

**ENERGY: THE IMPERATIVE FOR**

**A TRILATERAL APPROACH**

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**The Trilateral Commission**  
A Private N. American-European-Japanese  
Initiative on Matters of Common Concern

# ENERGY: THE IMPERATIVE FOR A TRILATERAL APPROACH

## A Report of the Trilateral Task Force on the Political and International Implications of the Energy Crisis

to the

Executive Committee of  
The Trilateral Commission

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This report has been prepared for the Trilateral Commission and is released under its auspices. It was thoroughly discussed at the Trilateral Executive Committee meeting held in Brussels on June 23-25, 1974, and the Joint Statement issued by the Executive Committee in Brussels was based in part on it. The authors, who are experts from North America, Western Europe and Japan, have been free to present their own views. The Commission will utilize the report in making any proposals or recommendations of its own. It is making the report available for wider distribution as a contribution to informed discussion and handling of the issues treated. This first report of the Trilateral Energy Task Force will be followed next year by a second report, concerned with longer-term issues.

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*The Trilateral Commission was formed in 1973 by private citizens of Western Europe, Japan, and North America to foster closer cooperation among these three regions on common problems. It seeks to improve public understanding of such problems, to support proposals for handling them jointly, and to nurture habits and practices of working together among these regions.*

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## The Rapporteurs

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GUY DE CARMOY was born February 20, 1907, in Paris. He holds a *Licencié ès lettres et en droit* and a *Diplômé de l'Ecole libre des sciences politiques* from the University of Paris. Mr. de Carmoy was an Inspector of Finances from 1930 to 1960. He served as an Alternate Executive Director of the International Bank for Reconstruction and Development from 1946 to 1948, and as a Director of the Organization for European Economic Cooperation from 1948 to 1952. From 1962 to 1967, he was Administrator of the Banque des intérêts français. Mr. de Carmoy has been a Professor at the Institut d'Etudes Politiques since 1950. Since 1961, he has served as a Professor at the European Institute of Business Administration at Fontainebleau. He is the author of *Les Politiques étrangères de la France, 1944-1966* (1967), *Le Dossier européen de l'énergie* (1971), and many other works.

SHINICHI KONDO was born in 1910. He graduated from Tokyo University in 1934 and entered the Japanese Foreign Office in 1939, serving as Consul in New York City in 1941. Mr. Kondo held a variety of posts in the Foreign Ministry from 1941 to 1961, when he was appointed Ambassador to Denmark. In 1965, he was a member of the Japanese delegation to the United Nations. In 1967, he became Deputy Vice Minister of Foreign Affairs. Mr. Kondo was Ambassador to Canada from 1969 to 1972. Currently he is with the Mitsubishi Corporation in Tokyo.

## The Trilateral Process

The report which follows is the joint responsibility of the three rapporteurs of the Trilateral Task Force on the Political and International Implications of the Energy Crisis, with Mr. John C. Campbell serving as principal drafter.

Although only the three rapporteurs are responsible for the analysis and conclusions, they were aided in their task by extensive trilateral consultations held during 1974 in Tokyo, Brussels and New York. The rapporteurs also took part in a conference on cooperation and development in the Mediterranean area held in Milan in which a number of prominent government officials, businessmen and academics from Europe and the Middle East took part. Among those consulted were:

Zbigniew Brzezinski, *Director, The Trilateral Commission*  
George S. Franklin, *North American Secretary, The Trilateral Commission*

Wolfgang Hager, *European Secretary, The Trilateral Commission*  
Rokuro Ishikawa, *Executive Vice President, Kajima Corporation*  
Paul F. Langer, *Senior Social Scientist, The RAND Corporation*  
Walter J. Levy, *President, W. J. Levy Consultants Corporation, Inc.*  
Kiichi Miyazawa, *Member of the Diet (LDP); former Minister of International Trade and Industry*  
Yoshihiko Morozumi, *Vice Chairman, Committee for Energy Policy and Promotion; former Vice Minister of International Trade and Industry*

Sohei Nakayama, *Counsellor, Industrial Bank of Japan*  
M. V. Posner, *Director of Studies, Pembroke College, Cambridge University*

Ronald Ritchie, *Chairman, Institute for Research on Public Policy, Montreal*  
Kiichi Saeki, *President, Nomura Research Institute of Technology and Economics*

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Dieter Schmitt, *Energy Institute of Cologne, University of Cologne*  
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## SCHEDULE OF TASK FORCE ACTIVITIES:

- December 19, 1973 — Preliminary consultations in Washington involving Campbell, the Commission Director, the three Chairmen, the Secretaries, and members of The Brookings Institution.
- March 15, 1974 — Meeting of North American Task Force in New York City.
- March - April — Meetings of Japanese Task Force.
- March 25-28 — Rapporteurs participate in tripartite energy meetings in Brussels sponsored by The Brookings Institution, the European Community Institute for University Studies, and the Japan Economic Research Center.
- March 29 — Rapporteurs, Hager and Brzezinski meet in Brussels.
- May 4-5 — Campbell, de Carmoy and Hager attend meeting of European and Arab businessmen, government officials and academics in Milan, sponsored by the European Community Commission and the Italian Institute of International Affairs.
- May 6 — First draft of the report circulated.
- May 7 — Meeting of Rapporteurs and Hager in Paris.
- May 10 — Meeting of North American Task Force in New York City.
- May 17 — Second draft of the report circulated.
- May 30 — Second draft discussed at North American Commissioners meeting in New York City.
- Early June — Third draft completed.
- June 25 — Discussion of the report at the Executive Committee meeting in Brussels.

## Table of Contents

Summary of the Report .....	7
Energy: The Imperative for a Trilateral Approach .....	9
I. The Scope of the Problem .....	9
A. Economics	
B. Politics	
C. Relative Positions of the Three Regions	
II. The Need for Cooperation .....	18
A. Conservation and Efficient Use of Energy	
B. Assuring Safe and Adequate Supplies	
C. Sharing in an Emergency	
D. The Financial Impact	
E. Technology and Research	
III. Relations with Other Countries .....	25
A. Oil-Producing Countries	
B. The Soviet Union and China	
C. Developing Countries	
IV. Institutions .....	29
V. Conclusion .....	30
Members of the Trilateral Commission .....	31

SUMMARY OF THE FIRST REPORT OF THE  
TRILATERAL TASK FORCE ON THE POLITICAL AND  
INTERNATIONAL IMPLICATIONS OF THE ENERGY CRISIS:

**Energy: The Imperative for a Trilateral Approach**

The Trilateral Task Force on the Political and International Implications of the Energy Crisis assumes that the era of cheap and plentiful oil is over. The industrial countries face major problems of adjustment to uncertain energy supplies, high costs, and new requirements in political relations. Some of these problems are immediate; some are for the coming decade of continuing dependence on Middle East oil; some involve planning for the longer run. They can be met successfully only with policies elaborated in concert rather than in competition. In *economics*, our countries must contend with the short and long term effects of shortages and price increases on their national economies and on the international trading and monetary system, and the need to make early decisions on the development of new sources of energy. In *politics*, the trend toward politicization of international economic relations will be strengthened by the situation of relative scarcity in energy. Policies aimed at inducing the producers to keep producing and exporting oil will be needed, as will efforts to avert calamity in countries unable to meet the high price of oil. Above all, the Trilateral countries must cope with mounting pressures at home and modify accepted habits and lifestyles, while avoiding destructive competition among themselves and preserving their democratic institutions.

Among the three Trilateral areas, Europe is threatened with economic and financial crisis at a time of political weakness and disunity. Japan is highly vulnerable because of its energy dependence. North America is in a comparatively strong position, but it cannot take refuge in a policy of self-sufficiency and display unconcern for Europe and Japan without provoking reactions adverse to all. Europe and Japan cannot expect U.S. and Canadian assistance unless they impose strict measures on themselves. Vigorous coordinated action can help them all to reduce their oil dependence on the Middle East in the next decade.

The imperative for cooperation suggests a common long-range strategy and the following specific recommendations: (1) *Conservation and efficiency of energy use* — Governments and private bodies should

develop conservation programs on a priority basis, including investment, joint research, and generally agreed targets. (2) *Assuring safe and adequate supplies* — Trilateral countries should coordinate policies to maximize bargaining power with the oil-exporting states, while creating inducements for them to keep up supplies, and developing alternative sources. (3) *Emergency sharing* — They should agree now on a plan including (a) the definition of an emergency, (b) stockpiling, (c) conservation, (d) emergency production, and (e) allocation of supplies. (4) *Finance* — The consuming countries should aim to meet the impact of high oil prices by increasing exports to producers, recycling the latter group's balance-of-payments surplus funds to the countries which incurred the deficits, and providing help to those threatened with financial collapse. (5) *Sharing of technology and joint R & D* — Governments must promote an extensive sharing of technology designed to increase efficiency and develop new energy sources. Priorities in research have to be established on the main lines of effort in developing sources of energy for the post-oil age.

In their *relations with oil-producing countries*, the consuming countries must try to build a continuing relationship in which both sides have a stake. This collaboration should look ahead to the time when the oil age fades out. Bilateral deals or regional approaches should take place within an agreed strategy serving the interests of the Trilateral countries as a whole. On political matters, a greater accommodation of approaches to such questions as the Arab-Israeli conflict or arms sales to Persian Gulf states would contribute to harmonizing oil policy with political and military objectives. The Middle East states should be encouraged to view their oil policies in the broader context of security and cooperation. In *relations with the U.S.S.R. and China*, the Trilateral countries should explore the possibilities of obtaining increased energy supplies while avoiding any substantial dependence on these countries. The high costs and risks involved should be weighed against comparable investments elsewhere. In their *relations with the LDC's*, the developed countries should join in measures, to which the oil-producing countries should also contribute, to help the poorest nations threatened with disaster by price increases in oil and other essential products.

A master strategy is needed to set broad lines of policy for the Trilateral countries on the energy problem. An energy agency, logically one associated with the O.E.C.D., is required for consultation and coordination of policies.

## Energy: The Imperative for a Trilateral Approach

### I. THE SCOPE OF THE PROBLEM

The energy crisis confronting the nations of Western Europe, North America and Japan is both specific and general, immediate and long-range. In its simplest and most urgent form it concerns the shortages of supply and the staggering increases in the price of oil with which each country has had to contend within the past year. More broadly, it has to do with shocks which these developments and our governments' attempts to cope with them may inflict on the world's monetary and trading system. And in the longer run the crisis poses fundamental questions about how our expanding industrial societies, which in the past quarter century have been fuelled increasingly by cheap and plentiful oil, will fare in the coming decade when oil supplies are neither cheap nor secure, and in the more distant future when they have virtually disappeared.

The war of October 1973 in the Middle East and its accompaniment of embargoes, cutbacks in oil production, and rises in price did not create the energy problem. These events speeded up trends already visible, gave them a sharp political twist, and revealed with merciless clarity the vulnerability of the industrial countries. It was evident that these countries could not go on indefinitely at the rate at which their consumption of energy had been expanding since 1950. Such further expansion would have to come mainly from imported oil, its availability uncertain and its price inordinately high.

The pervasive influence of the energy crisis on the entire fabric of national and international economic life will inevitably have political consequences and will require hard political decisions. Hence the importance, for the governments and peoples of the Trilateral countries, of seeing the magnitude and scope of the problem. When they see it, we believe they will find no viable alternative to a common approach.

This report first examines the economics of the future energy picture, then the politics of it, and finally makes some proposals. These proposals are not a panoply of detailed policy recommendations. We considered it more important at this stage to establish common purposes and set the general directions for policy.

## A. ECONOMICS

It is useful to distinguish two time perspectives, one for the next ten years or so, and the other running to the end of this century and into the next.

In the first period the economy of the industrialized Trilateral region as a whole will continue to be dependent on oil imports from OPEC (Organization of Petroleum Exporting Countries) sources. Our societies are based on high energy consumption. They cannot suffer a drastic drop in available supply or stagnation in the rate of energy growth without serious economic and social consequences. Against this structural demand there is an insufficiency of reliable supply, since a critical part of our current supply is subject to decisions on access and on price which are out of our control and can be arbitrarily made. Because substitute sources of supply will take years to develop, the period of continued dependence will last into the 1980's for virtually all the Trilateral countries and beyond 1985 for most of them.

The world's supply of oil is sufficient to meet all import requirements over the next ten years. There could even be a surplus, provided the OPEC countries continue to export and the consuming countries take effective measures of conservation and successfully pursue the development of oil in non-OPEC countries as well as of other sources of energy. Whether imports are adequate will largely depend on the policies of OPEC countries, which will be determined by such factors as need for revenue, the price trend, investment opportunities and political motivation.

Also crucial in gauging possible shortfalls of supply is estimated growth in requirements for imported oil. Projections made in the early 1970's, based on what had been normal rates of growth in energy consumption during the two previous decades, set U.S. import requirements in 1985 in the vicinity of 13 million barrels per day, Western Europe's at about 23 million, and Japan's at about 11 million. All three regions, in those circumstances, would be increasingly and critically dependent on imports, which would have to come mainly from the Middle East. As a result of experience and further study since the autumn of 1973, such projections can be revised to take account of anticipated conservation, greater efficiency in energy use, increased domestic production of oil, gas, and coal, and higher prices. Much more can be accomplished by such measures in the United States, however, than in Europe or Japan. U.S. import requirements might be reduced

to less than 5 million b/d, perhaps as little as 3 million, by 1985 or even by 1980. Western Europe's imports would still be between 15 and 20 million b/d, Japan's between 9 and 10 million.

The question of price may be even more difficult, for the drastic rise in prices determined by OPEC at the end of 1973 inevitably upset the economic equilibrium of the consuming countries and foreordained a massive transfer of financial assets, and thus of economic power, from them to the oil-producing countries. The anticipated additional oil bill, for 1974 alone, will be about \$40 to \$50 billion for the industrial countries and \$10 billion for the developing countries unfortunate enough not to be exporters of oil. The effects on the international monetary system, on currency values, on rates of inflation, on food and fertilizer production, and on living standards are impossible to calculate but bound to impose strains of an unprecedented character.

Looking well beyond the immediate problems and those of the next decade, we can see the end of the hydrocarbon age. The date cannot be fixed because the size of new discoveries of oil and gas cannot be predicted, but with consumption outrunning additions to proved reserves the handwriting is on the wall. The world must be prepared, accordingly, to make the transition 40 or 50 years hence to an economy based primarily on coal (and its derivatives) and on nuclear power. The goal will be to reach, without a disastrous gap, the age when abundant renewable energy is available for the world's use through new methods such as breeder reactors, controlled nuclear fusion, or harnessing the power of the sun. The conditioning factors for supply of energy over the long term are investment, technology, and ecology, and the initial decisions have to be made now.

The economic problems may seem simple — how to restrain demand and maximize supply at tolerable cost and where to put investment in alternatives to oil — but in fact are complex because they combine short, medium, and long-term considerations and at the same time involve a balancing of financial, technological and other factors. They will require on the part of our governments considered and far-reaching decisions, which should serve to promote international interests rather than merely to satisfy short-term national interests.

## B. POLITICS

In bringing the world through the next decade and the transition to new forms of energy without major upheavals, the advanced industrial societies of North America, Europe and Japan have a deep involvement

and special responsibilities. With economies which are interdependent and political interests which in the past have been compatible and mutually supporting, they have an overriding concern with the good health of relations among themselves and with the preservation of a workable trading system and an effective international monetary structure, both of which are already under stress.

It seems clear that international economic relations, with a strong assist from the energy crisis, will take on an increasingly political character. This is already apparent in the relations between oil-consuming and oil-producing states. The private oil companies, where they have not already been taken over, can no longer make decisions to the extent heretofore on such matters as how much they will produce in producing states or at what price. The governments of consuming countries do not have much to say about those matters either, but they know now that getting oil is their problem and that they have to deal with it both in discussions with each other and in negotiations with producing states.

How are the OPEC members, mainly the big Persian Gulf producers, to be persuaded to keep up the supplies of oil? All of them know that their oil reserves are finite. They will decide for themselves on the rate at which their reserves will be used. Some, with major economic development programs, may prefer a high level of oil exports in order to maintain a high level of income. Others, with smaller populations and less ambitious programs, may be reluctant to push production beyond the point which meets their own needs for money income. Some may restrict production in order to prolong the life of their reserves. All will wish to keep prices well above the pre-1973 levels. And some may wish at one time or another to determine policy on production and export of oil on essentially political grounds. The partial relaxation of Arab embargoes and production cutbacks early in 1974 was tactical rather than strategic; the Arab oil-producing states have said that they will use the "oil weapon" again if they find it necessary.

Similarly in the case of relations with the less developed countries which are not oil-producers, the effects of the energy crisis will bring governments of the Trilateral countries, by choice or by circumstance, into increasing involvement in international economic relations. The rise in oil prices threatens the world's poorer countries with economic ruin, and resultant social and political upheaval. They will seek to avert such a disaster by mobilizing political pressure on the rest of the world

for massive concessional aid and by trying to apply the OPEC method to any valued raw materials they themselves may have. The developed countries and the newly rich oil-producers will have to make basic political decisions on how to meet this situation.

The end of the era of cheap and plentiful energy is most striking, perhaps, in its impact within our own countries. One cannot predict how far-reaching the economic and social effects will be. Inflation, industrial slowdown and unemployment may bring social unrest, further loss of confidence in governments, and political disorder. What is more easily predictable is that under these multifarious dislocations and pressures the lines between private decision and public control, between the freedom of individuals to live their own lives and the social requirement for rationality and equity in the use of scarce resources, will come under strain. These are practical rather than philosophical questions. They will challenge the ability of our societies to maintain democratic institutions and the essentials of free enterprise necessary to an efficient economy.

Over the long run, the energy problem poses fundamental questions about rates of growth, conservation of resources, the balance between economic and environmental values, and the creation or refashioning of institutional structures adequate to the challenge of new demands. Within national economies, under pressure of high-cost energy, governments and peoples will have to take decisions on allocation of resources, on priorities among different forms of production and subsidies to investment, on revamping of transportation systems, and on patterns of location for industry, public services, and housing.

These are, in the common view, problems of domestic policy, and we do not pretend to judge how each country should proceed in dealing with them. But the line between domestic and foreign policy is unclear, and the inclination is always present to have the cost paid by someone else. At such a time it will require extraordinary leadership on the part of governments, as well as extraordinary public understanding and discipline, to avoid seemingly simple solutions which promise, in the short run, more imported oil or higher exports or a cheaper currency. For such a course will lead only to destructive competition in scrambling for oil, pushing exports and shutting off imports, and devaluing currencies.

It is hard to avoid the conclusion that the greatest challenge of the energy crisis lies in the relations among the developed nations of

the Trilateral region. Thus far it has done more to disrupt the European Community than to pull it together. Restrictive measures taken by Italy under severe economic pressure may be followed by similar moves by other states, setting in motion a serious disintegrating trend in the E.E.C. Energy questions have also strained Europe's and Japan's relations with the United States. Unless these nations can establish the necessary cooperation with each other, they can hardly be effective in dealing with the rest of the world, the oil-producing countries especially. In order to have a realistic basis for such collaboration, it is necessary to see what the respective positions of the different Trilateral countries are and what are the factors of competition and of common interest to be taken into account.

### C. RELATIVE POSITIONS OF THE THREE REGIONS

The balance among the three regions should be conceived first of all in terms of energy resources, but also in terms of political and military influence, economic and monetary strength, and technological capabilities.

The position of North America is relatively strong. The United States and Canada have very large potential resources (oil, natural gas, coal, oil shale, tar sands) which if developed could produce energy well beyond their own needs. The United States will not be critically dependent on Middle East oil, which made up only 6 percent of primary energy consumption in 1973, unless it allows the whole of its increment in energy growth to come from that source. It has the natural resources, the financial means, the technological capacity and presumably the political will to become virtually self-sufficient in energy by 1985 and to remain so. The net supplementary cost of oil imports may amount to \$10 billion in 1974, but the balance on current account with the oil-producing countries may improve considerably within the next few years because of their desire for American goods. Moreover, the attractiveness of the American market for long-term investments should increase capital inflows. The dollar is emerging from the energy crisis stronger than before.

Canada is roughly self-sufficient in energy now (imports of oil to eastern Canada in the past were generally matched by exports from western Canada) and may remain so. Although Alberta's conventional oil sources will taper off, they may eventually be more than replaced by oil and gas from the Arctic and oil from the Athabasca tar sands. Canadian governments of whatever political stripe are likely to be de-

veloping a national energy policy carefully attuned to Canada's needs, and to be chary of any rapid exploitation of its resources by foreign capital largely for foreign markets.

The United States is the strong partner in the Atlantic alliance and in its security arrangements with Japan. Its naval power in the Mediterranean and the Indian Ocean is the only military counterweight to Soviet power in those areas. It is the main supplier of arms to Israel, Jordan, Iran, and other Middle East countries and is regarded by a number of those states as a mainstay of their security. The United States also has considerable political and diplomatic leverage in the Arab-Israeli conflict through its influence with both sides. Although its policies of support for Israel have tended in the past to undermine its relations with the Arab states, including the oil-producers, its success in arranging interim settlements between that country and Egypt and Syria has strengthened its position in the area as a whole.

Western Europe is in a much weaker position, both politically and in respect of energy. Although the E.E.C. functions as a common trading unit, it lacks strong political institutions. Neither the Community nor its member states have significant military influence in the Middle East. They have an interest in a peaceful settlement of the Arab-Israeli conflict but have not been able to play an effective part in bringing it about through negotiation.

The dominant fact of Western Europe's energy situation is its dependence on Middle East oil (60 percent of O.E.C.D. Europe's primary energy consumption in 1973). This proportion may be somewhat reduced in the next decade through the development of North Sea oil and gas and the pursuit of strict and consistent policies on the use of energy, but it is doubtful that dependence on external supplies will be brought below 45 percent by 1985. This relatively weak position is accentuated by the absence of a common energy policy in the E.E.C. and by the tendency of individual governments to act on their own in matters crucial to each other's welfare. One has therefore to consider separately the positions and policies of individual European countries.

Great Britain and the Federal Republic of Germany are about 50 percent self-sufficient in primary energy consumption, while France and Italy are about 80 percent dependent. Britain will have difficulty in the next few years in meeting its oil import bill at a time of serious balance-of-payments difficulties and uncertainty over continued membership in the E.E.C., but its longer-term prospects are favorable be-

cause of North Sea oil and gas. Germany, at least in the short term, can balance its trade in spite of the high cost of oil thanks to its formidable export potential and large monetary reserves; but Germany may lose export markets as other countries take defensive measures to protect their own industries and pay for imported oil.

France is faced with large trade deficits, is investing heavily in nuclear plants, and has resorted to substantial external borrowing. Its position is essentially weak despite some positive elements such as comparatively large gold reserves (which will jump in value if there is a revaluation at or around the market price), heavy sales of arms to oil-producing countries, and a pro-Arab foreign policy that might win special favors. The plight of Italy is the most serious. Unable to stop the drain on its balance of payments despite heavy borrowing, it has introduced import restrictions to the detriment of its partners in the E.E.C. as a short-term palliative measure. Italy's fundamental problems remain unsolved, and its situation is likely to get worse.

Europe thus faces a bleak prospect. The increase in its oil import bill for 1974 is estimated at \$22 billion. With the exception of Germany and perhaps the Netherlands, the E.E.C. countries face the alternatives of (a) accepting a marked depreciation of their currencies, (b) resorting to external borrowing at unprecedented levels, or (c) reducing drastically their imports of energy and of non-essentials. They will probably combine all three, and the end result could be a monetary collapse.

Japan is more dependent than Western Europe as a whole on external supplies of energy — about 86 percent of domestic consumption. All of its petroleum is imported, over 80 percent of it from the Middle East. Thus Japan is the most vulnerable of all the industrial nations and does not expect the major international oil companies to be able to guarantee the needed volume of supplies. High prices for oil (the import bill is likely to increase by \$8-10 billion in 1974) have already led to a weakening of its previously strong trading position, depreciation of the currency, and a further rise in inflation. Its ability to continue meeting its oil bill will depend on its long-range export possibilities and on the survival of the world free trading system. Japan will try to develop its domestic energy resources, principally nuclear energy, as well as to diversify its external sources of supply, but it cannot escape from its position of dependence on and vulnerability to overseas supply. Therefore, it is vitally important for Japan to maintain and develop cooperative relations with oil-producing countries. However, Japan has not held such political and military leverage in the Middle East as have the

United States and, in lesser degree, some of the Western European countries.

For any and all of the oil-consuming countries, the prospect of massive exports to producing countries is very attractive, as is the idea of getting back as investment the funds they pay out for oil. They are, however, in competition with each other in exports and in attracting investments, and those in the stronger positions are likely to have the advantage. Thus the United States has an edge in the selling of arms, for reasons of technology and political influence. Germany and Japan have the best possibilities for selling equipment. And investments of oil money from the Middle East are more likely to flow to America or Germany than to countries with weaker currencies and dimmer prospects. The absence of strong European institutions, mainly an economic and monetary union, works against the recycling of funds to Europe.

This factual picture of differing economic and financial positions of the countries and regions of the Trilateral area must be understood both for its political reality and for its disturbing implications. For some years ahead the United States, Canada, and later Great Britain will feel a certain confidence in the possession of energy resources which the others will not have. Germany and Japan may have compensating advantages in the competitive strength of their economies. Intensive competition, if it is uncontrolled, can turn out very badly for those in a weaker position. Competition should therefore be matched by cooperation.

Cooperation, of course, has its limits; for example, it cannot determine where Arab investors will put their money or to whom private bankers will make loans. The stronger countries will not be inclined to engage in an unending series of operations to rescue the weaker. Yet all have a stake in the survival of all, and in the survival of a viable economic order in the world. The United States could not be indifferent to a monetary collapse in Europe. In the framework of a long-term approach which makes sense for all, which offers a constructive alternative to the uncertainty and vulnerability of the period immediately ahead, it becomes politically possible and indeed necessary for the stronger economies to aid the weaker, provided the latter, through conservation of energy and in other ways, are pulling their weight and not merely getting a free ride.

## II. THE NEED FOR COOPERATION

*The Trilateral countries should go forward together in a joint commitment to develop energy and to meet its high cost, with a plan covering the next 20 years or so. They will not succeed if they have conflicting strategies.*

The energy problem requires not only a series of defensive measures against shortage, dislocation, inflation, and the excesses of economic nationalism, but also a positive strategy which sets priorities and assures the rational, long-term development of energy resources in ways compatible with democratic freedoms. Market forces will provide much of the motive power, but it is necessary to set the context within which private decisions on investment, for example, can be made and market forces can operate to the best advantage. The overall strategy must take the form of public policy based on the conscious choice and dedicated effort of governments and peoples, first of all among the advanced industrial nations but with full consideration for the interests of other nations and an open invitation for their cooperation.

At the Washington conference of February 1974 the countries of the three regions (except France) agreed on the need for "a comprehensive action program to deal with all facets of the world energy situation by cooperative measures." Based on that agreement a coordinating group was established, and work goes forward in the O.E.C.D. and in ad hoc working groups. It is not our purpose here to review or to judge this work in its present early stages. This report will concentrate on the overall approach to the problem, the need to establish long-term goals, and the specific fields in which early and effective action is essential.

### A. CONSERVATION AND EFFICIENT USE OF ENERGY

*The consuming countries should intensify and coordinate their efforts for the more efficient use of energy, setting specific targets and working out plans for investment, technology and public policy to achieve them.*

We stress this subject both for its promise of actual results and for its important psychological effects. Avoidance of waste and increasing efficiency in the use of energy are mandatory in an age of scarcity and high cost, when many systems and methods unattractive at earlier prices become feasible and desirable. Much can be done without changing life-

styles, and more can be done with some changes. Extravagance in personal consumption is no essential attribute of a free society; indeed, to trim unnecessary fat may have social as well as economic benefits. Economic incentive will provide the main motivation, but governments will have to set priorities for the use of energy, limit the consumption of certain goods, engage in planning, pass legislation, and vote funds in such fields as mass transit.

We should recognize that the consumption of energy cannot be expected or permitted to grow exponentially, as it has in the past, at a rate which would project a doubling of U.S. demand between 1970 and 1985, and a doubling again by 2000, and even higher rates of growth for Europe and Japan. Holding down demand for energy is one of the surest ways, within its limits, of coping with the problem of supply. Some measures can be taken at once, without heavy investment. In other cases, investment in efficiency of use will be much less than the investment in a corresponding increase in supply, and the return will often be more rapid. Conservation is also a method which gives rise to a minimum of international controversy and can induce habits of cooperation. Improvements in energy efficiency should be widely applicable in industry, transportation, housing, and electric power production, with much of the cooperation carried out by private firms and research organizations. Joint research should go forward with both public and private support.

Obviously, demand cannot be cut in the same precise proportions in each country. Geographic, economic and social factors differ. Japan is under greater pressure to save energy than the United States or Canada, but has less margin for doing so. Ten percent saving from past levels of consumption is within reach of all. Although formal international agreement on fixed standards of conservation would be hard to attain and probably not necessary, governments should nevertheless set generally agreed targets, which would not necessarily be the same for each country. Without roughly comparable levels of effort it will be difficult to have an effective sharing of supplies in an emergency.

### B. ASSURING SAFE AND ADEQUATE SUPPLIES

*To assure adequate supplies, our nations will have to find the most effective combination of bargaining power and mutual interest to encourage the continued availability of OPEC oil over the next decade, and will have to take as soon as possible the initial decisions on development*

*of alternative sources of energy elsewhere, especially in the Trilateral countries themselves.*

Here there is a double set of problems. The first involves measures to develop supplies within the Trilateral area itself and in areas deemed relatively safe from interruption. The second involves doing what is possible to assure the continued flow of oil from the principal exporting countries now members of OPEC. The two problems are related in that progress toward self-sufficiency and in broadening the base of supplies narrows the market for OPEC oil and may increase the incentives for continuing to supply it. Yet economic bargaining power on the consumer side will still be limited owing to the quasi-monopoly position of the producers. The consuming countries should offer all the incentives they reasonably can, such as the sale of capital equipment and technical skills for development programs, or investment in projects outside national borders for those like Saudi Arabia with income-earning capacity surplus to their own needs for development.

Such arrangements cannot guarantee the continued flow of oil imports, especially if political developments in the Middle East bring Arab states once more to the use of the "oil weapon." The consumers will have the best chance of coping with all contingencies if they maintain solidarity among themselves both to set the framework of cooperation with the producing states and to face cutbacks and embargoes if and when they are imposed. The producing states should know that to cause economic breakdown in the industrial countries by withholding supplies or by sky-high prices cannot be in their own interest, and that economic relations must be seen in the context of overall political and security interests on both sides.

In the interest of larger and more diverse supplies, the consuming countries, and in particular their oil companies, should look to the possibilities of exploration and development of oil and gas in such areas as offshore Asia, Africa, and South America, where the political hazards may be lower than in the Middle East. Joint projects involving a number of governments and companies, working with the sovereign local governments, might be the most promising approach. With Venezuela's consent, a major endeavor of this kind to develop oil from the Orinoco tar belt could be a boon to the world oil supply of the future.

Within the Trilateral area those countries with significant energy resources should develop them. There will be a common interest in having the United States move ahead with coal (including coal gasifi-

cation and liquefaction), oil shale, and additional oil and gas; Canada with Arctic gas and Athabasca tar sands; Britain and Norway with North Sea oil and gas; and all with nuclear energy. Whatever increases the total supply should benefit the entire community. There may be a common interest also in pursuing some of these endeavors in joint projects involving, for example, European and Japanese participation in development of coal resources in the United States, Canada and Australia, or U.S., European, and Japanese participation in the development of Canada's tar sands. The United States, Canada, Norway and Great Britain, primarily concerned with use of their resources in the light of their own long-term needs, may be reluctant to include others or to make commitments regarding future export of their resources. We believe, however, that they should allow outside participation in the development of resources and the freest possible marketing of energy products, taking due account of their own long-term requirements, especially since the resentments fed by unilateralism and dog-in-the-manger policies would adversely affect the spirit and practice of cooperation among the consumer countries.

The need for investment in all kinds of energy over periods up to 20 years is such that cooperation for reducing costs is essential, and joint planning is required to assure coordination of long-range policies. One cardinal point in respect of supply is that the industrial countries, having made the decision to develop high-cost energy as the alternative to and eventual replacement for imported oil, have to stick with their decision. They cannot relax, without heed for the morrow, at times when the oil is flowing in. Those who undertake the investments must have assurance that the projects will go on and the products will be marketed, even if the oil-producing states should drop their price below the level at which these products are to be sold.

### C. SHARING IN AN EMERGENCY

*Our governments should be prepared for a situation of enforced scarcity, and therefore should agree on (a) the conditions which will constitute an emergency; (b) a stockpiling program; (c) emergency production plans; (d) special conservation measures and (e) a plan for the allocation of supplies.*

The experience in 1973-1974 showed that when an emergency occurs it is too late to establish an effective sharing plan. The private companies did well in the distribution of available supplies, but they

did not seek that authority and do not want it in the future. To make a plan for the next such shortage is a concrete, feasible and necessary task which governments can perform now.

The sharing plan should be based on need, taking into account both consumption and import patterns. If the emergency is marked by embargoes or other discrimination on the part of producing countries in supplying oil, the sharing plan should have the effect of spreading on an agreed basis the consequences of such unequal treatment, even at the risk of further measures limiting the total supply. That idea may be difficult to apply in practice, but it should be accepted as a guiding principle. If the opposite concept of go-it-alone prevails in this field of energy policy, it will surely prevail in others as well.

#### D. THE FINANCIAL IMPACT

*Action by governments and by international financial institutions will be needed to supplement the banking system in meeting the impact of increased oil prices on the economies of consuming countries and on the international monetary and trade structure.*

Meeting the higher cost of imported oil is both an immediate and a long-term problem. It has no easily discernible solution. Short-term borrowing may get some importing countries through their immediate financial crises but merely puts off the day of reckoning. Industrial societies cannot cut oil imports drastically to fit their pocketbooks because the shock to their economies would reduce still further their ability to pay. They will do what they can do to increase exports to producing countries, but even the most rapid increases of imports by OPEC countries must lag far behind the explosive growth of their export earnings. In trade, as in the "recycling" of surplus funds through their investment in consuming countries, the money is not likely to flow through the banking system back to the countries which need it most. (This question is taken up in the special report of Richard N. Cooper, North American rapporteur of the Trilateral Monetary Task Force.)

The unavoidable result of the present high price for imported oil is that some countries of the Trilateral region will find great difficulty in paying for oil and their other needed imports over any extended period and may exhaust their credit. In the absence of cooperative efforts to ease their burden, there is a danger that they will be forced into nationalistic measures of import limitation, dumping, and currency devaluation, provoking retaliatory and competitive moves by other

countries. This is a situation of urgency requiring common approaches within the European Community and between the Community, the United States and Japan. They are already working out in the O.E.C.D. a code of good conduct. On the financial side, the nations which are financially stronger will have to help, by government guarantees of bank loans or in more direct ways, those threatened with crisis, or all will in time be in crisis.

Individually and in concert, the Trilateral countries must do what they can to combat the effects of high oil prices by all possible measures of conservation and import substitution. Yet as long as the dependence on imports for a vital portion of energy requirements exists, the producing countries can more or less set the price they want. Wishing their oil reserves to last, they will have a continuing interest in getting more money for less oil.

The possibilities of reduction in oil prices lie in (a) competition among producing states anxious to maximize income but unable to agree through OPEC on manipulating exports and prices to that end, or (b) recognition by the producers of the global consequences of depression and possible economic breakdown in the industrial countries. In such circumstances one or more of the major producers might agree to lower the price of oil or to accept a scheme for deferral of a portion of the payments. But the only sure way to be relieved of paying tribute to the producers is to proceed seriously with development of alternative sources of energy. This will be high-cost energy, of course, but probably not far from today's prices for OPEC oil, and in time it should establish a ceiling above which oil imports would not go. The demonstration of serious intent could have an effect on prices before the new sources were actually producing in quantity.

The effects of vast surplus OPEC funds on the world's money markets and on the international monetary system are potentially disruptive and complicate the task of reforming that system now in progress. These questions are beyond the scope of this report. We note them in order to emphasize the difficulty of getting an agreement on monetary policy unless there is also cooperation on energy policy.

#### E. TECHNOLOGY AND RESEARCH

*The need for rapid progress in efficient use of energy, protection of the environment, and development of new resources will require a more extensive sharing of technology and more joint research.*

If there is solidarity in the distribution of scarcity, there should be solidarity in the distribution of new technology to overcome scarcity. It is comparable to a wartime situation in which allied governments, in developing new weapons and in mobilizing their economies, put science and technology to work where there are the best chances for achieving results.

Priorities have to be established on the main lines of research and development in new forms of energy and the division of labor for pursuing them. Past experience highlights the difficulties of predicting the rate of the development of nuclear power, but by 1985 it could be producing at least 15 percent of total energy consumption in the O.E.C.D. countries. Thereafter, the world will count on the increasing use of nuclear power, but on many aspects — providing adequate fuel for nuclear plants, preventing diversion of fissionable materials, ensuring safety — technology must be developed further and political-economic decisions have to be made. These matters cannot be adequately dealt with on the national level alone.

Looking further ahead to forms of energy to which scientific discovery has not yet brought us (nuclear fusion, solar energy for electricity, hydrogen, and others), governments and research institutions will have to set priorities for the use of their talents and resources in accordance with a general plan, and to review and change those priorities as the march of science and technology goes forward.

Taking account of all these requirements, the United States, Canada, the E.E.C. and Japan should work out an agreement on cooperation in the field of energy research and development.

### III. RELATIONS WITH OTHER COUNTRIES

#### A. OIL-PRODUCING COUNTRIES

*The consuming countries must try, as indicated under the above recommendations on supply and on price, to build a continuing relationship with the oil-producing countries in which both sides have a stake and which they will not wish to disrupt.*

It is not easy to create that relationship, given the atmosphere of the past year. The credibility gap is wide, but obviously the dialogue has to begin. Many of the producing countries' arguments are well taken and deserve a respectful hearing in the search for an accommodation of interests.

The new relationship, in any case, must take account of the legitimate desire of the producing nations to own and control their resources, to build industries to process those resources, to move rapidly ahead on the path of general development, and to make sound investments. It should accord to them a place in international economic councils commensurate with their increased economic status.

The industrial states should be prepared to furnish technology and management skills to help them diversify their economies, improve their agriculture, and prepare for the time when their oil resources will decline, for example, by joint research in the field of solar energy. Building refineries and petrochemical industries in the oil-producing countries will tend to increase dependence and to increase the cost of petroleum products for the consumers, but these industries are going to be built one way or another and the wise course is to help.

Solidarity of the consuming countries remains essential, as the alternative to a ruinous scramble for competitive advantage. This does not mean a confrontation of two monolithic blocs or a huge conference of consumers versus producers, but neither does it mean that the former should not use what bargaining power they possess, which in the overall picture of markets, trade, technology and investment is considerable. They should be in a position to use it flexibly, encouraging moderate policies on the part of producers.

Bilateral contacts or approaches to producing countries on a regional basis should not be ruled out as long as they do not have the effect of tying up supplies, bidding up prices to the detriment of

others, or reducing the potential bargaining power of all consumers. If the E.E.C. is maintained as a customs union, of which a common energy policy is a necessary complement — and this is assumed to be in the general Trilateral interest — it must be expected to negotiate with the oil-producing countries on trade and investment, though not on prices. Such a regional approach may be beneficial and is clearly preferable to bilateralism on a national basis. Whether the producing states would engage in negotiations with the E.E.C. singly or as a group would be for them to decide; the former method seems more likely.

American, European and Japanese firms will be competing in exports to the oil-producing countries, but here again the general interests of the Trilateral countries as a whole should set the framework. The more bilateral deals are expanded, the more those who make them are subject to political pressure. Unrestricted and uncoordinated bilateral projects also tend to work in the direction of wild and uneconomic investment in the oil-producing region as a whole, which is in no party's interest. International consortia may be useful for many development projects, especially for large and politically conspicuous ones. At the least, there should be an accepted practice of exchanging information and consulting in the O.E.C.D.

Similarly on political matters, a generally agreed overall approach to such questions as settlement of the Arab-Israeli conflict or arms sales to Middle East states would increase the chances of harmonizing oil policy with political and security objectives. Our several governments would, of course, maintain their own respective interests and differing degrees of intimacy with the various Middle East states, but they must avoid the acrimony and cross purposes which characterized their mutual relations in the autumn of 1973. North America, Western Europe and Japan have common interests in the availability of Arab oil, in the survival of Israel, in Arab-Israeli peace settlements, and in a stable balance and the avoidance of great-power conflict in the region. All have a political-economic role to play in that area in the years ahead.

Although the United States as a superpower sees these problems with a broad strategic view, and Europe and Japan see them primarily from the standpoint of their vital interest in oil, harmony on broad policy is necessary not only in light of their own mutual relations, but also in bringing the Middle East states as well to see their policies on oil in the broader context of international security and cooperation. Therefore, there should be close and frequent consultation among the Trilateral countries on their broad policies in the Middle East.

## B. THE SOVIET UNION AND CHINA

*It is logical to explore possibilities of obtaining increased supplies of energy from the U.S.S.R. or China, but these possibilities do not offer the prospect of meeting any substantial part of the problem.*

Proposals presently under discussion by U.S. and Japanese companies with the Soviet Government seem to involve high costs and high risks, and should be weighed against comparable investments elsewhere. Vast Soviet reserves of energy, particularly of natural gas, may indeed prove to be a much needed source in the 1980's for the U.S.S.R. itself and for many other countries as well. Increasing the supplies of Soviet gas to Europe appears to make more sense than costly and complex arrangements for shipment of liquefied natural gas to the United States. It is natural for Japan to diversify its sources of energy by looking both to the U.S.S.R. and to China (which is potentially a considerable oil exporter).

As for the general political aspects, Japan or European countries may be wise not to go into large-scale energy projects in the U.S.S.R. except in association with each other or with the United States. Cooperation in energy development with the Soviet Union or China could help to strengthen the trends drawing those countries more into the world economy, but none of the Trilateral countries should take the political risk of a substantial degree of energy dependence on the Soviet Union or China.

## C. DEVELOPING COUNTRIES

*Because the rise in oil prices, together with increased prices for other essential products, threatens a number of the developing countries with disaster, they should be afforded help both immediately and in the longer term.*

Emergency aid must be furnished in the form of grants or soft loans, for there is little prospect that it can be repaid. The stronger industrial countries, especially those which have gained by the high prices of food, fertilizers and other goods needed by the developing countries, should maintain or increase current levels of aid despite their own troubles with oil payments, and the oil-producing countries should also contribute through existing international financial institutions or new arrangements such as have been proposed by Iran. It should be clear that this is not just the "north-south problem" in more acute form, for the oil-producing

states have both a heavy responsibility for the plight of the others and ample means to ease it.

In the longer run, the continuance of high-cost energy for all will create for many developing countries a situation of permanent inability to meet their fuel bills. As the developed countries increase their own production of energy, there should be more Middle East oil available on the world market, perhaps at a lower price. One way or another, the prices the poorer developing countries pay for oil and for food will have to come down, or arrangements for concessional aid on a more or less permanent basis will have to be established. Because this is a common obligation of the industrial and the oil-producing countries, it provides another facet of the cooperation which their own reciprocal interests in oil, trade and development will require them to build. And the urgent human considerations for doing so should be beyond dispute.

#### IV. INSTITUTIONS

The Trilateral countries need adequate institutional arrangements to coordinate the many aspects of their joint and several approaches to the energy problem. There will have to be continuing consultation among governments, but regular diplomatic channels will not be adequate. If there is need for a general master plan or strategy setting the broad lines of policy, there is need for an organization where its adaptation to changing conditions and its translation into practice can be worked out.

The O.E.C.D., because of the character of its membership and its general function of setting and overseeing the rules of the game, provides the natural framework. An energy agency associated with the O.E.C.D., primarily a consulting body but with some delegated authority, would be a logical central institution for coordinating the tasks which have to be done, everything from current stockpiling to long-range plans for research. The important thing is not the label or the established procedures but the ability to get the job done. If the O.E.C.D. should be too cumbersome or prove inadequate as an action-oriented body, the possibility of a new energy agency representing Canada, the United States, the E.E.C., and Japan should be studied.

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## V. CONCLUSION

The energy crisis has propelled the industrial nations into a situation to which other factors were also bringing them though more slowly: a situation in which they have to set the lines of basic policy together or succumb to chaotic national competition and a destruction of the fundamentals of a rational world order. The real challenge of the energy problem is not a struggle with outside adversaries, as in most great crises of the past, but within and among our respective societies. Our governments must provide bold and farsighted leadership in their domestic and foreign policies to face the challenge. Our peoples need a wartime psychology to fight this war against ourselves. They should be prepared to tighten their belts and to share sacrifices among themselves — because it will be a long, uphill struggle.

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