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DISCUSSION BETWEEN ENERGY AND FINANCE MINISTERS AT 3.00 PM ON
SUNDAY 22 JUNE

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Part I:

ENERGY

Pandolfi (Italy in the chair) said that at their meeting in the morning the Heads of State and Government had (a) emphasised the need to break the link between economic growth and the use of oil, (b) made the point that it was necessary to define the attitude of the Summit countries towards the OPEC countries with equilibrium and wisdom, (c) noted a French suggestion that a high-level group be set up to monitor progress on energy measures and (d) agreed that specific problems between the energy field and the general economic field notably recycling needed examination.

Bisaglia (Italy) said that it was necessary to consider how coal production and use could be increased, a big effort made in the nuclear field and talks with the oil producing countries developed bearing in mind that there were differences of view between producing countries and that it was important to avoid confrontation. Italy was willing to play her part in examination of these problems: but her economy depended heavily on oil and her ability to reduce oil imports depended on her scope for reducing oil consumption. There was scope for action on the conversion of oil fired plant to coal and the development of nuclear power. The present coalition Government would be able to take concrete steps forward.

Lambsdorff (FRG) said that the Seven countries were agreed in their analysis of conditions on the energy market. A draft communique had been largely agreed between officials but on the basis of political decisions. Public opinion would expect the decisions of the Venice Summit to show continuity with the discussions at Tokyo, in the IEA and the European Community. Any approach to the oil producing countries should cover those like Mexico who were not members of OPEC. After the Tokyo Summit work had been carried forward in the European Community and the IEA. As for the suggestion of a high-level group, to monitor progress the Summit might instruct Personal Representatives to submit material regularly to future Summits.

/Giraud(France)

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Giraud (France) said that the communique needed to bring out more sharply the points which mattered. The Summit should be very critical of repeated successive and excessive rises in oil prices but should distinguish between the moderate and the hard line OPEC countries. The communique should say that the objective must be to break the link between the rate of growth and the level of oil imports and should then contain a succinct statement of how to obtain results. A high-level group should be set up to monitor progress. The French delegation had prepared a non-paper as an illustration of what they had in mind.

Duncan (USA) thought it essential to retain the full draft communique prepared by officials. The French suggestion of a high-level monitoring group was worthy of consideration. Such a group might engage in discussion of an energy strategy (including relations with the OPEC countries) for the Summit countries.

Sasaki (Japan) supported Count Lambsdorff's views on the communique and the monitoring group. It was necessary to watch the oil price situation including premia after 1 July to see what the Algiers decision meant. He hoped it would prove a first step towards a unified price structure.

Howell (UK) underlined the extreme seriousness of the situation in world oil and energy markets. Real oil prices had increased by 47% since Tokyo. No economy could absorb a continuation of that rate of increase in such a basic commodity. Constructive work had been done in the IEA and the European Community on medium and long-term policies. (But there was a serious medium-term worry about the switch of the Soviet bloc from net exporter to net importer). The adjustment process would take time. It was essential to adhere to certain vital principles notably price realism; and to consider whether OPEC was a cohesive force. The communique set out the elements of a coherent strategy but was too long. It might make more impression if the detail were put into an annex and a short statement of the main points included in the communique itself. He agreed with Count Lambsdorff's suggestion that Personal Representatives should submit regular reports to future Summits in the energy sector.

/Lalonde (Canada)

Lalonde (Canada) thought the French non-text much sharper and better than the draft communique although the point about environmental considerations in paragraph 15 of the long draft should be added. To raise the question of domestic prices at this Summit was inconsistent with the view that recent OPEC price increases were unjustified.

Jenkins (EC Commission) said that it would be procedurally very difficult to abandon the draft communique at this stage. The references in it to the Algiers decision and the need to break the link between economic growth and the consumption of oil should be strengthened. He tended to agree with Count Lambsdorff about the monitoring group. Its establishment could cause difficulties with those members of the Community and the IEA who were not at the Summit.

In further discussion Giraud urged that a tabulated statement should be prepared showing the extent to which the French non-paper covered the points in the longer draft communique. The majority view was however clearly against this. It was eventually agreed with the French not dissenting that Personal Representatives should be asked to examine the French non-text to see if there were any points in it which could usefully be incorporated into the draft communique and to consider whether that draft could be strengthened in the other ways suggested in the discussion.

24 June 1980

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MEETING OF FINANCE AND ENERGY MINISTERS AT 3 PM ON SUNDAY,
~~22 MAY~~ 1980

PART 2: NORTH/SOUTH DIALOGUE AND MONETARY PROBLEMS

The second half of the meeting was devoted en tour de table covering the North/South dialogue and monetary problems.

Pandolfi (in the Chair) mentioned four topics which emerged from the mid-morning's meeting of Heads of State and Government:

- i. although the countries represented at the Summit were the only ones making a serious effort to achieve recycling, while OPEC and COMECON were doing nothing to help, nevertheless criticism by the developing countries was focussed on those same Summit countries. Some firm language would be needed in the Communique about this;
- ii. there was a question how far recycling could be achieved by the existing international organisations, and what scope there was for a new IBRD affiliate;
- iii. a distinction should be drawn between the general approach to the North/South dialogue, for example in the UN, and the guidelines for the specific activity of the IMF, IBRD, etc.;
- iv. it might be useful to define further the treatment of the specific rules of the different institutions.

Lambsdorff (Germany) emphasised the need to help ldc's to develop their own energy sources, and to develop markets for their industrial goods in the industrialised countries. This point was mentioned in the trade section of the Communique, but merited inclusion also in the section about relations with developing countries. (At this point Lambsdorff left the meeting.)

/ Miller (USA)

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Miller (USA) in a wide-ranging intervention, in which he listed an agenda which ranged well beyond the present Summit, saw a triangular problem involving industrial countries, ldecs and OFEC - and perhaps even COMECON as well - all of whom would need to be involved in recycling an effective international economic co-operation. Efforts should be made to achieve recycling as far as possible with existing resources, and at the same time we should look for ways of increasing the resources available in future for this purpose. The IMF would need to adapt if it was to cope with the extent and time-scale of the adjustment that would be needed. Miller pointed to the need for further reschedulings of outstanding debt, and suggested that the surplus countries should make additional grants to alleviate the load of debt. He saw risks in the suggestion of a two-tier oil price system for the benefit of ldecs, but favoured loans to ldecs from OFEC on concessionary terms.

On the international banking system, Miller suggested efforts to improve the maturity match between OPEC deposits and the loans made by the banks (many of them to developing countries). He agreed that more consideration should be given, as Chancellor Schmidt had suggested, to the supervision and control of the Euro markets; but it would not be appropriate to put anything into the Communique about a possible safety net for banks engaged in international lending. He acknowledged that the world was moving towards a multi-currency reserve system and wondered whether this process should be left to the markets or whether Governments should attempt to impose some structure on it.

Monory (France) thought the Communique correctly reflected the economic priorities - particularly the struggle against inflation - agreed by the Heads of State and Government. He suggested that the language in paragraph 23 about the problem of the poorest countries should be strengthened; despite the progress made towards the aid target of 0.7% of industrialised countries' GDP, most of the poorest countries had become steadily poorer during the 1970s. The international lending institutions were not welfare institutions, and we were not approaching any sort of solution to the poorest countries' problems. Monory also wanted a further sentence added to

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paragraph 26 to the effect that the machinery for helping ldc's could no longer cope with the situation. It was not enough just to set up a new agency to lend money on commercial terms. He accepted however that the IMF had shown itself becoming much more flexible in the case of Turkey; and agreed that nothing should be said in the Communique about guarantees for commercial banks' international lending.

The Chancellor of the Exchequer emphasised the importance of securing the effective and balanced operation of the oil market; the price mechanism had a fundamental part to play both in reducing demand and increasing supply of alternative forms of energy. It was no good seeking to protect domestic consumers by pretending that prices had not increased, since this would frustrate the essential adjustment. He agreed on the need to draw OPEC into the discussion about recycling, but was generally sceptical about describing the problems in aggregate or global terms; we should instead try to look at each problem and each country separately - some ldc's were oil-producers, while some industrial countries were themselves primary producers and/or oil-producers. Each situation needed to be treated differently - so the whole concept of a North/South dialogue was a gross oversimplification.

The Chancellor, pursuing this general line of thought, questioned the "bloc thinking" in paragraphs 24 and 31; there was no advantage in mentioning COMECON - Western countries would not be pleased if the Communist world actually began to give ldc's substantial quantities of aid. However, OPEC should do more to take part directly in international lending operations. The Chancellor was anxious that supervision of international banking should not be such as to make it more difficult for the banks to take part in recycling. In general, he suggested action to promote the effective use of existing financial institutions rather than setting up new ones; a new IBRD affiliate would take time to set up, and there would be many obstacles in the way: would it not be better to study the possibility of a new facility or facilities managed by the existing institutions?

/ MacEachen

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MacEachen (Canada) doubted whether the Communique section about relations with developing countries fully reflected the dissatisfaction and frustration expressed by Heads of State and Government about the present situation. Not enough imaginative ideas had been produced - there was a need for better relations with OPEC whereby the latter would be brought to help with recycling and the development of energy in non-oil ldc's; and what would OPEC do to help industrial countries on prices and supply?

Matthoefer (Germany) made two specific suggestions:

- i. A mention in paragraph 25 of the increasing over-indebtedness of some ldc's - in such cases further commercial credits would not be appropriate (the example of Turkey showed countries in this situation could find themselves unable to make use of their existing industrial capacity because of the problems about raising finance for essential imports);
- ii. A mention in paragraph 33 of the need for greater transparency in the operation of the Euro markets.

Matthoefer agreed, however, that nothing should be said about lenders of last resort to the Euro markets or about guarantees for international lending by commercial banks. Lahnstein, noted that it was important to avoid any possibility of adverse reactions in financial markets to the Communique, although he suggested that a mention of the recent BIS announcement about monitoring the Euro markets could be helpful. The IMF Interim Committee Communique in Hamburg had given some useful pointers to further work on international financial problems; the IMF Executive Board would be considering further before the September Washington meeting how the Fund could support policies directed at improving the supply side of borrowers' economies. OPEC could be a source for financing further IMF activity, and could also help to provide funds for energy developments in ldc's. Lahnstein agreed that it was too specific to talk about a new "affiliate" in paragraph 24; he echoed the Chancellor's suggestion of a new "facility".

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Takeshita (Japan) in a very brief intervention registered his general support for the Communique. The IMF and its Interim Committee represented the best way of tackling international financial problems.

Pandolfi, summing up the discussion recorded that suggestions for amendments to the Communique had been made by France (paragraphs 23 and 26), the United Kingdom (paragraphs 24 and 31), and Germany (paragraphs 24, 25 and 33). The personal representatives would need to take these suggestions into account in their further work on the Communique.

22 June 1980