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THIRD SESSION OF ECONOMIC SUMMIT ON 23 JUNE, 1980 AT
1000 HOURS.

At the Session on 23 June 1980 at 1000 the Summit considered a revised draft declaration on economic matters, prepared by Personal Representatives in the light of discussion at the meeting the previous morning. A copy of the revised draft is attached to these minutes.

Signor Cossiga (Chairman) invited the meeting to start by looking at the draft declaration, so that the meeting could conclude and define the texts. There should not be a great deal to discuss; but Personal Representatives had indicated in square brackets a number of places where decisions remained to be taken by Heads of State and Government.

The meeting first considered the passage square bracketed in paragraph 7, which read:-

"To this end, maximum reliance should be placed on the price mechanism, and domestic prices for oil should reflect representative world prices."

Mr. Trudeau (Canada) said that this passage would create considerable political and constitutional difficulties for him in Canada, where there were problems as between one oil-rich Province and the Federation as a whole; it also seemed to him illogical, if the Summit meeting was arguing that OPEC prices were unjustified, to lay down that domestic prices for oil should be closely tied to world prices. He could live with any one of three possible reformulations of the sentence:

- (a) "To this end, maximum reliance should be placed on market forces".
- (b) "To this end, maximum reliance should be placed on the price mechanism, and representative world prices should be an important factor in determining domestic prices for oil".
- (c) The text as drafted, with "take into account" substituted for "reflect".

In discussion it was argued, by President Giscard in particular, that any of these reformulations would look like a step backward

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from the Tokyo declaration. After discussion, however, it was agreed to accept Mr. Trudeau's third reformulation.

President Carter (United States) then noted that five of the seven countries represented had reduced their oil imports in line with the goals set at Tokyo. It would be interesting and helpful to know what plans Japan and Canada had for coming within those goals.

President Giscard (France) stressed the importance of renewed efforts to fulfil import ceiling commitments.

Mr. Okita (Japan) said that Japan had achieved its goals for 1979. She had made a 5 per cent savings in oil consumption in 1979 and expected to achieve a further 2 per cent in 1980. Total oil consumption in Japan was roughly at the level of 1973 despite a 30 per cent growth in national gross domestic product. The Japanese Government was following a strict conservation policy, and Japan expected to achieve her target.

Mr. Trudeau said that Canada had achieved its target for 1979. Her target for 1980 was net imports of 150,000 tonnes a day, representing the net difference between imports of 600,000 tonnes and exports to the United States of 450,000 tonnes. The economic slow down in the United States meant that Canada would be exporting less than 150,000 tonnes to the United States, and the International Energy Authority (IEA) had therefore estimated that net Canadian imports would be 162,000 tonnes. The Canadian Government were, however, confident that Canada would reach its target, because the economic slow down would reduce Canadian demand, and Canada was increasing the substitution of domestic gas for imported oil.

The meeting turned to paragraph 16 of the draft communique.

Chancellor Schmidt (Federal Republic of Germany) said that he was not happy with either of the proposals between which the meeting was asked to choose. There were plenty of specialists discussing

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energy all over the place. All that either proposal would do was to create a new international bureaucracy, adding to the consumption of paper and the costs of international meetings. In his view existing methods of monitoring progress in energy were totally satisfactory.

Mrs. Thatcher (United Kingdom) suggested that the whole paragraph should be deleted. As she understood it, under the existing arrangements Personal Representatives were already able to review these matters and did so. If her colleagues wished to say anything, she preferred the second alternative.

President Carter said that, since energy matters were highly technical, he did not think that the Personal Representatives could be expected to handle it; he therefore preferred the proposal for a high level group of representatives.

Mr. Trudeau was prepared to accept either text.

President Giscard suggested that the meeting should follow the precedent set in Tokyo, though the monitoring group should not on this occasion be asked to work within the OECD.

The meeting agreed that paragraph 16 should read:

"A high level group of representatives of our countries and of the EC Commission will review periodically the results achieved in these fields."

President Giscard asked whether Ministers of Energy had been able to discuss the attitude to be taken to purchases of consignments of oil for which exceptional prices were demanded on dubious grounds. He recalled that Iran had tried to sell oil at excessive prices and had generally succeeded in finding purchasers.

President Carter said that natural gas purchasers faced almost equal problems, because producer countries were seeking to base their f.o.b. prices on equivalent oil prices. That basis ignored much

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higher transport costs for natural gas and would therefore drive prices to exorbitant levels.

Count Lambsdorff (Germany) agreed that it would be very dangerous if f.o.b. prices for gas were related to oil prices. The Norwegians were showing signs of seeking to establish such a link. As to exorbitant crude oil prices, a definitive solution had not been found; but the matter had been discussed in the IEA and in the European Community, and the co-ordinated response to exorbitant demands by Iran had been relatively successful. This depended on close and personal contacts among energy Ministers.

Mr. Okita said that Japan had refused to buy a consignment of oil for which the Iranian Government had sought to raise the price from \$32.50 to \$35 a barrel. The result had been a total cut off of supplies of Iranian oil to Japan and the loss to Japan of 530,000 million barrels a day. So far the Japanese had been able to continue to hold the line, in consultation with the United States and British Governments and others. They would like to continue the practice of close consultation to avoid exorbitant price increases.

Chancellor Schmidt said he would not be against a cartel of oil consumers or gas importers. Indeed he had proposed such a cartel six years ago, but nobody would listen. The consumers needed to find the power to deal with a producers' cartel. OECD had not been able to establish unity on this, because some members were not net importers of oil. Looking into the future, he foresaw a time when gas exporters would succeed in getting their prices to the same levels as those demanded for oil by the oil exporters. It was only a question of time until technology made possible production of gas and liquid fuels from coal. At that point coal exporters would go the same way as the gas exporters and oil exporters. No doubt exporters of nuclear fuel would in due course go the same way. The consumers were picked off because they did not have the will or the skill to pool their energy demands and organise themselves. So the only way to force industry, domestic consumers, and car manufacturers and users to accept the implications was to make sure that increases in oil

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prices were carried through to the final products. He would be interested in exploring the subject of a consumers' cartel, but he feared that it was too late.

M. Giraud (France) said that he thought that it would be wrong to equate oil, gas and coal. If we did that, there would be a danger that we should be erecting our defences in the wrong places. Gas and oil did not compete directly, and gas prices would not necessarily follow in the wake of oil prices. Economic realities meant that there would be a distinction between crude oils with a high petrol content and those with a low content, and the real competition would be between heavy oil, coal and nuclear power. Moreover, owing to the nature of the supply system, it was difficult for a gas seller to change his customers; it should therefore be easier to achieve solidarity among gas consumers. As to coal, that was labour intensive, and producers would not be able to stop producing, since they would need to continue to produce income for their labour force.

Mr. Howell (United Kingdom) agreed with much of what had been said by Count Lambsdorff. There had been some cooperation between energy Ministers on oil prices, and that had to some extent worked in favour of stabilising prices. It was desirable to build on that cooperation. But there was a limit to the extent to which individual companies could take the burden of refusing supplies at exorbitant prices. The difficulty was that, once a company had established a firm relationship with a producer, it was reluctant in the present state of the market to do anything which interfered with that relationship. There remained matters in which it would be desirable to consider how consumers could organise themselves against producers: for instance, OPEC had now fixed \$37.00 a barrel as a maximum ceiling, and it might be possible to concert the reaction to producers who sought to charge a premium on top of that.

Signor Cossiga (Italy) said that Italy had resisted Algerian efforts to push up gas prices to roughly that of oil prices. Gas

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purchasers needed to be in close consultation together so as to stop gas producers from raising their gas prices to the level of oil prices. It might be easier to organise against gas producers than against oil producers: oil consumers had been divided among themselves, and a cartel of consumers might have undesirable effects on the more moderate producers.

The meeting turned to the square brackets in paragraph 19, where Heads of State and Government were asked to choose between a sentence which said that the industrialised countries must share the responsibility of aiding the development countries with the "oil exporting countries and the communist countries" or with "countries which have the means to share it especially oil exporting countries".

Mrs. Thatcher said that, for reasons which she had made clear in discussion the previous day, she preferred the second alternative, but would accept an additional sentence which would read:

"We note the inadequate contribution of the communist countries to the developing world."

Chancellor Schmidt said that he could live with what Mrs. Thatcher had proposed. Perhaps it did not matter very much what was said, since there was no danger whatever of the Russians coming into the business of helping the developing countries. But the meeting had to have regard to the forthcoming debate in the United Nations. He would like to note the inadequate contribution of the communist countries "with disgust" or some such words. He would also like to make it clear to the developing countries that they could not expect to get aid from the industrialised countries and then turn to the Russians for arms: they could not face both ways, and should at least be non-aligned. Finally, the Chancellor thought that development aid should be concentrated on helping countries to build up their agriculture.

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President Giscard said that there were two different ideas to be got across; the first was that the aid burden should be fairly shared between industrialised countries of the West, oil exporting countries and the industrialised communist countries; and the second was to see how Western aid donors could step up their efforts to the developing democracies. He proposed that Personal Representatives should be charged with the duty of seeing how an operational edge could be given to the views which had been expressed in the course of discussion about the need to share the burden of aiding the developing countries.

Mr. Trudeau agreed with President Giscard. It would be valuable to seize a psychological advantage in the United Nations in proposing a sharing of the burden. That should extend to the communist countries, even if they would not in practice take it on. Admittedly they would try to use aid as a vehicle for increasing political influence, but we should have to accept that, if we wanted them to carry any considerable part of the burden.

Mrs. Thatcher said that she disagreed fundamentally with Mr. Trudeau. The West would be building up large political problems for itself if it encouraged communist countries to give aid which would be tied with political strings.

Chancellor Schmidt was inclined to agree with President Giscard. He went on to say that the disagreement that had emerged in the discussion of this point underlined the fact that the industrialised countries could not go on for much longer without a thorough analysis of what was at stake in the developing world. He suggested that this issue should be a specific topic at the next Summit meeting, under the chairmanship of Mr. Trudeau. A fundamental study should be put in hand to serve as a basis for that discussion and to provide a coherent policy as a replacement for the pragmatic policies hitherto followed. The industrialised countries needed to find a concept of development aid which made sense to the people who are asking for a New International Economic Order. These people had no idea what they meant by that; but we had no concept to suggest in its place.

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After discussion the meeting agreed to delete the existing last sentence of paragraph 19 and to insert a new paragraph, after the existing paragraph 25, to read:

"The democratic industrialised countries cannot alone carry the responsibility of aid and other contributions to developing countries: it must be equitably shared by the oil exporting countries and the industrialised Communist countries. The Personal Representatives are instructed to review aid policies and procedures and other contributions to developing countries and to report back their conclusions to the next Summit."

The meeting turned to paragraph 25 of the draft declaration, and to the square bracketed sentence indicating a belief that a Summit attended by Heads of State and Government of developed and developing countries as suggested in the Brandt Report could be useful under appropriate circumstances and at a suitable time.

President Carter said that he did not favour a Summit of the kind proposed unless there was some prospect of it being successful; he would prefer to delete the sentence.

President Giscard agreed with President Carter. It was not necessary for the Seven countries represented to take a position, and it might create problems.

Chancellor Schmidt, Mr. Trudeau, Mr. Okita and Mrs. Thatcher all agreed to the deletion of the paragraph, while registering that, if such a Summit was convened and they were invited, they would attend.

The meeting agreed that the sentence should be deleted.

The meeting turned to paragraph 32 of the draft declaration on elicit payments to foreign government officials in international business transactions.

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President Carter said that the United States Administration were much concerned about bribery in the buying and selling of arms and other equipment. The United States was not free of guilt in this respect, though recent Congressional legislation had improved the situation to some degree. The United Nations had been discussing the matter for more than two years; American demands to bring the discussion to a conclusion had not so far been successful. They would therefore like to set a deadline for United Nations discussions, and to see a joint approach by the major trading nations if the United Nations' discussions were unsuccessful.

Mr. Okita and M. Monory (France) feared that any threat of a deadline would damage the prospects for reaching a conclusion in the United Nations, which must be the first objective. They would therefore prefer to delete ~~both the sets of words in square brackets~~.

President Carter suggested that the words "for one more year" should be deleted, thus removing the deadline; but that the declaration should state that, if the effort in the United Nations failed, the Seven countries represented at this meeting would seek to conclude their agreement.

President Carter's proposal was accepted and the meeting accordingly agreed to the deletion of the words "for one more year" in the first sentence of paragraph 32, and confirmed that the second sentence should be included in the final text.

The Meeting agreed that the third sentence of paragraph 33 of the draft declaration should be moved so as to follow, rather than precede, the sentence which now came after it; and that the last sentence of the paragraph should be taken out into a new paragraph, with the deletion of the opening words "In this spirit".

Signor Cossiga said that, with the amendments agreed in discussion, the draft declaration was approved by the meeting. The concluding Press Conference would be held at 3.30 p.m.

President Giscard asked that the Press Conference should not be held until a French text was available. Signor Cossiga

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said that it was the custom of Summit meetings to work on the English text as basic, leaving translations into other languages to be agreed between national delegations and the Presidency.

Chancellor Schmidt said that he would not wish any impression to be created that English was in any sense the official language of these Summit meetings. It was simply that the participants conferred in English as a matter of convenience. Signor Cossiga said that his words had not been intended to consecrate English as the official language of the Summit but merely to follow past practice.

Signor Cossiga closed the meeting at about 1.00 p.m.

26 June, 1980.