EXECUTIVE SECRETARIAT

ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI		X		
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	DD/OGI		X	[redacted]	
20	VC/NIC		X		
21					
22					
	SUSPENSE		Date		

25X1

Remarks To 20: Please take necessary action with State to replace Waterman on list of standing members of the IESG.

[redacted]

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Executive Secretary

30 July 84

Date

3637 (10-81)

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United States Department of State

Washington, D.C. 20520

Executive Registry
84-2851/1

July 28, 1984

~~UNCLASSIFIED~~
With ~~SECRET~~ Attachment

MEMORANDUM

Senior Interagency Group No. 34

TO:
NSC - Mr. Robert Kimmitt
Energy - Mr. William Vitale
Commerce - Mrs. Helen Robbins
Defense - Col. R.J. Affourtit
CIA - [redacted] 25X1
OPD - Mr. John Svahn
Treasury - Mr. Christopher Hicks
Interior - Mr. Stephen Gleason
Transportation - Mr. Logan H. Sallada
USTR - Mr. Dennis Witfield

SUBJECT: International Energy Security Group

Attached is a summary of the discussion at the International Energy Security Group meeting held on July 3, 1984 and a list of those who attended.

for Richard D. Kauzlarich
Charles Hill
Executive Secretary

~~UNCLASSIFED~~
WITH ~~SECRET~~ ATTACHMENT

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INTERNATIONAL ENERGY SECURITY GROUP MEETING

July 3, 1984

Summary of Discussion

Contingency Planning for the Persian Gulf (NSDD 134 and 138)

Under Secretary Wallis summarized the results of his April consultations in European capitals. The effect was to focus governments' attention on oil stock policy and to move them in the direction of stock draws. This does not mean that they will draw immediately in the event of a disruption. Unlike the U.S., most other OECD governments do not hold large official stocks. Rather, they meet their IEA stock commitments through a combination of public and private stocks over which they exercise varying degrees of control. While responses varied, it was clear that most governments are now thinking constructively about early use of stocks in an emergency and are moving in our direction. There is still much work to be done.

Ambassador Fairbanks reported that the Japanese were receptive to the U.S. initiative. There is agreement within the bureaucracy regarding the appropriate stock level and rate of in-flow. The Japanese are likely to tilt toward holding larger government stocks over time, but the question is how fast. There is no evidence that they have any plans to move in the immediate future. With regard to other aspects of contingency planning, the Japanese showed particular interest in the rules of engagement for shipping. Dave Tarbell (DOD) commented that DOD was aware of this interest and had asked Embassy Tokyo to check into it.

Don Pearlman (DOE) and Allan Wendt (State) reported on recent IEA discussions on stocks. Mr. Pearlman noted that there had been two informal meetings recently with six to eight other nations and the EC, as well as a meeting of the IEA's Standing Group on Emergency Questions. The IEA Secretariat had put together a paper on stocks, which focuses on stock levels, the need for further examination of minimum operating levels, differing methods by which stocks are held, and differing legal bases for drawdown of private stocks. It notes that stock policy can be approached from the supply side (stock draw) or the demand side (restraint). On balance, the paper is a worthwhile exercise. It demonstrates that many IEA countries

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do not have large reserves, net of minimum operating levels, and it focuses almost wholly on the advantages of early stock draw in the event of a "major disruption." It encourages countries to build stocks and provides a mechanism for meeting early in a disruption.

Some countries are insisting that the paper be "balanced" by giving more attention to demand restraint measures. Some are also concerned about setting up a consultation mechanism outside the Governing Board. The paper is now in a form acceptable to the U.S. The next step will be to win acceptance by the Governing Board. Even if we accomplish this, we will still face a long upward climb in persuading our allies to build stocks. There is a remarkable lack of enthusiasm to build above current levels. France and Italy frankly say that an increase in government stocks is impossible now.

Mr. Wendt noted that some countries are suspicious that the U.S. is in some way trying to circumvent the IEP, the IEA's founding document, which places considerable emphasis on demand restraint. In particular, some countries resent the recent informal meetings which have been limited to participation by the major stock holding countries. The U.S. believes that these meetings are a useful mechanism for discussions among those countries actually in a position to draw stocks. The U.S. has handled this problem by stressing the importance of stock draw, including an SPR draw, in reducing the damage of a disruption. Our intent is to strengthen the IEA: there is no intent to set up a body outside the IEA.

Charles Schotta (Treasury) reported that his working group had completed its analysis of the consequences of a significant price increase during an oil supply disruption. The most severe disruption considered, an 8 million barrel shortfall for 6 months, could increase the aggregate current account deficits of OECD countries by $95 billion. In general, the group found that, for each $10 per barrel increase in the annual average price of oil, GNP growth within the OECD area could decline by slightly under 1 percentage point and inflation could increase by slightly more than 1 percentage point.

The impact of an oil price increase on non-oil LDC's would be especially severe. Many of these countries are already at or above their commercial borrowing limits, while OECD countries are likely to have new resources available for official credits in the event of a disruption. The group analyzed 15 non-OPEC LDCs: Mexico, Egypt, Argentina, Zaire, Taiwan, Brazil, India, Korea, Thailand, Chile, Israel, Morocco, Pakistan, the Philippines and Turkey. Mexico and Egypt are net oil exporters and would benefit from increased oil prices. Argentina and Zaire have insignificant net oil imports and would thus be largely unaffected. Brazil, India, Korea, Taiwan and Thailand could probably absorb increased oil prices, although with varying degrees of difficulty. In the remaining six cases, (Chile, Israel, Morocco , Pakistan, the Phillipines, and Turkey) however, extraordinary financial assistance of some type, totalling $1-4 billion would likely be needed. The group foresaw no special U.S. response; most problems would be addressed through the IMF mechanism.

Mr. Robinson (NSC) noted that the Europeans had expressed great interest in the impact of an oil supply disruption on LDCs. The international financial system has less flexibility to absorb an oil price increase than ever before. Early release of the SPR and other oil reserves would help hold down oil price increases thus benefiting all countries.

Mr. McCormack (State) noted that it is already hard to persuade commercial banks to extend new credits to financially strapped LDCs. It will be even harder in the event of an oil price increase.

Mr. Schotta agreed, but added that a Persian Gulf disruption would be a short term disruption, not necessarily a long term change in the price of oil. Import reductions by LDCs, even those with little left to cut, would have to be the basic adjustment to higher oil prices.

Mr. Pearlman noted that NSDD 134 states as a U.S. goal avoidance of triggering the IEA sharing mechanism if possible. He asked whether targeted financial assistance to IEA members, notably Turkey, would be possible to avoid pressure to trigger the sharing system.

There followed a general discussion of whether the selective trigger would ever be used, given the new IEA pricing provisions for the transfer of oil within the IEA allocation mechanism. (A paper on this subject was prepared during the IESG examination of our international energy policy and preparedness.)

Under Secretary Wallis summarized the discussions on energy at the London Summit, noting that the U.S. introduced the subject albeit late in the planning stages. The President raised energy emergency preparedness issues in all of his bilaterals. This was the most productive part of the exercise. While the U.S. did get a statement on energy in the Declaration, it was a minimal statement. The issue was clearly not yet ripe for formal summit discussion. With hindsight, we were able to get as much, if not more, than we could expect.

Mr. Pearlman and Mr. Wendt reviewed their earlier discussion of the problems of increased stock build. It will be important for the U.S. to continue efforts to encourage increased stock building by major oil consumers, but this is a difficult task.

Mr. Patrizia (State) reported that concerned agencies (DOE, State, NSC, White House Press Office, USIA) are putting the final touches on the public affairs strategy called for in NSDD 134. They would aim for completion by the end of the week. Mr. Tarbell asked if other agencies would be given an opportunity to review the strategy. Mr. Patrizia replied that it would be available for comment by IESG member agencies.

Update on U.S.-Japan Energy Issues

Under Secretary Wallis informed the group that he had suggested a side meeting of the U.S.-Japan Energy Working Group during the September Economic Subcabinet consultations in Washington but that the Japanese had not yet responded.

Mr. Yancik (Commerce) reported on U.S.-Japan coal trade. The Japanese Coal Mission mandated by the Joint Statement on Energy Cooperation visited Washington in May. The meetings with Congressional leaders were especially effective in demonstrating the importance of coal trade to overall U.S.-Japan economic relations. The U.S. and Japanese private sectors agreed to create a Standing Technical Committee to continue the May discussions. The Committee will hold its first meeting in Tokyo in September. The U.S industry will press the Japanese to agree on targets for U.S. coal sales to Japan. A bright spot is U.S. metallurgical coal sales to Japan which will be about 13 million metric tons this year; the level would have been closer to 10 million tons without the efforts of the Energy Working Group.

Mr. Wendt reported that ARCO, Yukon Pacific and a group of Japanese trading companies and banks will conduct a pre-feasibility study of a project for joint development of Alaskan gas. Exxon and Sohio have been invited to participate as well, but have so far shown no interest. There is also evidence of Japanese interest in a planned new project (ARCO's Cook Inlet project) to export gas from southern Alaska.

Dan Taft of OMB reported that Senator Murkowski's proposed Alaskan oil amendment to the Export Administration Act had gone through a number of iterations. The Senate version of the EAA contains language calling for a Presidential commission to study the issue. Compromise language now before the Conference Committee calls for the President to report to the Congress on the impact of exports of up to 200,000 barrels a day.

A list of those who participated in the meeting is attached.

IESG MEETING
Tuesday , July 3, 1984

ATTENDEES

NAME	AGENCY	TELEPHONE
Allen Wallis	State	632-3256
Richard Fairbanks	State	632-5324
Richard McCormack	State	632-0396
Allan Wendt	State	632-1498
Roger W. Robinson	NSC	395-3622
Ben Bonk	NSC	395-4985
Dorothy Robins-Mowry	USIA/NEA	485-8526
Michael Austrian	State	632-5151
Ralph Johnson	USTR	395-3320
H.A. Merklein	DOE	252-5800
Michael T. Kelley	DOC	377-0614
Randall Davis	White House	456-6252
Dan Taft	OMB	395-3285
Ken Glozer	OMB	395-3040
Charles Schotta	Treasury	566-5881
Dave Tarbell	DOD/OSD	695-2659
D.H. Pearlman	DOE	252-6476
Dave Burns	State	632-8097
Greg Miller	State	632-2181
Nancy Maloley	DOI	343-7351
John Brodman	DOE	252-5915
[redacted]	CIA	[redacted] 25X1
Bob Hall	NEA	632-5150
H.P. Goldfield	DOC	377-1461
Joe Yancik	DOC	377-1466
Tony Albrecht	State	632-0366
John Holmes	State	632-0310
Lou Pugliaresi	State	632-9571
Ernest Chase	Treasury	566-5071
Bob Reinstein	USTR	395-7203
Charles Patrizia	State	632-1868
Kaarn Weaver	State	632-8854
Finn Neilsen	DOE	252-4000