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Kissinger's Petroleum-Crisis Strategy Faces Skepticism at Home and Abroad

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After months of delay and indecision, the U.S. finally has developed a grand strategy for coping with the world oil crisis. But it is far from certain that American strategists [illegible] of those needed to make it work: [illegible] allies, the U.S. Congress, the American consumer and Arthur Burns.

The U.S. strategy, outlined last week in a major policy declaration by Secretary of State Henry Kissinger, faces a multiplicity of diplomatic, political and financial hurdles. Its ambitious design calls for a bold new international lending scheme, stern energy-conservation efforts, exceptional cooperation and unity among oil-using nations and acceptance by Congress and Mr. Burns' Federal Reserve Board. None will be easy to achieve, U.S. officials concede.

Still, the mere fact that the U.S. has finally developed some sort of overall plan to deal with the staggering economic and financial implications of high-priced oil is being greeted here and abroad as a major event. Some European observers are grandly comparing the Kissinger energy strategy to the Marshall Plan for rebuilding Europe after World War II. While that may exaggerate its importance, others agree it is a major initiative. "It shows we aren't sitting around like so many hypnotized rabbits," comments a senior European central banker, relieved that the U.S. finally has moved.

In the year since the Arab oil-cartel nations imposed their embargo and began a series of price hikes that has quadrupled the cost of imported oil, U.S. policy had been largely passive. It rested mainly on a hope that somehow oil prices eventually would fall in response to lagging demand, and that the private banking system meantime could handle the "recycling" of billions of surplus oil dollars from the suddenly wealthy oil states to the suddenly needy petroleum-importing countries. This posture was championed by Treasury Secretary William Simon, who was skeptical of widespread fears that the oil-price problem could trigger national bankruptcies and an international financial panic.

From Passive to Activist

Now the U.S. is switching to a more activist policy, designed both to provide new safeguards against a financial crisis and to [illegible] over international economic policy, traditionally a Treasury preserve. "Henry has taken the ball and run with it," one senior White House official says. "I feel like we've just lost our pants," a chagrined Treasury aide comments. Mr. Simon has denied that the Kissinger initiative reflects a major change of policy or any difference of view between himself and the Secretary of State. Treasury officials are portraying the new policy as a joint Kissinger-Simon plan that they had kept under wraps for weeks while the Treasury Secretary publicly held to his more passive posture.

The key to the new U.S. strategy is a link between energy conservation and financial aid. The plan has two essential ingredients: first, a proposed $25 billion mutual-aid loan fund, financed by the industrial nations themselves, to provide emergency loans to any participating country in financial distress; second, a major oil-conserving push by the industrial nations designed to cut their imports by three million barrels a day or about $11 billion a year—which U.S. strategists figure might be enough to break the oil cartel and cause prices to fall.

Only those industrial nations that pledge to cut oil imports would be eligible for loans from the $25 billion aid fund, which U.S. officials view as a "financial safety net" to aid nations unable to borrow in the private market or from such institutions as the International Monetary Fund. The loan fund would be run by a new agency affiliated with the Paris-based Organization for Economic Cooperation and Development, which includes 24 industrial countries. It wouldn't aid the poor nations of Asia, Africa and Latin America; they would have to rely on the IMF.

The industrial nations would make commitments to the $25 billion fund based on the size of their economies and other factors. The U.S. share likely would be about 30% of the total, or $8 billion, American officials suggest. When a loan is made, the participating nations would share the risk in like proportions; in event of a default, the U.S. would absorb 30% of the loss.

'A Lot of Rough Water'

This ambitious plan is far from a reality at present. U.S. officials and their counterparts from Europe and Japan have been holding a series of meetings in Paris this week to begin discussing it. Hard negotiating lies ahead on many points, such as how much money each nation would put into the $25 billion loan pool and how deeply each would cut oil imports. "It's the detail that counts," one European monetary expert says. [illegible]

France, which has taken a go-it-alone approach to the oil crisis, views the new U.S. initiative with mistrust, officials say, largely on grounds that oil-producing nations would view it as unfriendly. To Paris officials, the Kissinger scheme appears to be an American attempt to frustrate French hopes for a three-sided summit of industrial, developing and oil-producing nations.

Other European nations are likely to be more receptive. West Germany's attitude is basically "friendly," says a government spokesman, though he adds that the Germans have some unspecified reservations. Britain is likely to give the Kissinger plan "a fairly unqualified welcome," one insider says. But he adds that Chancellor of the Exchequer Denis Healey still may push for a major expansion of the IMF's oil-loan facility as well. The IMF facility, financed largely by funds from the oil nations, totals about $3.5 billion and IMF officials would like to double or triple that for 1975.

Decisions in January?

In Paris, deputies of the group of ten key industrial countries agreed unanimously yesterday that study of the Kissinger-Simon proposals should start urgently with a view towards decisions in January. One aspect that appears settled is that the Basel-based Bank for International Settlements will have a technical operational role, while policy would be coordinated by a small staff linked with the Paris-based Organization for Economic Cooperation and Development.

French officials agreed to the study and to the principle of multilateral standby assistance, but they still appeared reluctant to commit themselves to participation. "We Frenchmen first taste a meal before we eat it," one negotiator said. The French want to remain flexible prior to the forthcoming Martinique meeting between President Ford and President Valery Giscard d'Estaing, sources said, and have some reservations about whether a large U.S. role in the lending operation would also enhance the political influence of the U.S.

There's apparently some skittishness on the U.S. side, too, about whether France would be eligible to tap the proposed lending agency's credits and guarantees because France is staying out of the OECD-linked emergency oil-sharing plan. Asked what treatment a nonmember of that international energy agency would receive, Jack Bennett, Treasury under secretary for monetary affairs, replied, "we will make sure the energy policy" of any would-be beneficiary nation "is compatible with Western solidarity."

Study of the many issues and details in-

OECD agency, which would relend it to the nation in need, such as Italy, or that the agency itself could borrow on the capital markets backed by a guarantee from some financially strong nation. In practice, the scheme raises the prospect of direct government-to-government loans—such as from the U.S. or West Germany to Italy—with a provision for sharing the risk of default.

In addition to negotiating the mechanics of the lending plan, the industrial nations also will have to thrash out agreement on how to cut oil imports, if the U.S. plan is to work. American officials agree that achieving a cut as large as three million barrels a day by the end of 1975 will be very difficult. European nations and Japan, which rely more on imports and consume less oil in nonessential or "wasteful" uses than does the U.S., can't painlessly cut foreign oil purchases.

Cutting U.S. oil imports won't be easy either, American officials stress. Though President Ford has proclaimed a target cut of one million barrels a day by the end of next year, the Kissinger strategy probably will require an even larger cut than that, administration officials believe, because they doubt that Europe and Japan can reduce imports by as much as two million barrels.

Inviting Stiffer Measures?

The Kissinger plan thus raises the odds that the Ford administration will have to switch to mandatory energy-saving measures from the voluntary approach it is trying now. Treasury officials talk of such possible steps as a dollar-volume limit imports, a sizable tariff on foreign oil, a on domestic crude oil and rationing of ga line. Whether any of these stiffer measu will be imposed depends on the success voluntary conservation over the next f months, officials say.

Congress also could be a stumbling bl for the new U.S. oil strategy. Mr. Sim says that congressional authority will needed for U.S. participation in the $25 l lion loan program. Many Europea acutely aware of Congress's sour attitu toward anything that smacks of "forei aid," are worried that the Ford administ tion won't be able to convince lawmakers go along. "Kissinger is a great guy in t world, but does he have clout back home one Briton wonders.

So far, congressional reaction to Mr. K singer's plan has been negligible, partly b cause Congress was out of session when was unveiled. But Congress is likely to e amine the plan skeptically.

"We will have to take a very long, ha look at it to make sure it isn't just paperi over a problem that would get worse," sa Sen. William Proxmire (D., Wis). "I wa to be sure we're not just engaging in a giv away," he adds. The oil-loan plan "might l used as a kind of concealed foreign-aid pr gram," he fears. Sen. Proxmire is expecte to become chairman of the Senate Bankin Committee next year, and he figures th committee likely will hold hearings on th oil-lending plan.

Finally, there is the uncertain posture o Mr. Burns, chairman of the Federal Re serve Board. He has publicly attacked th idea of setting up big "recycling" scheme to lend money to oil-importing nations a "an escape from reality." Such scheme would merely build a pyramid of bad debt Mr. Burns has said, indicating his fear tha some of the loans might never be repaid an the U.S. could be left holding worthles IOUs.

Mr. Burns hasn't commented publicly o the Kissinger plan. The plan's strategy o linking loans to petroleum-import cuts prob ably appeals to him, however, because h

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