

NOTE OF THE THIRD SESSION OF THE HEADS OF GOVERNMENT CONFERENCE  
AT THE CHATEAU DE RAMBOUILLET ON SUNDAY 16 NOVEMBER 1975 AT 4.15 p.m.

PRESENT

France

President Giscard d'Estaing  
M. Jean Sauvagnargues -  
Minister of Foreign Affairs  
M. Jean-Pierre Fourcade -  
Minister of Economy and  
Finance

Germany

Herr Helmut Schmidt - Federal  
German Chancellor  
Herr Hans-Dietrich Genscher -  
Federal Foreign Minister and  
Vice Chancellor  
Dr. Hans Apel - Federal Minister  
of Finance

Italy

On Aldo Moro - Prime Minister  
On Mariano Rumor - Foreign  
Minister  
On Emilio Colombo - Minister  
of the Treasury

Japan

Mr. Takeo Miki - Prime Minister  
Mr. Kiichi Miyazawa - Foreign  
Minister  
Mr. Masayoshi Ohira - Minister for  
Finance

United Kingdom

The Rt. Hon. Harold Wilson,  
O.B.E., M.P.  
The Rt. Hon. James Callaghan,  
M.P. - Secretary of State  
for Foreign and Commonwealth  
Affairs  
The Rt. Hon. Denis Healey, M.P.,  
Chancellor of the Exchequer

United States of America

President Ford  
Dr. Henry Kissinger - Secretary of  
State  
Mr. William Simon - Secretary of  
the Treasury

ENERGY, RAW MATERIALS AND RELATIONS WITH DEVELOPING COUNTRIES

Introducing the discussion, President Giscard said that Mr. Wilson had suggested that the questions of energy, raw materials and development should be discussed together and that President Ford and Mr. Wilson himself should open the discussion with a double presentation.

After this procedure had been agreed, President Ford said that, in order to reduce significantly our dependence on energy imports, it was necessary to re-double our efforts and sustain them in the coming years. As the largest consumer of energy, the United States was determined to be in the forefront of conservation efforts and the development of new supplies. They had already defined their short and long term energy objectives, and had re-organised their Government machinery to achieve them. Their target was to increase dramatically all domestic energy sources



and to cut their requirements by 1985 by a reduction of 10 million barrels per day. Conservation would account for half this massive import reduction and new domestic supplies for the remainder. To achieve these demand savings and supply increases would require a tough and comprehensive legislative programme which he had submitted to Congress in January. There had been a long debate in Congress and progress had been rather disappointing. In spite of this, there should be no doubt about the resolution or the strength and comprehensiveness of their final programme, parts of which should shortly become law.

As a result of higher prices and increased awareness on the part of energy consumers, the United States was now using at least 1 million barrels per day less of oil than would otherwise be the case. This saving, which had already been adjusted to remove the effects of the economic slow-down and warm weather, translated directly into reduced demand for oil imports. These savings would continue and grow.

The automobile fuel economy programme had been initiated to ensure that automobile manufacturers increased the efficiency of their vehicles by 40 per cent by 1980. This would lead to import savings of two million barrels per day by 1985. In the models for 1976 alone, a 17 per cent increase in efficiency had been achieved. In addition, they had undertaken a major programme to expand the use of coal in place of oil and gas in existing power plants, and to encourage the construction of new electricity generation plants that did not depend on oil.

On the action being taken to stimulate the development of new supplies, President Ford said that the United States were:

- (a) moving rapidly forward to complete a pipeline to begin moving Alaskan oil to markets in the lower 48 States by 1978;
- (b) accelerating the leasing of frontier Outer Continental Shelf areas;
- (c) seeking authorisation for a 100 billion dollar Energy Independence Agency to provide financial support for new energy projects;



- (d) working with Congress to complete action on an 11 billion dollar synthetic fuels programme to complement their unprecedented research and development effort and to make commercial production of synthetic fuels a reality;
- (e) actively encouraging construction of a fourth uranium enrichment facility by private interests to help achieve their ambitious targets for nuclear power and to ensure that they could meet their commitments to provide enrichment services to foreign purchasers; and
- (f) expecting early Congressional authority to open their substantial naval petroleum reserves for exploration and development.

President Ford said that all this should provide millions of barrels of additional domestic oil supplies in the next few years. We still had to guard against further embargoes and he expected Congress shortly to send him legislation authorising the creation of large oil storage facilities, adequate standby allocation and implementation of the IEA agreement. The protracted energy debate between the Administration and Congress had not concerned energy objectives, on which there was a broad national consensus. The debate had centred instead on how these objectives should be achieved and at what rate. There were some who thought harsh measures should be put off until full economic recovery was achieved. But we could not afford to wait.

Much of this debate had focussed on the de-control of domestic oil prices. While much disagreement on the rate of control persisted, he was convinced that domestic oil prices must reflect their true value. Without this, important fuel would continue to be wasted, and there would not be the necessary incentives for increased domestic production.

President Ford said that, while recognising the importance of national programmes in meeting the energy challenge, we had all participated in varying degrees in co-operation and collaboration among ourselves and with other major oil consuming countries. Our bilateral consultations had been extensive and productive, and we had joined together in OECD's Financial Support Fund to protect against the de-stabilising effect of OPEC assets. Some



of us had agreed to an oil-sharing arrangement in the event of a new embargo and supply disruptions. The United States Government attached particular importance to this achievement.

After months of negotiation, those countries that had chosen closer co-operation were nearing agreement on concrete measures to implement their commitment to long-term co-operation. The package included:

- (a) Review and comparison of members' conservation programmes to encourage greater effort and identify particular steps which others could emulate;
- (b) general and specific incentives to stimulate the development of new supplies, including a Minimum Safeguard Price (MSP) and a framework of co-operation on individual energy projects with provisions covering non-discriminatory access to investment and product; and
- (c) reinforcement and extension of national Research and Development activities, leading to a pooling of effort and jointly financed projects.

The MSP mechanism and the access provisions for project by project co-operation were concrete manifestations of members' solidarity, and were highly important elements in a coherent programme of co-operation. The access commitment was particularly important. The United States saw significant potential for using this type of co-operation to develop new supplies of advanced energy as well as some new conventional energy. All new energy would be costly in capital terms and would make great demands on our capital markets. The United States welcomed investment by countries with limited energy resources, recognising that they would find participation particularly attractive if it increased the amount of energy available to them. To promote this type of co-operation, the United States Government was prepared to make the following offer: in return for other countries participating in large new projects in the United States which developed energy that would otherwise not have been produced, they would wherever feasible guarantee that a proportion of the incremental energy production could be exported. Projects would be considered on their merits in their environmental, economic and regional context.



In some areas, where the environmentalist and other considerations were significant, there would be less scope. But he thought a commitment of this kind was a major innovation in international co-operation. His Government were prepared to discuss it in detail with other consuming countries.

The package of measures for long-term co-operation in conservation, the development of new supplies, and research and development would complete the framework of our energy co-operation. It would ensure that our individual and collective efforts should be adequate. It was imperative that the early December deadline for the adoption of the programme should be met. Once it was in place, it would be possible to devise arrangements for other industrialised countries to participate.

On the dialogue between consumers and producers, President Ford believed that individual and joint efforts to reduce vulnerability were consistent with a common desire for a broad and constructive economic dialogue. A clear demonstration of our determination to master our energy destiny would enhance our bargaining leverage and guide discussions into productive and non-confrontational channels. For optimum effect, the representatives of the industrialised countries should co-ordinate in advance their positions on the substantive issues.

President Ford thought that the dialogue would contribute significantly to a more co-operative atmosphere between developed and developing countries and to a more rational search for mutually beneficial solutions to our common problems. As their own efforts had demonstrated, the United States Government was committed to a successful dialogue and he commended the French Government for its initiative.

In his opinion, the dialogue should be used primarily:

- (i) To encourage the oil producers to develop greater awareness of their own stake in a growing and stable international economy, thereby reinforcing the moderate OPEC countries on pricing questions; and
- (ii) to set in motion effective and co-operative programmes by producers and the industrialised nations to ease the



LDC's economic and financial burdens caused by high oil prices.

He was particularly concerned that financing of LDC's payments deficits would become acute by next year, and he believed that this problem, and all its ramifications, should be fully considered in the dialogue.

He did not think that the dialogue would enable us to negotiate an agreement on oil prices at a cost we were willing to pay. The producers were not likely to cede their unilateral control over prices or to agree to reduce prices. The consuming nations would reap little or no advantage from indexation or any similar arrangement that would freeze prices at their current real level. This would legitimise current high prices, neutralise LDC and market pressures, ratify the gains of the cartel and make cartel management easier, and expose political leaders to the charge that they were inspiring with producers to drive prices up.

In conclusion, President Ford said that we must continue to deal with high and uncertain oil prices with our own energy programmes. High oil prices could not be ignored; they had shaken our confidence, diminished our ability to deal with our problems, and compromised our economic development. There was no easy way to end our vulnerability and regain our freedom of action. We must each take the hard decisions necessary to implement and sustain strong and effective domestic energy programmes, whose combined effect over time would be to shift the balance on the world oil market. To reinforce our individual efforts and to provide political impetus for greater future sacrifices, he hoped that at the Summit we would pledge our nations to a maximum effort to reduce our dependence on OPEC oil imports in order to enhance our own economic well-being and to contribute to the long-term energy needs of the world.

After Herr Schmidt had asked President Ford to repeat the precise terms of the offer which he had made (see page 4 above), the Prime Minister said that, in his presentation of energy questions President Ford had inevitably touched on the question



of primary commodities, with particular reference to the forthcoming Conference on International Economic Cooperation (CIEC). The striking and encouraging feature about the point at which we now stood in our relations with the developing countries was the marked difference in atmosphere between the Sixth and Seventh Special Sessions of the United Nations General Assembly. This improvement had in particular been due to a realisation by the developing countries that confrontation, as expressed in the Sixth Special Session, was not getting them far. They had realised that the adverse effects on the world economy of the oil price increases and other factors had meant that the unilateral demands being made on some of us were not going to be met. Perhaps because they saw a better prospect of real advantage to themselves from negotiating rather than an adversary confrontational relationship, their attitude this year had been consistently more realistic than in the past.

The Prime Minister said that his colleagues would know of his initiative on Commodities at the Kingston meeting of 34 Commonwealth Heads of Government last May. The Commonwealth represented an important grouping in the United Nations, and accounted for more than a quarter of the United Nations membership and of the world's population. The debate at Kingston had demonstrated the continuing value and importance of the Commonwealth as a forum of advanced and developing countries among whom new issues could be looked at from the point of view of both types of countries.

Although confrontation was never of our making, we in the industrialised world had played a full part in replacing it by the present armistice. At the Seventh Special Session, the Kingston proposals, the united approach by the EEC, and the wide-ranging US proposals, had been essential ingredients in the achievement of what had proved to be a welcome measure of agreement represented by the final resolution of the Session, which would have been unthinkable a year earlier. It was essential to maintain the unity which we had then achieved; had we not stuck together, the 77 would have been quick, and would be quick in the future, to divide us.

The Prime Minister said that we must work hard to maintain, and build on, the new atmosphere of consensus, both at UNCTAD IV at Nairobi next May, and before that at the CIEC. We must however take care that discussion in the CIEC and its Commissions did not damagingly cut across the valuable and useful work being done in other fora, such as the IMF, the IBRD, GATT and UNCTAD, to name only four.

We must not however deceive ourselves into thinking that such consensus as had been achieved would be easily preserved. We must of course aim to make progress in directions, and by means, which would promote rather than damage a healthy world economy and our own individual economic development. The developing nations faced fearsome problems, and our relationship with the poorest of them in particular must be an evolving and not a static one.



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The plight of the developing nations was serious. Those who did not export oil were now caught in a critical situation. Because of continuing world inflation, the high cost of oil, and falling export prices, their terms of trade were deteriorating at the same time as they were facing a prolonged recession in their normal export markets. During 1975 the non-oil developing countries, despite a fall in their resources and every economy they were making, still had to reduce their volume (not value) of imports by 13 per cent, and things were not likely to change until there was a substantial recovery in world trade. They were not only having to pay more for the oil which they could not produce themselves; they were also having to pay more for oil-based fertilisers, and were thus doubly impoverished. These countries therefore had an urgent and substantial need for balance of payments assistance, if they were to reverse this fall and restore some prospect of domestic growth in 1976-77. To help them would not be mere charity; a recovery in their buying power would serve as a fillip to the revival of world trade from which we would all benefit.

It was of course, on other grounds, the very poorest countries which were facing the bleakest prospects. For these countries at the margins of subsistence there had been no rise in per capita GNP in the last two years and there was the prospect of an average rise of less than 1 per cent a year (if any) for the rest of the decade, since they would benefit less than the richer developing countries from a recovery in world trade. These countries, in addition to balance of payments support, needed the resources on concessional terms in order to avoid unmanageable debt servicing problems in the future. We had all of us faced problems in the past twenty or thirty years where we had had to give loans to those who could not subsequently meet the debt servicing or interest required.

For our part, the Prime Minister said that we faced in differing degrees the problems of inflation, unemployment, balance of payments deficits, of achieving recovery without at the same time refuelling inflation, and many others. This meant that we would be able to offer the developing countries little, and certainly far less than the minimum they expected as their right. In even holding the line, we had thus set ourselves a most difficult task. Nevertheless, in the course of cutting back Government expenditure, the British Government had managed not only to hold, but even to increase, the percentage of our resources spent on aid.

The Prime Minister said that we must do what we could. Our strongest ally would be a recovery in world trade, which would lift the developing countries along with ourselves. This made it still more essential, as yesterday's discussion had shown, to promote early economic recovery.

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Within the field of action considered at the Seventh Special Session, a number of specific proposals were already under consideration to increase directly the purchasing power of developing countries, in the aftermath of oil price increases. At Kingston, he had stressed the need to stabilise commodity prices, and had argued that "boom and bust" was to no-one's advantage, and was bound to have a damaging effect on exports. In the course of international discussions, emphasis had been put by Herr Schmidt and others on the need to improve the stabilisation of export earnings rather than actual prices. Many of these proposals would fall primarily within the area of operations of the IMF - the Trust Fund, improvement in one way or another of the Compensatory Financing Facility and a variety of proposals involving new issues of SDRs. There were also proposals which would entail specially concessionary terms for the poorer developing countries. There were of course many complex practical issues which had to be resolved in relation to these proposals; the appropriate method of funding, the extent and feasibility of links with IMF gold sales, and so on; and the idea of issues of SDRs itself raised some basic questions of policy which would have to be pursued in other meetings. What he thought could and should be done here was to provide the necessary political direction, and to demonstrate the political will, about objectives and the urgency of finding practical means of achieving the objectives. We needed to concentrate on securing decisions, through the appropriate world bodies, which would produce practical results as quickly as possible. Quite apart from the Trust Fund, we should therefore concentrate our attention on arrangements to stabilise export earnings, as Herr Schmidt had suggested. He believed there was already a general consensus among those present that this was the most promising area for action and one which lent itself to rapid progress in meeting the developing countries' needs. The proposals already under examination in the IMF, Dr. Kissinger's proposal for a Development Security Facility and others' contributions to the same general theme, showed that a great deal of common ground had already been marked out.

The Prime Minister said that he would make two points: first, that there was already an existing arrangement in the IMF on which we could build and improve rapidly. Secondly, the most pressing problem was to mobilise the required financing. There was some scope within existing IMF resources. There was also the attractive possibility of using some profits on sales of IMF gold. Perhaps we should build within or from the IMF, though there was a variety of options on the precise modalities. He believed, and hoped his colleagues would agree, that practical action to implement enlarged arrangements for helping to stabilise developing countries' export earnings was urgent and our Governments should cooperate to secure it.

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So far as other organisations were concerned, the Prime Minister said that there were other avenues of approach whose effects would take longer to work through but were of vital importance. We should each do what we could in respect of the Fifth Replenishment of IDA; an increase in the capital subscriptions of the World Bank and the International Finance Corporation; contributions to the International Fund for Agricultural Development; and to the IBRD Third Window. There were also United States ideas on the table for utilising private capital, such as an International Investment Trust (which attracted him) and guarantees for developing countries to borrow in domestic capital markets.

Not all of these ideas were uniformly welcome to all of us; for example, the UK could not at present open its capital market to the developing countries to borrow, and we had entered a specific reserve on this at the Seventh Special Session. On the other hand, we strongly supported IDA replenishment and we hoped others would support it according to their means.

We could also hope for progress in the commodities field. We wanted to end up, at the end of the day, with better arrangements for world trade in commodities; we in the industrial world wanted to be seen to be taking a lead in achieving these improved arrangements. What form they would eventually take was not yet clear. We would all no doubt prefer a selective approach, commodity by commodity; each product had its own pattern and characteristics and methods of financing, and the most appropriate arrangements could only be found through negotiations between the producers and the consumers of each commodity. But we might not be able entirely to achieve this, or it might be a slow process. He had first advocated it himself in 1946.

The Prime Minister believed that there might be some merit in a coordinated approach to consideration of different commodities. He had suggested at the Commonwealth meeting at Kingston in May the possibility of a general agreement on commodities (which one could either spell with capital letters or not) which would embody an accepted set of general principles. He thought this would be preferable to the UNCTAD proposals for an integrated approach and a common fund for buffer stocks which rested on the assumption that all commodities should be treated similarly and should be subject to some kind of central control. Nevertheless we would not oppose further study of the integrated approach and a common fund. The overriding aim must be to avoid schemes which were inequitable and impracticable.

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If we could make headway in the discussion of individual commodities, one by one, so much the better. There were signs that some of the developing countries were beginning to see more merit in this approach, and the prospects were not too discouraging. But we had to face the fact that the OPEC syndrome was catching on; there were already phosphate-pecs bauxite-pecs, banana-pecs and others. If we could not get worldwide Consumer-Producer settlements, we were likely to face the possibility of more such bodies. But the picture was not totally discouraging. A new tin agreement had just been concluded, and there had also been a useful negotiation on cocoa. Coffee was under active negotiation, as was the new wheat (or possibly general grains) agreement. Copper was being studied in various fora, although it was the one commodity which was now no higher in price than it had been before the commodity boom. On tea, we had just launched an initiative within the Commonwealth to consult Commonwealth producers on the prospects of an early agreement, to be pursued under FAO auspices. So we had some reason to be optimistic. We were less so in regard to a new agreement on sugar, when the present one expired at the end of next year, since sugar producers would have liked an agreement starting at peak prices.

Turning to the wider prospects, the Prime Minister said that we must do what we could in the multilateral trade negotiations in the GATT to help the developing countries, while recognising that we must be able to create more resources before we could re-distribute them. We had to continue in addition to look for ways of giving more help to the poorest within whatever assistance we could provide.

In conclusion, he said that we had won ourselves a breathing space. The initiative had at least partially been transferred to the sort of people represented round this table. We could not rest on what had been achieved so far. The conditions of the developing countries had worsened and their expectations had increased. If any of us had been an importer of oil and other commodities, facing droughts and importing food at current prices, we would also feel very bitter. They were therefore likely to be more demanding both at UNCTAD IV and beforehand in the CIEC, and the needs of some of them were vitally urgent. There was also a political alliance between the more militant oil producers and other developing countries. For the economic reasons which affected all of us, this was a time when we were least able to help them. In the hope of preserving world consensus, we must make clear our anxiety to help, and to help the poorest most and first. Having listened to Chancellor Schmidt, he thought export earnings stabilisation offered the most promising avenue, while for all of us the best prospect lay in early world economic recovery.

Finally, the Prime Minister drew the attention of his colleagues to what he described as an inordinate proliferation of world bodies considering these matters, and he circulated

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to them a list of such bodies, excluding the EEC and its Committees (annexed). He said that we ought to take this problem of proliferation seriously. It put a tremendous load on officials, let alone Ministers, and presented them with the psychological problem of having to say the same thing in eleven different fora. He recalled the phrase, which he had once heard used in Washington, that the world was full of international beachcombers looking for new committees. Bureaucracy was already a problem in our own societies, but international bureaucracy had got out of hand. Herr Schmidt said that perhaps we should start with doing away with bureaucracy in the EEC. The Prime Minister said that in principle he was against all bureaucracy, but repeated that his list had not covered the EEC.

Herr Schmidt reverted to the question of energy. It seemed to him that there were two very important decisions to be taken in the field of international energy policy. The first represented a test case for the ability of individual countries to cooperate on critical questions. If we could not live up to decisions on energy, we would fail on others. As he had said yesterday, energy was likely to be of particular importance in the coming two years, in the context of achieving economic recovery. If 1976 saw further unilateral action by OPEC, all our expectations of economic recovery would be dashed in the way Mr. Wilson had described. Further unilateral political action by the oil producers would not only emphasise the unpredictability of the situation, but would lead to deteriorating balances of payments for all developing countries and a reduction in world trade. Energy therefore represented not only a test case of our ability to cooperate but also a major factor in recession.

Herr Schmidt said that President Ford's initiative could be of great importance, if it succeeded in reducing our dependence on OPEC. He assumed that President Ford was arguing for closer cooperation in the IEA, which he supported. But he would also like to mention two points which were causing his Government serious concern. His purpose in mentioning them was not to ask for sympathy or assistance, but to indicate the degree of distortion in the energy market and its impact on the economic situation.

The first point was that, in spite of the high cost of oil, so many cheap oil products were being dumped on the German market that domestic refining capacity had had to be curtailed and many workers dismissed, because the international majors were suffering from considerable surplus and were disposing of their over-production on the German market. As a result, the German Government had had to postpone their plans for setting up a national oil company.

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The second point was that, apart from expertise and technology, Germany's only product in energy was coal. The dumping of foreign products had led to a fall in heavy fuel oil prices, and their domestic coal industry was heading for bankruptcy. They had previously exported forty million tons of coal and were now down to one million. Coal mines were being closed, which was totally contrary to what they should be doing. It represented a depressing example of non-cooperation in the energy field.

It seemed to him that all of us in the western industrialised countries, including Germany, were unable to think in terms of an overall energy policy. Individual countries were pursuing their own national goals, and there was no common goal. This applied to all of us equally, and he had to say frankly that he was profoundly concerned by this state of affairs. As most of his colleagues knew, he had devoted much effort to promoting a dialogue between producers and consumers. He was not in favour of indexation, since the more individual countries indexed their prices and wages, the greater was the ensuing inflation. The higher inflation became, the worse recession became. Whether we liked it or not, we had to accept indexation, which he believed was better than having to accept increased price-fixing every six months. We had failed to produce any sort of counter-proposals. The idea of an MSP was only theoretically sound, although it was indispensable as a means of protecting other energy sources against the effect of foreign dumping; but in practice it was not likely to be very significant or meaningful for the next few years, since the world price for crude oil would be much higher than any likely MSP. It did not represent a realistic bargaining device against OPEC. If we later found that we needed an MSP, he was sure we could reach agreement on it. The real problem was to protect all of us, whether industrialised or developing countries, against the game of football which the oil producers were playing against us. But he frankly admitted that he had no strategy for dealing with this.

Herr Schmidt said that it might take a few years for all concerned to realize the risks in the situation. Even his British friends might have to reduce their expectations from North Sea oil. The question was how we could bring both present and future oil producers to abandon the idea that they could keep raising oil prices without damaging themselves. An additional question was how to rescue the developing countries from their alliance with OPEC. The discontinuation of this alliance should be one of our basic, though unproclaimed, aims. There might be an occasion to draw this to their attention at the CIEC, in the context of the deteriorating balance of payments of the developing countries. We needed to convince them of the points which Mr. Wilson had made in his presentation. We must not, of course, consider the use of force against OPEC. What was needed was conciliatory

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persuasion. He had seen documents prepared by the experts for CIEC, and it was clear from these that there was no joint agreement on how to present our case at the Conference. This showed a great weakness in the strategy of the West, which could only lead to the strengthening of OPEC.

In conclusion, Herr Schmidt said that, in his view, we had not yet reached the bottom of world recession and we had virtually invited OPEC to raise their oil prices again next summer. Although some of us, such as the United States, would suffer less than others, the world economy as a whole would not be able to survive this.

Mr. Miki agreed that the energy situation was unstable and volatile, and that it would continue to be the most crucial question for a long time. Mutual understanding and a concerted approach were essential, and the dialogue between producers and consumers was a vital part of this. After reports of the latest rise in oil prices, he had written to all the major oil producers, and the replies which he had received had suggested to him that they were ready to cooperate. For this reason, he greatly welcomed the CIEC next month. The Conference would deal not only with energy but also with development and primary commodities in a sweeping fashion, but he hoped that there could also be some discussion of security of supply.

Dr. Kissinger had done very good work in the Middle East. He had achieved a step by step improvement, and we could look forward to more progress. President Ford's presentation had been very impressive, and his proposal was highly enlightening. His Government would have some problems over MSP, but he hoped that there would be a thorough discussion in the IEA.

In Japan it was hoped that oil conservation would yield savings of about 5 per cent. Only 30 per cent of energy consumption in Japan was for private use; their ability to conserve energy was therefore limited. As for stockpiling and reserves, Japan had enough petroleum in reserve for 73 days. But we all had a responsibility to conserve, given the importance of protecting industry and protecting life. In the field of the development of new energy sources, the ultimate aim should be the development of nuclear fusion. He would like to propose a long-term effort, since the fruits of development could not be reaped immediately. We should join forces in some international division of labour for research and development in nuclear fusion, and he would like to see discussion developing in this field in the hope of reaching an international agreement.

/Signor Moro



Signor Moro (who started speaking at about 5.30 p.m.) said that the demand for energy was likely to go on increasing, but on the supply side some O.P.E.C. countries were actually reducing output. These tendencies were strengthening O.P.E.C. against the West. Even if some Western countries could overcome the problems this created, not all of them could do so. He wanted to suggest ways in which solutions might be sought. First, the West should do whatever it could to avoid the exploitation by producers of their control of non-renewable sources of energy. Second, it should develop all alternative sources of energy, and co-operate on research and development, as Mr. Miki had proposed. Third, there would have to be both a transformation of and a reduction in the powers of the international oil companies. Governments should pay more attention to their activities. Fourth, there should be co-operation in the development of the conventional energy resources controlled by the Western world, and greater transparency of the energy markets. Fifth, there would be a continuing need for co-operation in the financing of oil deficits. Sixth, this should include the arrangement of finance for the L.D.C.s, as a contribution towards closing the gap between the industrial and developing worlds.

President Giscard said that all the major industrial countries had been actively pursuing conservation policies, and in France they had been effective - he did not know whether because of Government action or because of the slackening of economic activity. It was essential to encourage industry to use energy-saving techniques, but even success in this field would not fundamentally change the situation. New energy sources should be developed; he had noted President Ford's proposal, and would give thought to it. The E.E.C. should be more active in co-ordination of energy policy, for example in the development of nuclear energy. But whatever was done would not affect the distribution of oil reserves. Perhaps the most useful thing would be to try to change the impact of that distribution, and there were two ways in which this might be attempted. First, it was important for the West to discover oil resources under its own control. Second, the present structure of the oil market should be reconsidered, because in his own view it tended to encourage the development of cartels. Indeed, new oil producers seemed to act naturally as if they were members of O.P.E.C. In part this might be through a natural desire to make the most of their own resources, but the structure of the market also played a part. If each oil company sold only the products of a particular area the market would be more competitive. Nevertheless, he accepted that the present market structure at least made it possible for supplies to be made to match demand to some extent.

He went on to say that he thought more consideration should be given to the indexing of oil prices. The American position however was negative. He was prepared to agree that indexing had disadvantages, but he thought these sprang from the fact that oil producers calculated their income in American dollars, so that, when the dollar depreciated, their income was cut. Indexing might not be the best technical solution to the problem, but if the industrialised countries made proposals to stabilise the incomes of the oil producers this might allay their fears and reduce the likelihood of further oil price increases. At present the Saudi and Iranian Governments were friendly, but they might not continue to be. While they were, the West should



aim to exploit their goodwill to the maximum extent, and this meant that the West should be ready for any dialogue. Meanwhile, the E.E.C. might make a start on the better regulation of the oil market. France was in favour of a more active system of regulations so as to avoid the sort of abnormal situations to which Chancellor Schmidt had referred.

Mr. Miki said that he wanted to shift the discussion to primary products. Japan was the largest importer of primary products in the world and needed to use them as effectively as possible. He looked to a dialogue with producers to find solutions to outstanding problems. He was particularly concerned that some developing countries depended almost entirely on primary products for their income, so that fluctuations in the prices of their products might be very destabilising. He felt that a global scheme to stabilise the incomes of the developing countries might be needed, and he agreed with the proposals that the compensatory mechanism of the I.M.F. might give priority to the poorest countries, enabling them to draw say 120 per cent of their quotas instead of 50 per cent.

Chancellor Schmidt then made an intervention in which he said he was thinking aloud, and often differing from the advice of his officials. He understood why the oil producers wanted to maintain the value of their earnings, and agreed with Giscard in accepting that indexing would come in the end. He also agreed that the oil market should not be left in the hands of the multinational oil corporations which, in his experience (and particularly with respect to the United States companies), had no idea of where their industry ought to go. For their part, the O.P.E.C. countries disliked the multinationals. Perhaps the companies should be downgraded to be mere instruments of agreements reached between producing and consuming governments.

He agreed, too, that some the O.P.E.C. countries were well disposed towards the West, but this might not always be the case. The West ought therefore to take the initiative now, while the opportunity offered, to restructure the oil markets. His officials believed that oil should be left at the mercy of market forces; this was ridiculous. A continuing energy crisis, which might be the result of allowing the present situation to go on, could hold the Western world in a structural depression. He had not thought out solutions to the problems he had indicated, but there should certainly be co-operation on nuclear energy and on technological advances in other energy-related fields. Perhaps it might be useful for each government to appoint one person to co-ordinate policies in the energy field, and to relate them to other types of problem.

The Prime Minister said that he did not believe that even the Heads of Government around the table could decide how the oil companies should behave. They almost had the position of super states. He quoted their behaviour during the O.P.E.C. boycott of the Netherlands. Second, he thought the West should admit that all its ingenuity since the first increase in oil prices had failed to produce a common strategy, either in the E.E.C. or at any other level. He himself had no simple strategy to propose, but he was anxious to avoid confrontation. He was also attracted by the Rockefeller suggestion that the oil producers might be persuaded to take a long term view. They might be encouraged to invest in alternative

/forms of energy,



forms of energy, such as the exploitation of tar sands and shale oil. In general, the West should maximise its research into alternative sources of energy, and should pool its technological knowledge in the energy area. The Prime Minister commented, in passing, that although he did not wish to discuss it in the present company, he wanted to assert his belief that there was a case for separate U.K. representation at the Consumer-Producer Conference.

President Ford then invited Dr. Kissinger to speak. Dr. Kissinger said that while it was true that the West did not have a complete strategy on oil, it certainly had elements of a strategy. What existed so far were proposals directed entirely towards preserving the market conditions for oil, by reducing demand via conservation or increasing supply by exploiting alternative sources, all with the long term aim of undermining O.P.E.C. But this could not happen before the 1980s, if ever. And we still had to get through the 1970s. In his view, one had to analyse the nature of O.P.E.C., starting from the proposition that it was not a monolithic structure. It derived its power from its ability to cut production to support any price level, and here the multinationals helped O.P.E.C. by distributing efficiently what was left. But any cut in production was not uniform among the producers, and thus gave the West an opportunity. They might, be selling their products to the full capacity of the O.P.E.C. producers who were capable of high absorption of imports, tempt those producers to increase production further. This was happening in the case of Iran. These countries might themselves seek bilateral arrangements with consuming countries, leaving the rest of O.P.E.C. to support the price on a reduced O.P.E.C. output.

/In the end



In the end the price would have to be supported principally by Saudi Arabia, with some help from Kuwait, the Gulf States and Libya. But the countries that had thus to support the price were the most vulnerable in other ways. They could not sustain confrontation with the West, to whom they were closely bound economically, politically and emotionally. The American experience had been that whenever statements had been made which had been interpreted as threats to OPEC (which Kissinger stressed had not been planned) the OPEC countries had soon come round, after they had got over their initial outburst, asking how tension might be reduced. Military action would of course be inappropriate, but it might be possible to develop the idea that increases in the price of oil were not "free" in general economic or political terms. He concluded that the capacity of the West to affect the price of oil was greater than it seemed - but only if the USA were not disavowed by the other consumers if it took a firm stand. There was a real need for the West to co-operate so as to separate the moderate from the radical members of OPEC, and to avoid the development of more "pecs" among the primary producers. It would be suicidal to enter the consumer-producer dialogue without a common strategy, and he hoped that no-one would be afraid that this might be called confrontation. It could involve a major element of co-operation, but it would have to make clear that the West could extract a price from both OPEC and the LDCs if their co-operation was not forthcoming or was inadequate.

President Giscard said that confrontation put strong arguments in the hands of the radicals against the moderates. If the international climate of opinion were confrontational it would be impossible for the moderates to separate themselves from the radicals. If it were necessary to take a firm stand on a specific issue, this should not be a collectively confrontational stand. If the United States wanted to create tension on a specific issue, they were at liberty to do so but they should recognise that any attempt to create a joint stand would put the moderates in a difficult situation. If Dr. Kissinger's strategy were right, it might well not lead to lower selling prices for energy. Furthermore, national sources of energy had tended to be aligned on the higher oil prices, and did not show any downward trend. This could stimulate production but at the same time high energy prices provided a floor below which OPEC prices would not fall. This problem was worthy of consideration in the European Community.

A comprehensive energy strategy needed to be developed before the CIEC. He had already spoken in favour of consultation first within Europe in defining the attitude of the Nine (he hoped that the Nine would speak with one voice during the discussions) and then in co-ordination with the United States, Japan and other industrialised countries.

Finally, if the oil producers took the initiative to sell their surpluses direct to the industrialised countries, they should discreetly inform each other at the highest level so as to agree their replies. (This applied to the major world producers; the small producers' surpluses could be absorbed).

/Chancellor Schmidt



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Chancellor Schmidt said that he had no basic disagreement with Dr. Kissinger's "partial strategy" or with President Giscard. But he still felt that the reality of co-ordination between the Six present, or the Nine, differed from this "partial strategy". He was sceptical about the latter part of Dr. Kissinger's intervention. He could accept mutual information about special deals but it was important not to make such special deals to purchase oil from the oil producers and he would prefer there not to be special deals relating to the sale of industrial products to them, (though some were on the way and some had been concluded). It was essential to preserve a minimum solidarity at the negotiating table. Chances of failure were greater than of success and the prospect of solidarity in action had not yet emerged. He suspected that the Heads of Government should be aware that within a year we might find a situation in which everyone was out to save their own skin. Nevertheless, he sensed from the tone of the interventions that perhaps there were better possibilities than he had thought. If danger occurred, it was important that the convoy of consumers should stick together (for a number of years to come he included the United Kingdom as a net consumer). If the convoy ran in different directions, there would be a political crisis in the industrialised West, created by the OPEC leaders, of an order of magnitude which might be beyond the power of the West to solve. Solidarity in bargaining must be achieved.

Mr. Miki said that the industrialised countries should co-operate with the consumers and avoid confrontation. A dialogue was indispensable and was possible to achieve. The producers wanted to move in the direction of industrialisation and this was impossible without aid from the consumers. If they were further to raise the price of oil, they would create a vicious circle which would not be in their interest and would be harmful to those developing countries which were not producers of oil. However there was a division in the Third World between the oil producers and the non-oil producing developing countries who were increasingly taking an unfavourable view of the oil producers. We should not give up hope that, by pursuing the dialogue, a more rational and logical attitude might develop among the oil producers.

Turning to commodities, President Giscard said that his remarks tied in with what had been said on energy, and his views on raw materials were fully compatible. The developing countries were becoming aware that techniques and strategies to help over commodity prices could not be treated separately from the price of energy. It was necessary to create a more receptive climate for the West's views and to isolate the oil producers. A negative attitude strengthened the solidarity of the developing countries. The industrial countries needed to find solutions to difficult and painful problems but if the world equilibrium were to be maintained they must avoid creating a homogenous block and a crusading spirit against them. Dr. Kissinger had said that the way forward was to make sure that the developing countries recognised the link with the price of oil. At the first increase in oil prices they had set up the IMF oil facility, but they should be very reserved about expanding it and not let the developing countries think that the IMF would come up with solutions whenever there was an oil price rise. He preferred an increase in budgetary aid. The use of this could be more easily controlled and directed and was relatively non-inflationary. Second, he supported commodity arrangements and hoped that within

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18 months mechanisms could be developed for a few commodities (such as copper and tea) which would be stock-piled and where monopoly situations could be avoided. We should look to stabilising the income of commodity exporting countries but this was complicated and there were no quick solutions. But means should be worked out which would contribute to the stability of the world economic system. He agreed with the Prime Minister that this work should go forward in full awareness of the necessity of improving the welfare of the developing countries.

The Prime Minister said that he agreed with Dr. Kissinger on the effect of the oil crisis on the developing countries. At Kingston he had said that everyone had been affected by the effects of oil and commodity price movements, though in different ways. The developing countries included those:

- (a) who had benefited from oil price increases;
- (b) who had suffered from oil price increases but had benefited from commodity price increases (viz bauxite and sugar);
- (c) who were paying more for oil, for fertilizers based on oil, and at the same time were paying more for machinery and for feeding stuffs, as a result of the general price increases;
- (d) who were starving because of drought or flood - or, as in Bangladesh, both - who had real difficulties in trying to raise their agricultural production above a minimum level.

He agreed with President Giscard that there was a parallelism between oil and the commodity problem. While the industrialised countries had their own separate problems about oil, they had a vested interest in reaching agreement. This applied even more so in respect of commodities. No-one had an interest in the alternation of boom and slump (he referred to the Commonwealth Sugar Agreement in 1951 and to the unfavourable terms in the Treaty of Accession, now renegotiated, and said that we had suffered from the recent sugar boom; but we were not in favour of bust either). He agreed also about the IMF oil facility and about budgetary aid, and repeated that the United Kingdom had not only maintained but had increased its budgetary aid to developing countries. He referred to the historic achievement by the European Community in successfully negotiating the Lomé Convention by which 46 countries, many of which were suffering the problems mentioned above, would be given substantial help. 34 countries of the Commonwealth had been present at Kingston and 24 of them would benefit from the Lomé Convention.

Chancellor Schmidt made five points:

(a) in 1975 the developing countries (other than OPEC) would have built up a \$35 billion balance of payments deficit and they had almost reached the limit of the capability to borrow. It was necessary to help them:

- i. because this was part of the dialogue strategy;
- ii. in order to avoid worsening world recession;
- iii. for moral reasons;

/(b) he was not



(b) he was not convinced that President Giscard and the Prime Minister had spoken for everyone when they were talking about increased development aid. How would this be financed? Germany did not have the historical or emotional links with ex-colonies. In his view the important economic and political interest was to educate the developing countries to understand and think and operate in terms of the market economy. They should understand that no country could spend more than it earned. The industrial countries should help them to earn more, not to spend more. It was psychologically wrong to continue their dependence on gifts from the industrialised countries;

(c) how could they earn more? The answer was by their own work. Returning to the question of the "link" in the creation of Special Drawing Rights, he put forward the suggestion that one action which might help overcome the recession would be to create additional SDRs only for the LDCs.

(d) (His main point). The Lomé Convention was a good model. It could be refined and enlarged not just between the European Community and the developing countries but in a world wide system whereby a number of developing countries were given guarantees that their export earnings on a defined number of raw materials and commodities could be stabilised. There would need to be a base period and money would be paid if subsequent export earnings fell short of the base period level. A stabilisation fund would be needed for this. Then there would be periods when earnings might be higher than the base point and payments might be repaid - at least partially. There could be a revolving fund, rather than social security type hand-outs, and interest would have to be paid during the period between credit and repayment. Financing this acceptably would require lowering the rate of interest to a level which the developing countries could afford. If part of the IMF's gold stock, as had already been decided, could be sold on a gradual, step by step, basis, the proceeds could be used for subsidising interest rates. Such a scheme could go beyond the Lomé model. On the one side all industrialised countries would participate and on the other all developing countries (less the oil producers). It would cover a defined number of raw materials but for each country account should be taken of the total income from raw materials. He thought that this proposal might be put forward not at the start but at one of the later stages of the dialogue;

(e) account should be taken of the continuing need to preserve free trade and its market mechanisms as the OECD had pledged to maintain. He would want to stress in the dialogue with the developing countries that the new phraseology linked to the "new international economic order" did not mean giving up the principle of market economy. The developing countries should be educated and led to see that it was in their general interest to try to maintain the market system and not to move towards "discretionary dirigisme" (international or national cartels) though there were possible exceptions such as oil. It was necessary for the industrialised countries to use the dialogue to make the developing countries understand that they would not give up their belief in the free market system.



The Prime Minister said that we should not underestimate the developing countries' speed of learning and he referred to the bauxite-pec and their ideas for an export tax. Second, primary producers were refusing to export raw materials for processing. They were now increasingly carrying out the initial processing themselves. He agreed with Chancellor Schmidt when he had stressed that it was important to help export earnings rather than to fix commodity prices, which tended to help the wrong countries. There had been a change in aid philosophy from the days when Lester Pearson had talked of investment in success (he drew attention to the Government's White Paper on Aid). Aid should be related to need, and he had been glad to see an increasing emphasis on rural development. The new international economic order meant not only the end of the market economy but it meant that the system set up at Bretton Woods, the IMF, the IBRD, etc. should be democratically controlled on a one country, one vote basis and not by the principal contributors or shareholders. He had succeeded at Kingston in doing some education of the Commonwealth in explaining that these radical policies would set back progress for the developing countries by five to ten years.

Signor Moro said that he was looking for a framework for better relations with the developing countries including agreements between the consumers and producers on raw materials which would stabilize supplies for the industrialised countries and would contribute to the process of development in a good climate of opinion. It was impossible for there to be positive results without agreement in the industrialised countries. They should offer solutions to concrete problems affecting trade in raw materials. The wrong decisions could jeopardise international trade and have an adverse impact on prices. For instance, stockpiling and price control could have negative consequences by changing consumption patterns. The commodity producers were not in so strong a position as the oil producers. They should agree to implement the commitments undertaken at the 7th Special Session but assistance to the developing countries could have adverse balance of payments effects on the weaker industrialised countries by leading to more expensive imports. He pointed out that there was not only a problem between the industrialised countries and the developing countries, but one of internal balance within the industrialised countries.

President Giscard said that they must not forget the differences between the developing countries and he referred to India, Bangladesh and Pakistan as countries for which no solutions had as yet been found. It was important to find methods for the transfer of real resources and he referred to rural development and to developments in education and health. This had not come about by financial credit or SDRs. He added a word of caution about the Lomé Convention. They might congratulate themselves but the Convention had not yet been in operation and there had been no payments as yet. This was its first year. They should see how the Lomé mechanisms operated in practice before extending it to other parts of the world. There should be practical agreements concerning specific commodities, avoiding monopoly situations. There were a number of possible methods of developing a price policy within the framework of the consumer/producer dialogue, including the Lomé type (though this was perhaps best suited to the LDCs).



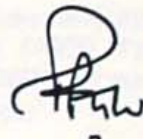
## THE FINAL DOCUMENT

President Giscard said that the Japanese Prime Minister had circulated a draft text in the style of a declaration. The Ministers of Finance were working on a text which could be a press communique.

Mr. Miki said that it was not possible to separate economic from political questions. A Finance Ministers' detailed document could be used for press briefing but he thought there should be a separate declaration including political questions or that the two should be combined. Neither the Prime Minister, President Ford, Chancellor Schmidt nor Signor Moro supported this and President Giscard then suggested that the Japanese point might be covered by a further discussion of the draft prepared in the Carlton Group, revised to take account of their discussions. Nevertheless what they had said about energy and raw materials had been very wide-ranging and it was important to be careful not to conflict with what was the responsibility of other bodies such as OPEC or the EEC. He suggested that the Foreign Ministers should prepare a draft for the final meeting.

Mr. Sauvagnargues argued that it would be wrong to express their discussion in depth in the form of directives, particularly since four of the participants were members of the Community and could not make commitments without consulting their colleagues on matters that lay within the Community competence. Moreover, without prejudice to the question of British representation in the CIEC, work was still going forward on the preparation of Community mandates. Nevertheless it was agreed that the Foreign Ministers should meet to decide on the final text of a declaration at 0900 on Monday morning, 17 November. The Heads of Government would meet at 10 a.m. for the discussion of East/West relations to be introduced by Signor Moro, and the Foreign and Finance Ministers would then join them for the final plenary session at 11 a.m.

The meeting adjourned at about 7.45 p.m.

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18 November 1975

Sir John Hunt