBBER CORPORATION DURING WORLD WAR II.

I AM ADMINISTRATIVELY IMPLEMENTING NEW INCENTIVES FOR THE PRODUCTION OF US HEAVY OIL RESERVES, WITH A GOAL OF PRODUCING 500,000 BARRELS PER DAY BY 1990.

I WILL ASK CONGRESS FOR AUTHORITY TO ORDER AMERICAN ELECTRICAL UTILITIES TO CUT THEIR CURRENT USE OF OIL BY 50 PER CENT BY 1990, ASKING THEM TO TURN TO COAL, NUCLEAR POWER, AND SOLAR ENERGY AS IT BECOMES AVAILABLE.

I WILL ASK THE US CONGRESS TO COOPERATE WITH ME IN CREATING AN ENERGY MOBILIZATION BOARD, EQUIPPED WITH AUTHORITY TO CUT THROUGH BUREAUCRATIC RED TAPE AND OTHER ADMINISTRATIVE BARRIERS SO THAT ENERGY ACTIONS NEEDED TO REDUCE IMPORTS CAN BE TAKEN EXPEDITIOUSLY.

I WILL CALL UPON THE AMERICAN PEOPLE TO MAKE EVERY EFFORT TO DECREASE THEIR RELIANCE UPON THE AUTOMOBILE AS A MODE OF TRANSPORTATION. TO THIS END, I WILL ASK CONGRESS TO APPROPRIATE ADDITIONAL SIXTEEN BILLION DOLLARS OVER THE NEXT DECADE TO IMPROVE THE AMERICAN PUBLIC TRANSPORTATION SYSTEM AND AUTOMOBILE EFFICIENCY.

I WILL ANNOUNCE A MAJOR MANDATORY ENERGY CONSERVATION PROGRAMME FOR BOTH OWNER OCCUPIED HOUSING AND APARTMENT BUILDINGS, FINANCED IN PART BY US UTILITIES AND IN PART BY THE THE GOVERNMENT. WE EXPECT 500,000 BARRELS PER DAY SAVINGS FROM THIS PROGRAMME.

THIS BROAD SCALE IMPORT REDUCTION PROGRAMME WILL BE FINANCED BY REVENUES FROM THE WINDFALL PROFITS TAX WHICH I PROPOSED TO CONGRESS AND WHICH HAS NOW PASSED THE HOUSE OF REPRESENTATIVES.

THESE POLICIES ARE INTENDED TO REDUCE US DEPENDENCE ON IMPORTED CRUDE OIL. IT IS MY HOPE THAT THEY WILL SERVE TO STABILISE THE INTERNATIONAL OIL MARKET AND CURRENCY MARKETS, ON WHICH ALL OUR ECONOMIES DEPEND.

IF THESE POLICIES COMMEND THEMSELVES TO YOU, I HOPE THAT YOU WILL FIND AN EARLY OCCASION TO SAY SO PUBLICLY. THE INITIAL INTERNATIONAL REACTION WILL BE IMPORTANT IN ACHIEVING THE INTENDED IMPACT ON THE PUBLIC AROUND THE WORLD AND ON THE CALCULATIONS OF ENERGY PRODUCERS AND CONSUMERS.

I KNOW THAT YOU ARE AS DETERMINED AS I AM TO ENSURE EFFECTIVE FOLLOW UP ON OUR TOKYO AGREEMENTS. THIS WILL NOT BE ACHIEVED UNLESS SPECIFIC NEW MEASURES ARE UNDERTAKEN BY EACH OF THE SUMMIT COUNTRIES TO THIS END. I WELCOME THE FRENCH SUGGESTION FOR A MEETING OF ENERGY MINISTERS TO REVIEW THE CONTRIBUTIONS THAT EACH OF US WILL BE MAKING. OUR MINISTERS CAN CONCERT ABOUT THE TIMING OF THIS MEETING. ONLY AN EFFORT INVOLVING ALL OUR COUNTRIES CAN ACCOMPLISH THE DESIRED RESULT.

SINCERELY,

JIMMY CARTER

MESSAGE ENDS



EMBASSY OF THE  
UNITED STATES OF AMERICA

July 15, 1979

Duty Clerk  
10 Downing Street  
London, SW1

Dear Sir:

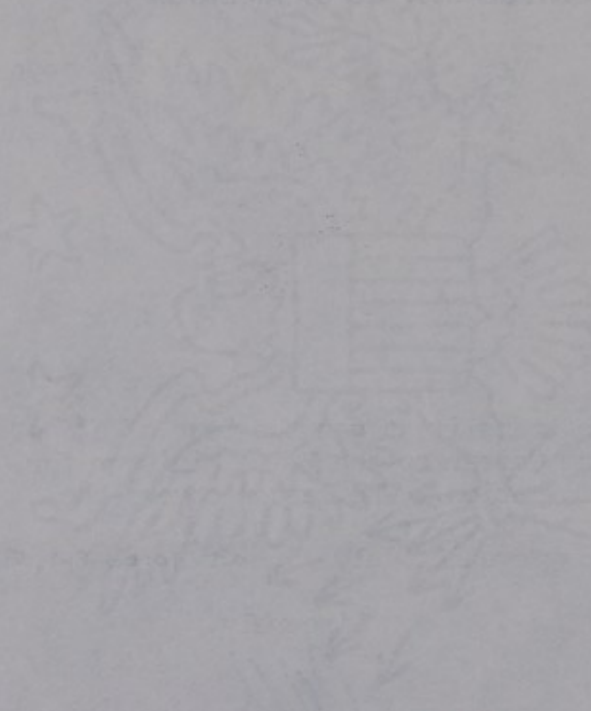
I have been asked to transmit to you the text of a letter from President Carter to the Prime Minister for her confidential information. The letter covers the points the President will cover in his speech to the American people Sunday evening July 15, at 10:00 PM, EDT

Sincerely,

A handwritten signature in blue ink, appearing to read "J. Sikes".

Joseph T. Sikes  
Duty Officer  
American Embassy LONDON

EMBASSY OF THE  
UNITED STATES OF AMERICA



13 JUL 1979

Handwritten scribbles in red ink, including a large 'M' shape and some illegible characters.

15 JUL 1979

15 JUL 1979

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T45/797c

SUBJECT

cc Mater  
Op  
Energy: Policy: Pt 2

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T45/797

July 15, 1979

Dear Margaret:

I am writing to inform you in confidence of what I will say to the American people on Sunday evening about steps to fulfill the commitments I joined you in making at Tokyo.

I will set goals substantially more ambitious than the commitments made at the economic summit. The major theme of my speech will be that the US is now at a point at which it requires an unparalleled peacetime investment of money, natural resources, and hard work to achieve two goals:

First, the US must never again import more oil than it did in 1977. (This is the same constraint as the 1979 US import ceiling adopted at Tokyo.) Whatever energy requirements the US has above this level must come from US conservation and resources, not from OPEC or other foreign oil producers.

Second, by 1990, the US must cut the amount of oil it now imports in half. Our goal is to import no more than 4 million barrels per day by 1990.

To meet these twin goals, the US must take a number of major actions:

The Rt. Hon. Margaret Thatcher, M.P.  
Prime Minister  
10 Downing Street  
London, SW1

I will set oil import quotas both for 1979 and 1980. These quotas will restrain net US imports of crude oil and oil products to levels below those I pledged at the Tokyo Economic Summit. While that is all I will say on this point in the speech, you may wish to know that the US will be 300,000 barrels per day below the Tokyo pledge in 1979. I will aim to repeat this performance in 1980, but cannot make a firm commitment as to how far we will be below the Tokyo pledge in that year until we come closer to 1980 and can appraise our economic situation with greater accuracy and confidence. While I have not yet decided on the means of allocating these quotas, my advisers favor the auction route.

I will propose to the American people that the US launch a new program to invest over \$100 billion in the development of substitutes for imported oil. The programs I am proposing are designed to reduce overall imports by 4.5 million barrels per day by 1990. As part of this program, I will call for the establishment of an independent energy security corporation mandated to produce by 1980 the equivalent of up to 2.5 million barrels per day of synthetic fuels from coal and biomass, oil shale, and unconventional gas by 1990. I will call upon the US Congress to provide this corporation with broad authority, similar to that given the synthetic rubber corporation during World War II.

-- I am administratively implementing new incentives for the production of US heavy oil reserves, with a goal of producing 500,000 barrels per day by 1990.

-- I will ask Congress for authority to order American electrical utilities to cut their current use of oil by 50 percent by 1990, asking them to turn to coal, nuclear power, and solar energy as it becomes available.

-- I will ask the US Congress to cooperate with me in creating an Energy Mobilization Board, equipped with authority to cut through bureaucratic red tape and other administrative barriers so that energy actions needed to reduce imports can be taken expeditiously.

-- I will call upon the American people to make every effort to decrease their reliance upon the automobile as a mode of transportation. To this end, I will ask Congress to appropriate an additional \$16 billion over the next decade to improve the American public transportation system and automobile efficiency.

-- I will announce a major mandatory energy conservation program for both owner-occupied housing and apartment buildings, financed in part by US utilities and in part by the Government. We expect 500,000 barrels per day savings from this program.

This broad-scale import reduction program will be financed by revenues from the windfall profits tax which I proposed to Congress and which has now passed the House of Representatives.

These policies are intended to reduce US dependence on imported crude oil. It is my hope that they will serve to stabilize the international oil market and currency markets, on which all our economies depend.

If these policies commend themselves to you, I hope that you will find an early occasion to say so publicly. The initial international reaction will be important in achieving the intended impact on the public around the world and on the calculations of energy producers and consumers.

I know that you are as determined as I am to ensure effective follow-up on our Tokyo agreements. This will not be achieved unless specific new measures are undertaken by each of the Summit countries to this end. I welcome the French suggestion for a meeting of Energy Ministers to review the contributions that each of us will be making; our Ministers can concert about the timing of this meeting. Only an effort involving all our countries can accomplish the desired result.

Sincerely,

Jimmy Carter



CONFIDENTIAL

URS 200

CONFIDENTIAL

FM WASHINGTON 132342Z JUL 79

TO IMMEDIATE F.C.O.

TELEGRAM NUMBER 1944 OF 13 JULY.

INFO PRIORITY UKDEL OECD, UKREP BRUSSELS, BONN, DUBLIN, PARIS, ROME, TOKYO, ROUTINE ALL OTHER EEC POSTS.

PARIS TELEGRAM NO 423: FOLLOW-UP TO TOKYO SUMMIT ON ENERGY.

1. MINISTER (COMMERCIAL) ASKED THE STATE DEPARTMENT TODAY WHETHER THEY COULD THROW ANY LIGHT ON A REPORT WHICH HAD REACHED US THAT THE U.S. MIGHT BE ABOUT TO PROPOSE AND MEETING OF THE ENERGY MINISTERS OF THE SEVEN SUMMIT COUNTRIES AT A CONFERENCE TO BE HELD AT THE END OF AUGUST. IT HAD BEEN SUGGESTED TO US THAT PRESIDENT CARTER MIGHT MAKE THIS PROPOSAL IN HIS SPEECH ON JULY 15. IT WOULD BE HELPFUL TO KNOW IF THERE WAS ANY TRUTH IN THIS SO THAT ANY SUCH PROPOSAL COULD BE CONSIDERED BEFORE IT WAS MADE PUBLIC.

2. BRIDGES HAS NOW BEEN INFORMED BY THE OFFICE OF THE UNDER-SECRETARY FOR ECONOMIC AFFAIRS, WHO HAD ENQUIRED OF EIZENSTAT PERSONALLY, THAT THE PRESENT DRAFT OF THE PRESIDENT'S SPEECH DOES MENTION THIS IDEA, BUT PROPOSES NO DATE. THE PRESIDENT IS STILL WORKING ON THE DRAFT AND THE FINAL VERSION OF WHAT HE WILL SUGGEST IS UNCERTAIN. WE ARE ALSO INFORMED THAT LETTERS HAVE BEEN DRAFTED FOR THE PRESIDENT TO SIGN TO THE OTHER SIX SUMMIT LEADERS, AND IT IS INTENDED THAT THE PRESIDENT WILL SEND THESE IN ADVANCE OF HIS SPEECH ON SUNDAY EVENING.

F.C.O. PLEASE ADVANCE TO NO 10 DOWNING STREET.

HENDERSON

[ADVANCED AS REQUESTED]

FILES  
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PS/PS  
PS/MR RIDLEY  
PS/PUS  
SIR A. DUFF  
MR BUTHER  
MISS BROWN

COPIES TO:  
MR D Le B JONES } D/ENERGY  
MR BRETHERTON }

[COPIES SENT TO NO 10 DOWNING ST]

CONFIDENTIAL



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

01-211 6402

C A Whitmore Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

*Am*  
13 ✓

13 July 1979

*Dear Clive,*

Thank you for your letter of 12 July about the telephone call from M. Wahl about the follow up to the Tokyo Summit on Energy. It arrived after my Secretary of State had left for his constituency but there are some points the Department have asked me to put to you.

We think that some public endorsement of President Carter's statement will almost certainly be desirable: but as you say it will not be possible to decide how far we can go or whether it is desirable or possible to reach a common position with our Community partners until we know what the President has said. Our contact over the weekend will be Sir Jack Rampton (telephone number 0732 352117 or 089 278413 on Saturday evening): but on the assumption that the President does not speak until Sunday evening (US time) it may well be desirable to leave comment until Monday afternoon (our time) thus giving time for deliberate consideration on Monday morning and also showing that our reaction is a considered one.

My Secretary of State's views on a possible meeting of Energy Ministers to discuss the follow up to the Tokyo Summit were given in his letter of 6 July to the Foreign and Commonwealth Secretary of which you have a copy. It is a little difficult to believe that this subject was raised by President Carter rather than President Giscard. I should add that this subject was discussed at the meeting of the IEA Governing Board at senior official level on 11 July. Very strong misgivings about the ideas the French have been putting forward were expressed by the representatives of the smaller countries - notably the Australians who have just joined the IEA and who made it clear that they had not done so in order to see it downgraded and the Dutch (supported privately by the Danes) who spoke

strongly about the risks inherent in this idea not only for the IEA but also for the energy policy work of the Community. The representatives of the Summit countries (apart from the Italians who did not speak) shared many of these misgivings. While accepting that a meeting of Energy Ministers might be unavoidable they thought it should be deferred until much later in the year and should be a one-off affair. These developments seem to us to re-inforce my Secretary of State's view that we should view this proposal with much caution and seek to play it very slowly.

I am sending copies of this letter to the recipients of yours.

*Yours sincerely,*

*Bill*

W J Burroughs  
Private Secretary



133 JUL 1979



CLIVE'S

289

Hancock (HMT)



Free

cc: FCO  
HMT  
CO

670 - 3155

10 DOWNING STREET

From the Principal Private Secretary

12 July 1979

B/F 13/7/79  
no weekend duty desk  
to see

M. Jacques Wahl of President Giscard's office rang me today to say that the President wanted the Prime Minister to know of a telephone conversation which he had had last night with President Carter at Camp David about the follow-up to what had been agreed on energy at the Tokyo Summit. President Carter had told President Giscard that he planned to announce a new energy programme for the United States on Sunday 15 July. He hoped to be able to give the Prime Minister, President Giscard, Chancellor Schmidt and Signor Andreotti advance notice, which might amount to 6-12 hours, of what he was going to say. He hoped that the European leaders would be ready to give public support for his programme.

Wahl said that President Giscard thought that if the European leaders were to express a view on the American programme, they should try to coordinate their response so that each of them adopted a similar tone. Wahl went on to say that he might want to get in touch with me and with the offices of Chancellor Schmidt and Signor Andreotti on Sunday in order to consider whether we should all take a similar line and what that line should be.

I have not yet been able to consult the Prime Minister about President Giscard's message, but it seems to me that until we know what the content of the American programme is, it is not easy to know whether we shall be able readily to work out a common line with our European partners or, indeed, how much support we shall be able to offer the Americans. Nor is it clear that we shall really need to finalise our views as quickly as the French seem to think. Nonetheless, I may well need to consult your Department and the FCO over the weekend about the expected message from President Carter and, if necessary, be in a position to put urgent advice to the Prime Minister. Against this possibility I should be grateful if you could let me know whom I should speak to in your Department. I shall be similarly grateful if George Walden could give me the name of a contact in the FCO.

Wahl also said that President Carter had told President Giscard that he might want to propose that Energy Ministers should hold a meeting in Europe at the end of August or the beginning of

/ September.

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September. Wahl added, however, that President Carter had not made clear what precisely the purpose of such a meeting would be.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), Tony Battishill (H.M. Treasury) and Martin Vile (Cabinet Office).

C. A. WHITMORE

W. J. Burroughs, Esq.,  
Department of Energy.

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1.

PRIME MINISTER

US ENERGY PROGRAMME

M. Wahl of President Giscard's office telephoned me today to say that the President wanted you to know that he had spoken to President Carter at Camp David last night about the follow-up to what had been agreed on energy at the Tokyo Summit. President Carter told President Giscard that he planned to announce a new energy programme for the United States on Sunday, 15 July. He planned to give you, President Giscard, Chancellor Schmidt and Signor Andreotti advance notice, which might amount to 6-12 hours, of what he was going to say. He hoped that you and your European colleagues would be ready to give public support for his programme.

M. Wahl went on to say that President Giscard thought that if the European leaders were to express a view on the American programme, they should try to coordinate their response so that each of them took a similar line. Wahl said that he might want to get in touch with me and with the offices of Chancellor Schmidt and Signor Andreotti on Sunday in order to consider whether we should all take a similar line and what that line should be.

I told M. Wahl that I was sure that you would be grateful to President Giscard for letting you know of his conversation with President Carter, and that I would wait to hear further from him at the weekend or early next week. In fact, until we know what the content of the American programme is, it is not easy to judge how much support we shall be able to offer the Americans or whether we shall be able readily to work out a common line with our European partners. I have told the Department of Energy, the FCO, and the Treasury of M. Wahl's message and warned them that we may need urgent advice from them over the weekend about President Carter's message, though I rather doubt whether we need to rush *quite so fast* to form a view on the American programme and to coordinate a line with our European partners. I do not think there is much more that we can do until the President's message arrives.

*We need to rush a message.*

/ M. Wahl

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M. Wahl also said that President Carter had told President Giscard that he might want to propose that Energy Ministers should hold a meeting in Europe at the end of August or the beginning of September. Wahl added, however, that President Carter had not made clear what precisely the purpose of such a meeting would be.

Finally, M. Wahl said that President Giscard was very pleased with the way things were moving on Madame Veil's candidature for the Presidency of the European Assembly.

*Am.*

12 July 1979

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TO ROUTINE FCO

TELEGRAM NUMBER 1832 OF 6 JULY

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AND ST LOUIS.

M.I.P.T. : ENERGY POLICY

1. THE DAMAGING ECONOMIC EFFECTS OF THE OPEC PRICE INCREASES AT GENEVA HAVE, PREDICTABLY, BEEN PLAYED UP BY THE PRESS AND THE PRESIDENT. THE ENERGY COMMITMENTS AT THE TOKYO SUMMIT ARE SEEN AS ONLY THE FIRST STEP ON THE DIFFICULT ROAD TO EFFECTIVE POLICY-MAKING TO RESTRAIN DEMAND FOR OPEC OIL. FOR CARTER THE IMMEDIATE PRIORITIES WILL BE TO RELIEVE THE SHORT TERM POLITICAL PRESSURES OF THE GASOLINE SHORTAGE, HIGHER OIL PRICES, LOW STOCKS OF WINTER HEATING OIL AND REGULATORY CONFUSION SEMICOLON AND TO SET IN PLACE LONGER TERM ACTIONS TO MEET HIS TOKYO COMMITMENT. THESE ARE VERY DIFFICULT TASKS, THE TOOLS AT HAND ARE FEW AND THE PROSPECTS OF SUCCESS ARE NOT GOOD. WITHOUT A HIGHER LEVEL OF OIL IMPORTS SHORT TERM ACTION CAN ONLY AIM TO MINIMISE THE ADVERSE EFFECTS AND TO SPREAD THE DISCOMFORT MORE EVENLY. MANDATORY TEMPERATURE CONTROLS IN PUBLIC AND COMMERCIAL BUILDINGS (APPROVED BY CONGRESS TWO MONTHS AGO) ARE DUE TO BE IMPLEMENTED SOON. FUEL OIL CONSUMPTION BY INDUSTRY AND ELECTRIC UTILITIES MAY BE CUT BACK AND SOME CLEAN AIR RESTRICTIONS MAY BE WAIVED TO INCREASE COAL UTILISATION. EFFORTS TO REVIVE A LARGELY SYMBOLIC STANDBY GASOLINE RATIONING AUTHORITY (RECENTLY REJECTED BY THE HOUSE OF REPRESENTATIVES) MIGHT NOW BE SUCCESSFUL. THESE COULD ALL MAKE SMALL CONTRIBUTIONS TO LIMITING OIL DEMAND.

2. FOR THE LONGER TERM, OIL PRICE DECONTROL WILL HELP IN TIME TO RESTRAIN THE DECLINE OF DOMESTIC PRODUCTION SEMICOLON AND THE ACCOMPANYING WINDFALL PROFITS TAX, WHEN IT CLEARS CONGRESS, WILL PROVIDE FUNDS IN THE EARLY 1980S WHICH COULD BE USED TO STIMULATE A PROGRAMME TO PRODUCE SYNTHETIC FUELS. BUT MAJOR EFFORTS AND NEW DECISIONS ARE STILL REQUIRED, AS THEY HAVE BEEN SINCE 1977,

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TO RESOLVE ENVIRONMENTAL AND REGULATORY CONFLICTS, WHICH STAND IN THE WAY OF EXPANDED COAL CONSUMPTION AND NUCLEAR POWER, AND TO START UP AMBITIOUS SYNTHETIC FUELS PROGRAMMES, WHOSE CONTRIBUTION CAN ONLY BE MARGINAL AT BEST FOR SOME YEARS TO COME. IT REMAINS TO BE SEEN WHETHER CARTER WILL TRY TO MAKE UNPOPULAR AND EXPENSIVE CHOICES IN THESE AREAS, AND BE ABLE TO MUSTER THE NECESSARY PUBLIC AND CONGRESSIONAL SUPPORT FOR THEM. THE CONGRESS IS LIKELY TO REASSEMBLE AFTER THE 4 JULY RECESS IN A MOOD TO SHOW THE INCREASINGLY ANGRY VOTERS THAT IT IS CAPABLE OF ACTING PURPOSEFULLY. BUT THE CONFLICTING INDUSTRY, CONSUMER, ENVIRONMENTALIST AND REGIONAL INTERESTS WHICH HAVE HAMSTRUNG ENERGY LEGISLATION HITHERTO STILL PERSIST. AND THE CREDIBILITY OF THE ADMINISTRATION IN GENERAL AND ENERGY SECRETARY SCHLESINGER IN PARTICULAR IS NOW SO LOW THAT IT IS DIFFICULT TO SEE THEM GENERATING THE CONSENSUS NEEDED FOR EFFECTIVE LEGISLATIVE ACTION.

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TEL NO 1831 OF 6 JULY

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ST LOUIS.

Prime Ministerans  
9/7

THE US POLITICAL SCENE AND THE TOKYO SUMMIT.

1. LATE ON 4 JULY THE WHITE HOUSE ANNOUNCED THAT THE PRESIDENT HAD CANCELLED A NATIONWIDE BROADCAST ON THE ENERGY SITUATION WHICH HE WAS TO HAVE DELIVERED THE FOLLOWING EVENING. NO EXPLANATION WAS GIVEN FOR THIS UNPRECEDENTED ACTION AND NO NEW DATE FOR THE BROADCAST HAS SO FAR BEEN ANNOUNCED. THE PRESIDENT HAS GONE INTO RETREAT AT CAMP DAVID, WHERE HE IS EXPECTED TO SPEND SEVERAL MORE DAYS REVIEWING THE ECONOMIC AND ENERGY SITUATION PREPARATORY TO A MAJOR POLICY STATEMENT.
2. IN TWO BRIEF STATEMENTS ON 5 JULY JODY POWELL, THE WHITE HOUSE SPOKESMAN, SAID THAT
- (A) PURSUANT TO THE AGREEMENTS REACHED AT THE TOKYO SUMMIT, THE PRESIDENT QUOTE INTENDS TO PROPOSE AT AN EARLY DATE A SERIES OF STRONG MEASURES TO RESTRAIN US DEMAND FOR IMPORTED OIL UNQUOTE AND
- (B) THE PRESIDENT WAS IN THE PROCESS OF QUOTE ASSESSING MAJOR DOMESTIC ISSUES WHICH HE BELIEVES ARE IMPORTANT TO THE COUNTRY AND WHICH INCLUDE, BUT GO BEYOND, THE QUESTION OF ENERGY UNQUOTE. THE PRESIDENT WOULD CONSULT QUOTE A NUMBER OF INDIVIDUALS WHOSE JUDGEMENT HE RESPECTS BOTH IN AND OUTSIDE THE GOVERNMENT. UNQUOTE.
3. THE ANTICLIMAX OF THE CANCELLATION OF THE PRESIDENT'S BROADCAST (FOR WHICH HE HAD RETURNED EARLY FROM KOREA, CANCELLING A PLANNED THREE DAY HOLIDAY) AND THE ENSUING SPECULATION ABOUT SERIOUS POLICY DIFFERENCES WITHIN THE ADMINISTRATION HAVE REINFORCED THE IMAGE OF AN ADMINISTRATION IN DISARRAY AND UNABLE EITHER CREDIBLY TO EXPLAIN OR TO DEAL WITH GASOLINE SHORTAGES AND A WORSENING ECONOMIC OUTLOOK. THIS IS WIDELY SEEN AS A CRITICAL POINT IN CARTER'S PRESIDENCY.

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4. MEANWHILE, THE ECONOMIC OUTLOOK HAS DETERIORATED MARKEDLY THE LAST FEW WEEKS. IT NOW SEEMS CLEAR THAT GNP FELL IN THE SECOND QUARTER AND THERE IS WIDESPREAD AGREEMENT THAT THE ECONOMY IS ENTERING A RECESSION WHICH IS LIKELY TO LAST FOR THE REST OF THIS YEAR AND PROBABLY EXTEND INTO 1980. UNEMPLOYMENT HAS NOT YET BEGUN TO RISE, BUT CAN HARDLY FAIL TO DO SO IN THE NEXT SIX OR NINE MONTHS IF THESE EXPECTATIONS ARE CORRECT. IT IS AN OPEN QUESTION WHETHER THE ECONOMY WILL SEE SOME RECOVERY IN TIME TO HAVE SOME EFFECT ON NEXT YEAR'S ELECTION.

5. AT THE SAME TIME, THE OIL SITUATION IS DASHING HOPES THAT INFLATION MIGHT BE BROUGHT DOWN IN THE SECOND HALF OF 1979. SO FAR THIS YEAR IT HAS BEEN RUNNING AT AN ANNUAL RATE OF OVER 13 PER CENT AND THERE IS NOW LITTLE DOUBT THAT IT WILL REMAIN IN DOUBLE FIGURES FOR AT LEAST ANOTHER SIX MONTHS. THE COMBINATION OF HIGH INFLATION AND RISING UNEMPLOYMENT IS BOUND TO CREATE A PECULIARLY DIFFICULT POLICY DILEMMA. THE PRESIDENT AND HIS ADVISERS WILL PROBABLY BE RELUCTANT TO RESORT TO TAX CUTS OR OTHER EFFORTS TO STIMULATE THE ECONOMY BECAUSE OF THE INFLATION; BUT VOICES ARE ALREADY BEING RAISED IN THE CONGRESS FOR TAX CUTS.

6. A WEEK BEFORE THE VIENNA SUMMIT A NEW YORK TIMES POLL SHOWED CARTER'S APPROVAL RATING DOWN FROM 42 PER CENT IN JANUARY AND MARCH TO 30 PER CENT IN JUNE, ITS LOWEST POINT YET. THE VIENNA AND TOKYO SUMMITS DID NOTHING TO IMPROVE HIS STANDING. CARTER HAS WON GRUDGING PRAISE FOR APPARENTLY AVOIDING MISTAKES IN VIENNA. BUT THE SIGNATURE OF THE SALT II AGREEMENT WAS SEEN IN DOMESTIC POLITICAL TERMS AS LITTLE MORE THAN THE ESSENTIAL PRELIMINARY TO THE BRUISING RATIFICATION DEBATE WHICH OPENS FORMALLY ON 9 JULY. THE TOKYO SUMMIT WAS UPSTAGED IN THE US PRESS BY THE CONCURRENT OPEC MEETING, REFLECTING THE AMERICAN PUBLIC'S OBSESSION WITH THE INCONVENIENCE OF LENGTHENING QUEUES AT PETROL STATIONS. THERE IS A WIDE SPREAD FEELING THAT CARTER HAS BEEN GIVING TOO MUCH TIME AND ATTENTION TO FOREIGN AFFAIRS WHEN HE SHOULD HAVE BEEN GRAPPLING WITH ENERGY AND THE ECONOMY AT HOME. THE LATEST POLLS SHOW CARTER FALLING BEHIND REAGAN AND FORD FOR THE FIRST TIME. WITHIN THE DEMOCRATIC PARTY A QUOTE DRAFT KENNEDY UNQUOTE MOVEMENT IS SPREADING, ALTHOUGH STILL AT A LOW LEVEL.

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7. THE CIRCUMSTANCES SURROUNDING THE CANCELLATION OF THE 5 JULY SPEECH AND WHAT IS NOW BEING DESCRIBED AS THE PRESIDENT'S QUOTE DOMESTIC SUMMIT UNQUOTE AT CAMP DAVID HAVE DRAMATISED THE PRESIDENT'S SITUATION. HE IS SEEN AS HAVING GIVEN HIMSELF A MAKE OR BREAK CHANCE TO CONVINCE THE COUNTRY AND THE CONGRESS THAT HE IS CAPABLE OF FORMULATING BOLD AND EFFECTIVE POLICIES AND HAS THE SKILL AND FORTITUDE TO CARRY THEM THROUGH. BOTH WILL BE EXTREMELY DIFFICULT THERE ARE NO EASY OR EFFECTIVE STEPS IN PROSPECT, AND CARTER'S CAPACITY TO FOLLOW UP HIS DOMESTIC POLITICAL INITIATIVES IS NOT HIS STRONGEST SUIT. IF HE FAILS TO CARRY CONVICTION, THE WORSENING ECONOMIC POSITION AND PARTICULARLY THE ENERGY OUTLOOK (SEE MIFT) WILL MAKE HIS POLITICAL POSITION LOOK INCREASINGLY BLEAK.

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