

Date
26 April 1982

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26 April 1982

MEMORANDUM FOR : Thomas B. Cormack
Executive Secretary

STAT

FROM :
Director, Office of Global Issues

SUBJECT : Versailles Summit: Presidential Draft
Briefing papers

1. We have passed our comments on the attached briefing papers directly to the Department of Energy. We had no major substantive problems with any of the drafts, but provided the following comments.

2. U. S. Supply Developments: The first Point-Counterpoint under the Key Points section refers to the 1978/79 doubling of world oil prices. These price increases actually took place in the 1979/80 time frame.

3. Stockpiling: No comments

4. Oil Price Trends/Outlook: The second paragraph leaves the mistaken impression that oil prices are expected to continue their downward spiral no matter what happens to the economy. We suggested that the second sentence in this paragraph be revised to read something like: "The US position is that the upturn in economic performance beginning later this year is unlikely to generate upward price pressures." Similarly the reference to an "essentially irreversible trend toward lower oil consumption" as a Counterpoint left the impression that consumption will never rise above current depressed levels. We recommended that this phrase be struck from the text.

5. Natural Gas -- Pricing and Supplies: No comments.

6. Nuclear Energy: The first sentence under the Essential Facts section points toward the cancellation of some 90 nuclear reactors in the United States. Our records show only about 50 reactors have been cancelled. The first sentence in the next paragraph points to the problems experienced by the nuclear industry in other Western countries. We suggested it would be worth pointing out that despite these problems, no plants have been cancelled. Finally, we recommended the addition of another talking point dealing with the question of nuclear waste disposal since most OECD countries are waiting for the United States to take the lead in this area.

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**Department of Energy
Washington, D.C. 20585**

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APR 22 1982

**MEMORANDUM FOR Ernie Chase
Room 4143
Department of Treasury**

**Alan Larson
Room 3336
Department of State**

**John Paugh
Room 3862
Department of Commerce**

**Steve Ferrar
Room 8235
New Executive Office Building**

**Roger Porter
Room 235
Old Executive Office Building**

**Thomas B. Cormack
Room 7E13
CIA**

**Henry Nau
Room 392
Old Executive Office Building**

**FROM: George Bradley
Principal Deputy Assistant for
International Affairs**

**SUBJECT: Versailles Summit: Clearance of Draft Briefing
Papers for President's Briefing Book for
June 4-6, 1982**

Attached for your agency's clearance are papers on key energy issues prepared by DOE for the President's briefing book for the Versailles Summit. Please provide your comments by Noon, April 26, directly to my staff person coordinating our contribution (Carol Lee 252-6383).

Attachments

*Gary,
Comment to Lee on
the phone.
send a memo
to [redacted] STAT
for Cormack.
on what we
told Lee so
we can clear
our books.*

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APR 16 1982

U.S. SUPPLY DEVELOPMENTS

DRAFT**I. Administration Policy and U.S. Energy Supply**

The positive response of U.S. petroleum markets to the immediate decontrol of oil decision in January 1981 strongly supports the free-market approach to energy policy advocated by this Administration.

II. Essential Factors

Decontrol of oil and removal of the Entitlements Program eliminated subsidies for U.S. oil consumption and oil imports and encouraged domestic oil exploration and production. Lower U.S. oil imports, resulting from decontrol, contributed to lower demand for OPEC oil and lower world oil prices. Most foreign governments strongly support the decontrol decision.

III. Key Points

Since decontrol in January 1981, U.S. oil drilling activity has been at an all time high, domestic oil production remained flat instead of declining at over 200 thousand barrels per day as previously expected and world oil prices fell by over \$4.00 per barrel and gasoline prices by about 14 cents per gallon.

Point--The improvements in the U.S. oil market result more from the doubling of world oil prices in 1978/79 rather than the decontrol decision.

Counterpoint--The oil price increases in 1978/79 ^{SHOULD BE 1979/80} created a high potential motivation for action. Oil decontrol released that potential by allowing consumers and producers to see actual prices.

Point--The Reagan Administration decontrol decision only speeded up what was already well underway from the Carter Administration.

Counterpoint--President Carter deserves a lot of credit, but the Reagan Administration's forceful move to decontrol oil and clearly stated objective of allowing markets to work eliminated any doubt about the possibility of future price controls and so allowed producers to invest now in drilling and production activity knowing that free-market prices would prevail in the future.

Point--While decontrol may have helped increase conventional oil production, low world oil prices are slowing down investment in U.S. synthetic fuels.

Counterpoint--Lower energy prices coupled with our expected improvement in interest rates and inflation are lowering the projected costs of synthetic fuels. Also, the Synthetic Fuels Corporation is moving ahead with loan guarantees and other programs to insure some synthetic fuels development so that if world oil prices rise in the future, private industry can rapidly expand synthetic fuels production as needed.

John Stanley-Miller/PPA/DOE/252-5388

STOCKPILING

APR 22 1972

I. Issue:

The United States has emphasized on numerous occasions that primary reliance on market forces together with high levels of strategic stocks for discretionary national use are the best means for dealing with future oil supply disruptions of whatever proportion. The United States has remained strongly opposed to any formal stock drawdown arrangement coordination, such as that proposed by Italy and France, to counter the effects of minor supply disruptions. These same countries have attempted to link discussions of increasing stock levels with those of stock use, and in the past advocated utilizing flexible surge stocks to reduce pressure on the market in minor supply disruptions.

II. Essential Facts:

At the February 26 meeting of the IEA Governing Board, the U.S. delegation successfully won IEA support for remanding all stock issues to one of the IEA subgroups for further consideration, where we hope to discourage further stock use initiatives. At the same meeting, the United States successfully eliminated the stock issue as topic for the IEA Ministerial in May. While we continue to support high levels of oil stocks we remain strongly opposed to discussion which would link stock levels and stock use.

III. Talking Points

Criticism: Relatively minor oil disruptions can have dramatic consequences for individual countries supply positions and for over all price levels. Nonetheless there is no system which addresses stock management in these situations.

Response: The U.S. has continuously stressed that primary reliance on the market together with high levels of strategic stocks for discretionary national use are the best means of dealing with oil disruptions of either sub-trigger or emergency proportions. Formal interventionist mechanisms interfere with the effective operation of the market and for a variety of legal and technical reasons would be impossible to establish and administer effectively in a sub-trigger environment.

Criticism: Supply interruptions similar to those of 1979, may be beyond the resources of private oil stocks for an individual country, and yet be below the level that would trigger the IEA sharing system

Counterpoint: It is impossible to anticipate the special characteristics of an oil supply disruption. Therefore, we must build government emergency oil stocks to supplement private supplies and be prepared at the time of a supply interruption to consult closely with industry and other governments and to take whatever action is judged necessary. However, emergency and other security stocks should be available for use on a discretionary basis by national governments as they see fit.

OIL PRICE TRENDS/OUTLOOK

APR 22 1982

I. ISSUE

- Recent decline in world crude oil and refined product prices.
- The outlook for oil prices in the future.

II. ESSENTIAL FACTS

The world oil market has been extremely weak in 1982. Oil consumption has continued its steep decline which began in 1979. At the same time, oil exporting countries have been producing more oil than they could sell. The resulting over-supply has put pressure on prices, forcing oil producers either to give official and/or unofficial price cuts as most non-OPEC and some OPEC oil exporters have done, or to cut production as OPEC did beginning April 1, 1982.

The decline in oil prices can be attributed to both a long-term, essentially irreversible trend toward a more efficient utilization of energy and non-oil alternatives and a cyclical downturn in the economic performance in the industrialized countries. The U.S. position is that the upturn in economic performance beginning later this year is unlikely to reverse the trend, resulting from OPEC's past overpricing practices and U.S. decontrol toward lower oil consumption through improved energy efficiency and greater use of non-oil alternatives such as coal and nuclear. In the absence of an unexpected supply disruption, there should be little or no upward pressure on real oil prices for the next several years.

MAKES IT SOUND LIKE PRICE WILL CONTINUE TO FALL, REALLY IS FALL, NO UPWARD PRICE PRESSURE

III. TALKING POINTS

Point: Low economic activity has been primarily responsible for the decline in oil consumption, and as a result, when the economic recovery arrives oil consumption will increase, renewing upward pressure on prices.

Counterpoint: Past overpricing of oil by OPEC and this Administration's reinforcement of market forces through decontrol of crude oil prices and deregulation of the U.S. oil industry have been the driving forces behind the trend toward greater efficiency in energy usage and uses of alternatives to oil in the U.S. This Administration's market-oriented policies will offer American consumers the proper incentives to continue to become more efficient in their use of energy and to use alternatives to oil, thus perpetuating an essentially irreversible trend toward lower oil consumption. This process will also receive a boost from Administration policies to stimulate economy recovery, which will also encourage new energy-efficient capital investments.

will be...

APR 22 1982

NATURAL GAS - PRICING AND SUPPLIES**I. ISSUE**

- Deregulation of U.S. wellhead natural gas prices.
- European dependence on Soviet gas imports.

II. ESSENTIAL FACTS

The European Community is concerned about the U.S. commitment to the accelerated decontrol of domestic natural gas prices. They fear that continued controls will increase U.S. demand and reduce production and force the U.S. to draw more heavily on international gas markets. This concern has been heightened by the decision to defer legislation to accelerate natural gas deregulation.

In addition to the current commitments being made to increase Soviet natural gas imports, Europeans are considering the possibility of another increment of Soviet gas in the late 1980's or early 1990's. The U.S. position is to encourage the Europeans to develop alternative sources, especially new Norwegian gas supplies. The U.S. would like to demonstrate that the security provided by alternative sources outweighs the additional cost.

III. TALKING POINTS

Point: The U.S. Administration appears to have reconsidered its commitment to proceed with accelerated deregulation of natural gas prices.

Counterpoint: Due to an extremely heavy legislative calendar, we were forced to defer introduction of legislation to modify and improve the manner in which the Natural Gas Policy Act achieves deregulation of the wellhead price of natural gas. We remain firmly committed to the principle of introducing market forces to our energy markets, including the pricing of natural gas.

Point: Natural gas from the Soviet Union provides Europe with a reasonably priced source of energy to use in the reduction of dependence on Middle East oil.

Counterpoint: In estimating the cost of gas, Europe must consider the cost, in terms of their own security, of dependence on the Soviet Union. More consideration must be given to the development of secure sources of gas supply such as gas from Norway.

NUCLEAR ENERGY

APR 22 1982

I. ISSUE

Strong support from Summit leaders of commercial nuclear energy as an alternative to reliance on insecure oil would help alleviate some of the problems associated with increased nuclear energy use. One major public concern is waste management which could be specifically addressed in the context of increased international technical cooperation.

II. ESSENTIAL FACTS

only about 50

The US nuclear industry has experienced cancellation of some 90 reactors since 1978 and has no current prospects for new domestic orders. The major US problems are: 1) reduced rate of growth of electricity demand; 2) utility financial problems; 3) burdensome regulations and licensing delays; and 4) failure to adequately resolve the waste management issue.

Most Western countries, with the exception of France, are experiencing similar reductions in planned nuclear growth, although not necessarily for all of the same reasons. In particular, all Western countries have some degree of a public perception problem associated with high-level waste disposal. Most technical experts would agree that the technology for such disposal in a safe manner is in hand, but the political and institutional decisions necessary to implement it have not been made. Given this situation, nuclear energy prospects in these countries would undoubtedly be enhanced and confidence renewed if Heads of State made a strong statement in support of Nuclear Energy, and recommended some action to resolve the public concern about waste. In the latter regard the Heads of State could ask the OECD Nuclear Energy Agency (NEA) to assess the feasibility of a joint international waste management project.

put NO P. 111'S ARE BEEN CANCELLED

III. TALKING POINTS

Most OECD countries are waiting for the US to take the lead in waste disposal, especially in coordinating

Point: It is important that all energy sources, including nuclear energy, be utilized to their fullest potential to minimize future demands on insecure oil and gas sources.

the US high-level waste isolation projects.

Response: France may press for a stronger pro-nuclear statement.

Point: In view of widespread public concern over the nuclear waste issue the OECD/NEA should be asked to assess the feasibility of an international waste management project.

Response: Some European countries may suggest that this be omitted as past efforts to define such a project on a scale that would have public impact have been unsuccessful.

Point: We support a Summit mandate to the High-Level Monitoring Group to devote special attention to nuclear energy issues over the next two or three years.