

Extract: Mtg record AM/PM of Australia, Malcolm Fraser.

Tokyo Summit

Parliament House, Canberra, Sat. 30 June, 1600 hrs

The Prime Minister said that the Economic Summit had begun with a discussion of the general world economic situation. This was now worse than it had been a year ago because of the recent increases in oil prices: the prospects for growth, world trade and inflation were now worse. It was most important that countries did not try to accommodate the growth in inflation by printing money: rather, they should adopt policies designed to fight the new situation.

The greater part of the Summit Meeting had been devoted to the problem of energy. It was ironic that while the Meeting was going on, the news had arrived of the OPEC decision to increase the price of oil. It was OPEC that was putting a strain on the world economic system. For example, Saudi Arabia could supply another 1½ MBD more than now but refused to do so. There was a real risk that the free world would become a hostage to the oil producing Arab States. This development had made those attending the Summit Meeting all the more determined to try to bring oil supply and

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PM's mechanics with Fraser

demand into balance, and this required the emphasis to be put more on reducing oil imports than on oil consumption as such. With this objective in mind, France, Germany, Italy and the United Kingdom had gone from the previous week's meeting of the European Council in Strasbourg with a general commitment for the Community as a whole not to import more oil in 1985 than they had done in 1978. When the other three nations attending the Tokyo Summit - the United States, Japan and Canada - had been asked whether they would match the commitment of their European partners, their response had been that they could do so only if the Europeans were treated not as an aggregate but as separate countries. This approach presented problems for the smaller members of the Community, like Holland, whose room for manoeuvre was rather less than that of the bigger members of the Community. On the other hand, the fact that the UK would not need to import oil from 1981 onwards gave the Community as a whole a margin within which to work. Nonetheless, the United States had held out and had said that they could not accept an individual target unless the European countries did the same. It was, therefore, agreed that the four European countries should recommend to their Community partners that each country's contribution to the annual levels of imports should be specified. In return, the Americans agreed to adopt as a goal for 1985 import levels not exceeding the levels either of 1977 or the adjusted target for 1979, i.e. 8.5 MBD. This undertaking might well cause difficulties for President Carter. American oil production was falling by 6 per cent per annum, despite the Alaskan Slope, and they would have to try not to import additional quantities to offset this fall in domestic output. Further, despite the fact that many Americans still refused that there was a genuine oil crisis, he would try to cut down subsidies on consumption. President Carter had been attacked during the Summit Meeting for his \$5 a barrel subsidy on heating oil but he had explained that he had been compelled to take this step in order to bring back to the United States traditional supplies from the Caribbean which had been diverted by higher prices elsewhere. The Japanese had accepted a 1985 target of between 6.3 and 6.9 MBD. Their present consumption was 6.5 MBD, and they had to allow some headroom in their target

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for future economic growth. Japanese per capita consumption was in any case relatively low. Canada was in a particularly difficult situation because her domestic oil production would decline sharply between now and 1985 before it began to rise again as supplies from the Yukon became available. In the short term, therefore, Canada would be making a rather greater demand on the world oil market than previously. Nevertheless, she had agreed to maintain her imports in 1980 at a level not higher than those in 1979.

All the countries attending the Summit Meeting agreed that the most effective means of achieving these targets for oil import levels in the short term would be by letting the price mechanism work in full. Moreover, they all accepted that they must act together, since to do otherwise would simply be to transfer the problem to other countries. In the longer term it was agreed that the free world must make itself less vulnerable to restrictions on its oil supplies. This meant introducing alternative sources of supply. The most important of these would be nuclear energy, the use of which would need to be expanded considerably. It would, however, be essential to ensure that the requirements of safety were properly met. There would probably be a greater use of coal, though it was wrong to think that coal was free of environmental problems. President Carter was anxious that there should be international collaboration on the extraction of oil from coal, but this was likely to be a very costly road to follow.

Mr. Fraser said that it was clear that the oil situation would result in unemployment remaining at a high level and in world trade growing, at best, only very slowly. There would also be serious implications for the developing countries, and he wondered whether this prospect did not offer a card which could be played against OPEC. Hitherto the developing countries, both oil producing and non-oil producing, had shown considerable solidarity, but there might now be advantage in conducting a discreet campaign to show the non-oil producing developing countries that OPEC's price increases were likely to destroy their economies.

/The Prime Minister

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The Prime Minister said that the reaction at the Summit Meeting to the news of the latest oil price increases had been such that a passage critical of OPEC had been included in the communique. She had not been sure about the wisdom of this for the economic investment of OPEC countries in the West was so great that we could not afford to alienate them. It was also true that they could themselves face damaging political consequences domestically if Western economies were seriously hurt.