ENERGY: A STRATEGY FOR
INTERNATIONAL ACTION

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The Trilateral Commission
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Initiative on Matters of Common Concern
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 Washington, D.C. on December 8-10, 1974, and the Resolution issued by the Executive Committee in Washington 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.

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ENERGY: A STRATEGY FOR INTERNATIONAL ACTION

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

WASHINGTON, D. C.
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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. The rapporteurs were aided in their task by extensive trilateral consultations. In each case, the consultants spoke for themselves as individuals and not as representatives of any institutions with which they are associated. Those consulted included the following:

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SCHEDULE OF TASK FORCE ACTIVITIES:


October 1-2 — Rapporteurs and Brzezinski meet in Paris and consider first draft of report.

October 16 — Second draft of report completed and circulated among Commissioners and consultants.

October 22 — European consultants meet with de Carmoy in Bonn to consider second draft.

Late October — Campbell discusses second draft with North American consultants.

November — Kondo discusses second draft with Japanese task force.

November 25 — Third draft of report completed and circulated within Executive Committee of Commission.

December 9 — Discussion of the report at the Executive Committee meeting in Washington, D.C.

December 19 — Final draft of report completed for publication.
SUMMARY OF THE SECOND REPORT OF THE TRILATERAL TASK FORCE ON THE POLITICAL AND INTERNATIONAL IMPLICATIONS OF THE ENERGY CRISIS

Energy: A Strategy for International Action

The international energy crisis presents a range of challenges to the Trilateral countries. Their response has been weak and inadequate, the task force concludes, and it recommends a broad program of action.

The report concentrates on three major problem areas, along with energy policy itself. One is relations with oil-exporters, especially those in the Middle East. How is the adjustment to be made between vital consumer interests and the exercise by the producers of their new “oil power”? Second are the strains induced and intensified among Trilateral countries themselves. The oil embargo and sharp rise in oil prices have tended so far to divide the three regions, and Western Europe within itself. Third are serious problems of internal adjustment and stress that lie ahead for the Trilateral countries in facing the societal implications of the crisis. These three sets of problems are interrelated. Trilateral solidarity, for instance, is affected by the approaches chosen to the oil-exporters and by the success of governments in handling domestic strains.

The task force recommends a broad, positive approach to the oil-exporters, without isolating the issue of price. The Trilateral countries should seek common and reciprocal interests with the exporters going far beyond oil, interests which can be furthered by cooperation in a variety of forms, bilateral and multilateral. It is suggested that the Trilateral Commission itself set up an expert group to seek unofficial discussions with OPEC representatives on a whole range of relevant issues. The oil issue in the Middle East cannot be separated from the Arab-Israeli conflict. The task force emphasizes the need for an early settlement and for an agreed North American-European-Japanese approach. In fact, Trilateral ideas on the general terms of a settlement are not widely different, based on the principle of non-acquisition of territory by force and the right of all states to secure existence.

While seeking positive relationships with the producers, the Trilateral countries must themselves cooperate to maintain their financial health in the face of existing oil prices and to establish arrangements for sharing energy in any future emergency resulting from cutoffs of Arab
oil supplies. The task force applauds the emergency sharing plan proposed by the Energy Coordinating Group and recommends acceptance of this plan by all Trilateral countries.

For the medium term, through 1985, the Trilateral countries must start now to work toward reductions of their dependence on uncertain external energy sources. This requires action for both conservation and increased supplies. On conservation, the task force recommends that the annual rate of increase in energy consumption over the next decade be held below 2 percent in North America, 3 percent in Europe, and 4 percent in Japan. This is a substantial reduction from rates of increase prevailing before 1973. On increasing secure supplies, the task force sees the most immediate increases coming primarily from intensified production within the Trilateral community from known reserves of fossil fuels. The task force recommends that policy decisions on North Sea oil and gas development be taken on a European basis, and that Canada and the United States take Japanese and European needs into account in development of their own rich fossil fuel sources. If the solidarity and cooperation of the Trilateral countries is necessary and desirable for reducing dependence on OPEC, for emergency sharing, and for coping with high oil prices, then it should be valid as well for the development of known resources, whatever their location, within the Trilateral area.

For the much longer term, to the end of this century, the Trilateral countries should move now to outline cooperative energy research and development efforts, anticipating the end of the hydrocarbon age.

While not pessimistic about the long-term future, the task force sees a transitional period of extraordinary difficulty and adjustment ahead as Trilateral societies adapt to insecure, expensive, perhaps reduced energy supplies, and to slower economic growth. It is a real question whether the necessary sacrifices will in fact be accepted by powerful elements in the body politic. In such cases, there is instability whether a government tries to face the crisis or to avoid it. Countries must remain sensitive to each other's problems and agree on sharing burdens and shortages. The task force emphasizes the value of the O.E.C.D. and the International Energy Agency as structures for international cooperation.

The central thrust of this report is toward an agreed long-term energy strategy for the Trilateral countries. The specific recommendations are intended to give substance to that strategy and ensure its success.
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ENERGY: A STRATEGY
FOR INTERNATIONAL ACTION

Energy is the economic lifeblood of the industrialized nations. In the
next decade, with the supply of energy uncertain and its cost high, they
will face new and critical challenges dangerous to their economic and
social stability and to their political institutions.

It is not a matter of energy economics alone, or of political deci-
sions by individual governments on how to cope with shortage. Energy
is central to the whole complex of international economic relations in-
volving the supply and movement of raw materials, the rules and prac-
tices of world trade, the maintenance of an international monetary
system, and the control of inflation. On the political side, the problems
of supply and price have compelled the energy-consuming countries to
find new kinds of relationships with the principal oil-exporting countries.
Above all, and most important for our purposes here, the crisis brings
inevitable stress within each consuming country and in their relations
with each other. It has already weakened the fabric of the European
Community and added strains to the ties between Europe, the United
States, and Japan.*

In our previous report, Energy: The Imperative for a Trilateral
Approach, we pointed out that our countries face a situation not unlike
those of wartime, requiring a comparable degree of effort, cooperation,
and willingness to share sacrifices among allies. Thus far, however, the
best comparison is to the conduct of the Western democracies in the
period of the “phony war” of 1939-40. The response of governments
and peoples has been weak and inadequate. They have not shown that
they have grasped the magnitude of the problem, much less defined with

*This report concentrates primarily on non-monetary aspects of the international
implications of the energy crisis. A special memorandum on monetary aspects
was presented to the Executive Committee meeting in June 1974 and additional
materials were considered at the December 1974 meeting.
any clarity what they must do about it. For example, if they must accept some change in living standards and lifestyles — which seems unavoidable — then decisions as to how and how much must be taken soon and in an equitable and orderly way, or they will impose themselves later at incalculable economic and political cost.

We are not pessimistic concerning the long-term future. While growth of energy consumption should not and indeed cannot continue at the rate attained in the past two decades, and economic growth is bound to slow down as a consequence, we do not regard an end to economic growth as either desirable or inevitable. But we do foresee a transitional period of extraordinary difficulty and adjustment, until such time as our societies can count on more secure and more abundant energy. The main emphasis of our report, with no intent to slight the importance of energy policy itself, is on the political, social and international consequences of this situation.

We pose some blunt questions. Do governments have the political will to face the truth and to act, and if so, will their peoples give them the power to act? Will they have the strength to avoid unilateral and nationalistic action and to work together for common interests? It will be a test both of democratic institutions and of international solidarity.
I. Dimensions of the Problem

A. The Time Dimension
Three different time periods should be considered. All three have already begun.

The first period is the present and near future. The consuming countries must cope with the threat to financial and economic health and stability caused principally by the sudden rise in the price of oil. They also face a potential crisis of supply if the Middle East peace negotiations do not succeed and major oil-producing countries again resort to the “oil weapon” for political reasons. Even without war, those producers, as long as they have an effective cartel, can further limit production as a means of maintaining or increasing prices. Consumers and producers must somehow cooperate to cope with this worsening situation, or they will drift toward mutual antagonism and conflict.

The second period covers the next decade, until 1985, in which the consuming countries, in addition to meeting the continuing financial problem, must make a serious and necessarily costly effort to free themselves from critical dependence on imported oil. This can only be a gradual process, but it will not take place at all unless goals for reduced growth in demand and for development of alternative sources are set now and the necessary decisions are taken in time.

The third period is the longer term, to the end of this century, in which the need is for the timely development of new sources of energy, not only to replace oil imports but to cope with the decline of the world’s reserves of hydrocarbon fuels. Here again, governments will have to take decisions in the near future, especially on research and development.

B. Emergence of a Powerful New Actor
Recent developments have wrought significant changes in the international order, especially in overall relationships between industrial and raw-material-producing countries. The existence of the oil cartel, with its power to fix prices, introduces a fourth party, and a very powerful one indeed, into relations among the Trilateral regions, whose economies are affected in different ways. The power of the Organization of Petroleum Exporting Countries (OPEC) is felt particularly by Western Europe and Japan, which cannot dispense with oil imports from the Middle East. The United States remains the most powerful economy, but its freedom of maneuver has been hampered by the weakening of its European and Japanese partners and by its inability to limit the rise in the price of oil.
C. THE IMPACT OF HIGH OIL PRICES
In order to keep their economies going, the consuming countries have paid the high prices set by OPEC. Some of them are already in a serious financial plight because of large deficits in their balance of trade, the drain on their financial reserves, and the decline of their capacity to borrow. The positions of Italy, Great Britain, and France are critical.

What happens when an oil-importing country cannot borrow further? It can set up quantitative restrictions on trade, or let its currency depreciate, or sell its reserves, or become bankrupt and come to terms with its creditors. At some point the principal creditors (probably the United States, Germany, and the producing countries) will have to discuss with the debtors what is to be done.

The entire group of consuming countries, moreover, must deal with the question of “recycling” the oil payment money not balanced by exports to the producers. The sums, which have been conservatively estimated at $60 billion for 1974 alone and up to $650 billion (World Bank estimate) for the period to 1980, are or will be too large for the private banking system to handle without backing by central banks or governments. The process of investment in the industrial countries goes on, as individual oil-producing states put their funds on deposit, make their own decisions on short or long-term investment, or conclude bilateral agreements with consuming states. But the oil money is piling up too quickly, there is insufficient time for adjustment, and the funds do not go back to the consuming states which need them the most. And recycling is not a permanent solution.

The problem of mounting debts which cannot be repaid is of great urgency and may become unmanageable. Appeals to the producing states to relieve the situation by reducing the price of oil, whether based on political sympathy, common interest in a viable world economy, or the dangers of confrontation, have not induced them to do so. As demand is cut by conservation, they are in a position to reduce the supply and maintain income by raising the price still higher. Should they henceforward, as it is intimated, index the price of oil on the rate of inflation in the consuming countries, this will increase further the inflationary effect of the whole process.

The less-developed countries which have little or no oil and must now pay high prices for energy and other essential imports are in a desperate situation from which they cannot escape by themselves. They will have a steadily increasing burden of indebtedness which they cannot reduce substantially by conservation or import substitution. They do
not have the resources in technology and infrastructure to adapt their economies to the new situation. Both the advanced industrial countries and the oil-producing countries will have to help, through concessional aid and other means.*

D. THE MIDDLE EAST SITUATION

Political conflicts in the Middle East, especially the Arab-Israeli conflict, add to the critical nature of the problem. Progress toward Arab-Israeli peace settlements has been slow or non-existent since the conclusion of the interim cease-fire and separation-of-forces agreements following the Yom Kippur war. Each side is building up its armed strength. Israel fears for its existence (which is openly rejected by radical Arab elements) and suspects that compromise agreements would only be the prelude to new Arab claims. The Arabs, especially since the summit meeting at Rabat, have taken positions which make negotiation with Israel more difficult. A new war is a strong possibility. If governments do not take timely decisions now, they may be forced to take them under crisis conditions which will greatly limit their choices.

In a number of contingencies, the Arab states might act to cut down or cut off oil exports to Western countries: in case of a resumption of war with Israel, certainly; in case of failure to reach a settlement within a relatively short time, probably; to prevent the extension of Western loans to Israel or the conclusion by the E.E.C. of a trade agreement with Israel, possibly. A substantial reduction in oil supply would, of course, increase the risk of economic collapse of the more vulnerable consuming countries.

In the absence of an understanding with the Soviet Union covering the dangerous contingencies in the Middle East, that country, which has given strong political and material support to the Arabs against Israel, may create further serious problems for the Western nations in maintaining their security and vital economic interests.

E. INTRA-EUROPEAN RELATIONS

The oil crisis has added to the predicament of a European Community already suffering from serious trade and monetary imbalances. The result has been to deprive the Community of its policy potential not only in regard to energy but also in other major fields. Inflation has increased

*The Trilateral Task Force on Relations with Developing Countries has submitted two reports which deal with this matter. The first (June 1974) is entitled A Turning Point in North-South Economic Relations; the second (December 1974) is called OPEC, the Trilateral World and the Developing Countries: New Arrangements for Cooperation, 1976-1980.
to a point where it endangers political stability in individual countries, and the differential between rates of inflation drives the members of the Community further apart. As long as the balances of payments of E.E.C. member states are diversely affected by the rise in the price of oil, no progress can be made toward a common monetary policy.

As each member of the Community is hit by the effects of high oil prices, its natural reaction has been to take national measures to protect its own economy, sometimes to the detriment of others, and to look for help to individual governments rather than through a joint approach. Only recently has there been a growing awareness of the serious implications of the financial crisis and of the need for a common loan fund.

Furthermore, the continued emphasis on making decisions through intergovernmental mechanisms rather than through the Community institutions has made it impossible for the Community either to respond quickly to an emergency or to adopt long-term policies which are more than non-committal pledges. The uncertainty over Britain's participation adds to the near-paralysis of the Community institutions.

Less tangible but nonetheless real are the effects on mutual trust of the lack of solidarity shown by the European countries when the Arab states in 1973 cut back oil exports and raised prices. The Community institutions were not effective. Individual members, seeing recurrent use of the oil weapon as the most real danger, did not resist the temptation to seek reinsurance through bilateral deals with oil-producing countries at the risk of overbidding and of eroding the common commercial policy.

The absence of a common energy policy for the E.E.C. made it difficult to face the crisis together at its outbreak. The divisive effects of having to make choices between the Arabs and the Americans, in turn, have hampered the creation of a comprehensive European energy policy. Without such a policy, Europe can hardly play a strong and constructive role together with North America and Japan in dealing with the energy problem either in the near future or over the long term.

**F. EUROPEAN-AMERICAN RELATIONS**

When the impact of the Middle East war, the Arab oil embargo and the cutback in production struck the Western world, it revealed an apparent conflict of vital interests between Europe and the United States. During the October war the United States concentrated on issues of military and political security and underestimated the difficulties of the Europeans, whereas Europe thought of economic security first and underestimated the involvement of the Soviet Union. In the period following the war these differences were smoothed over as the two sides began
talks on energy matters and tried to improve the procedures for consultation within their alliance. Nevertheless, the potential conflict of interests remains and could come to the surface if the Middle East again erupts in war or if the financial strain bears too heavily on Europe. It is rooted in the profound difference in vulnerability between Europe and the United States, which recent events have widened. The United States has become relatively stronger, owing to the abundance of its energy resources and a strong economic position which should attract the surplus funds of the oil-producing states. Europe is militarily dependent on America and economically dependent on the oil-producing states of the Middle East. Both types of dependence will endure for some time and have to be kept in balance.

The functioning of the Atlantic Alliance is inescapably affected by these developments. Besides bringing to the fore differences of outlook on the Middle East, they may weaken the defense of Western Europe itself. The cost of oil imports will probably induce the European states to reduce their military expenditures at a time when the U.S. Congress is considering the reduction of American forces stationed in Europe. This double trend will have a destabilizing effect on security in Europe, which in turn will weaken the security of all members of the alliance, including the United States.

The gap in strength between America and Europe, which energy factors have increased, thus creates problems which cannot be easily solved within the alliance as it now functions. Both parties have an interest in making it more effective in consideration of problems and adoption of consistent policies outside of Europe, particularly in the Middle East. It is important to the alliance as a whole that the European countries improve their economic position with oil-producing states, and also that a common approach be found to the political issues involving those states, especially to the question of a settlement between Israel and its Arab neighbors.

G. JAPANESE-AMERICAN RELATIONS

Japan’s dependence on Middle East oil, even greater than Europe’s, dictated a similar attitude toward the October war and led to public statements of policy sympathetic to Arab views on terms of political settlement with Israel. Japan’s statements and policies, however, did not create differences with the United States comparable to the controversies and recriminations which marked European-American relations, for Japan was remote both geographically and politically from the Middle East conflict. Nevertheless, Japan’s scramble for oil in the world market
and its intensified efforts to secure future supplies through direct deals with producing countries in the wake of the crisis caused considerable apprehension on the part of the United States, which was trying to bring about a common front of consumers and an approach based on non-discriminatory access. Subsequent developments, however, have shown that Japan's achievement in direct deals was relatively small.

Such strains as these Japanese activities caused were largely dissipated by Japan's participation in the Washington conference on energy in February 1974 and in the work of the Energy Coordinating Group. But there remain fundamental differences in the positions of the two nations, one with vast reserves of potential energy and the other with virtually none. Japan's support for international efforts for closer co-operation among consuming countries carries the proviso that they will not lead to confrontation with producing countries, for of all the developed countries Japan is the most vulnerable, economically and politically, to interruption of oil supplies. Japan's continued dependence on imported oil, and on Middle East oil in particular, requires it to keep on good terms with producing states, to diversify its sources of energy, and to draw upon the resources of North America.

These factors carry the danger of conflicting Japanese and American policies in the future, especially if the Arab states should again use oil as a political weapon. The sensitivity of both nations to their trade relations may increase the potential for disharmony and dispute if world economic conditions deteriorate. Closer and more frequent consultation, both official and non-governmental, will be needed to prevent friction and conflicts of interest between the two countries.
II. THE RESPONSE TO THE PROBLEM

The following, in brief summary, is the record of action, national and international, in response to the energy crisis.

A. NORTH AMERICA

In the United States the Middle East war, the Arab oil embargo, and the threat to the security of future supply prompted emergency measures to cope with immediate shortages, a cut in demand in response to conservation recommendations and higher prices, and the launching of "Project Independence," with the aim of ensuring a stable supply and eliminating dependence on foreign sources by 1980. The Executive and the Congress failed to agree on a number of aspects of energy policy, however, and no comprehensive long-term plan was adopted. Certain specific governmental actions have been taken, through legislation or executive decision, (a) to encourage economy of use, (b) to promote the expansion of domestic oil and gas production, (c) to authorize and expedite building of the Alaska pipeline, (d) to set terms for increased mining of coal, (e) to accelerate production of nuclear power, and (f) to make available increased funds for research and development of solar, geothermal and other forms of energy.

These are largely ad hoc measures and half-measures which by themselves do not constitute a comprehensive policy and have not brought decisive results. The ending of the Arab embargo and the easing of the supply situation in the spring of 1974 lessened the sense of urgency. By autumn, consumption of oil was slightly below the level of the same time the year before (reflecting definite progress in conservation), and dependence on imports (a little over one-third of total oil consumption) remained unchanged. Domestic oil production has continued to decline, and although the oil and gas industry has decided to invest large sums in exploration and production, those investments will not show results for several years. The government's plan for Project Independence, finally presented to the public in November 1974, at least set an agenda for debate on policy.

Secretary Kissinger on November 14, in the context of proposals for comprehensive agreements and cooperation among the consuming countries on many aspects of energy policy, outlined an American policy of drastic conservation and development of new sources, with a goal of reducing oil imports in the next decade to a level of one million barrels per day. Much of the American program will require further policy decisions and legislation before going into effect.
Canada did not have to respond with drastic measures to the energy crisis, and it would be politically difficult to do so as long as large exports of oil and gas still go to the United States. It had some shortage in its eastern provinces which are dependent on imported oil, even though the country is a net exporter. Eventual completion of the pipeline from the Alberta oil fields to Montreal should give Canada the capability for self-sufficiency, if it should so choose, but rising nationwide demand and prospective declining production from existing oil and gas fields raise questions for the next decade unless new sources are developed. Possessed of large potential energy resources in the Athabasca tar sands and possibly in Arctic oil and gas, Canada has adopted a policy of developing its energy at a rate suited to its own needs and not primarily for export.

Engaged in the search for a national energy policy, Canada has rejected the idea of a "continental" energy program with the United States. However, the relationship of the two nations in energy, as in other fields, remains a unique and complex one. Export of Canadian oil and gas to the United States will probably continue for some years, although at a declining rate unless and until new sources surplus to Canada’s needs are developed.

B. WESTERN EUROPE

Because the E.E.C. has not succeeded in the attempt to establish a common energy policy, the Europeans have responded to the present crisis primarily on a national basis. The response was therefore diverse, and it was limited. Only the Netherlands embarked on a drastic, long-term program to save energy, achieving substantial results through a combination of government initiative and the response of the population and of private industry. Italy, despite its financial plight, has a poor record on conservation. France, after a year in which reduction of demand in real terms was negligible, has set a financial ceiling for oil imports in 1975 and taken measures to restrict consumption. Britain, which has done little to reduce consumption other than to let higher prices take their toll, is relying heavily on future oil and gas from the North Sea (and already mortgaging it) and on increased use of coal. Germany, like Britain, has raised coal production targets modestly. Both France and Germany are committed to a substantial growth in the production of nuclear energy.

The European Commission has recommended a broad and ambitious program of conservation and development of energy over the next decade, with emphasis on nuclear energy and gas. But the program
has not been accepted by governments. Meanwhile, the member countries go their respective ways. The financial resources they have devoted to exploration and to technology in order to reduce dependence on imports do not compare, even in relative terms, with the efforts deployed in the United States. Nor have European governments begun to face hard choices such as those Japan is already taking for the adaptation and restructuring of industry.

C. JAPAN

The oil crisis triggered by the October war had an immediate and severe impact on the Japanese economy, including further acceleration of an already high rate of inflation. The government’s response was slow, confused, and ineffective. Its frantic pursuit of available oil and electricity consumption (by 10 and later by 15 percent in the industrial sector) and impose price controls on petroleum products and other commodities. When the oil supply situation improved, it abolished the mandatory conservation measures and lifted price controls except on a few essential commodities. Higher prices and economic slowdown have worked to constrain oil consumption, which is estimated at 3 to 4 percent less in 1974 than in 1973, with imports of oil slightly (2 to 3 percent) less than the 1973 level of 5.2 million barrels per day.

The Japanese government has promised for the spring of 1975 a comprehensive energy policy, with projections of the nation's demand-supply situation in 1980 and 1985. According to the preliminary report, average annual growth of primary energy supply from 1973 to 1985 is estimated at 5.7 percent (as against 11.7 percent for 1962-1972). But imported energy is still estimated to account for 82.3 percent of total primary energy supply in 1985, compared with 86.4 percent in 1972. Oil imports would grow at an annual rate of 3.8 percent, about one-fourth the actual growth rate in the five years to 1973.

In order to reduce excessive dependence on imported energy, Japan is planning intensified development of its limited indigenous energy resources, development of nuclear power, and a long-term research and development program (aimed at the year 2000) on solar energy, geothermal energy, coal gasification, and other new sources. All this can make a difference, but there is no chance of a substantial reduction in dependence on imported energy and oil in particular.

In view of the limited energy supply and higher cost, Japan envisages further economy in energy consumption and slower economic
growth. It accepts the necessity, in order to maintain a viable economy and social stability, of efforts to shift the economic structure from energy-intensive industries to those which are intensive in knowledge and technology. This structural change is a long-term solution for the energy problem, requiring reallocation of resources, labor, and investment.

D. INTERNATIONAL ACTION

No agreed international action was taken in the latter months of 1973 to meet the embargo and production cuts decided by the Arab states or the price rises determined by OPEC. Indeed, the differing reactions by the United States, Japan, and the E.E.C. (and among members of the E.E.C.) illustrated a general view that each could serve its interests better through separate action. The first serious attempt to establish common approaches was the Washington conference of thirteen nations in February 1974. The Energy Coordinating Group, which grew out of that conference, has been working out cooperative programs covering conservation and restraint of demand, development of new sources, emergency sharing, research and development, financial aspects, the possibility of meetings of consuming and producing countries, and the role of the international oil companies.

This work proceeded at a disappointingly slow pace but finally produced an emergency oil-sharing plan and a new International Energy Agency, which came into being in November 1974. The agreement on sharing, which will be activated automatically when restriction of supply reaches a given point, is a major achievement helping to blunt the damaging effects of embargoes or cutbacks. The new agency, embracing all the Trilateral countries except for France and Norway and with a procedure of weighted voting likely to produce decisions, should be stronger than the E.E.C. or the O.E.C.D. and should play an important role as a policy-making and operational body. The real test, however, will be on the policies to be adopted rather than the institutions and the procedures through which they may be reached.

On the pressing financial question, international action has been limited to bilateral loans to ease the plight of countries in serious trouble (e.g., a large German loan to Italy), and to the establishment by the International Monetary Fund of an "oil facility" for loans to countries hit hardest by higher oil prices, mainly the poorest of the less-developed countries. These arrangements provide for only a few billion dollars of loan money, whereas the deficits will be many times that. As Italy is followed by other consuming countries in reaching the limits of their
borrowing capacity, with no drop in what they must pay for oil, the need for timely effective international measures to prevent the worst and to avoid a wave of destructive nationalistic actions and counteractions should be apparent. Belatedly, as illustrated by Secretary Kissinger's proposal of a fund starting with $25 billion for use in 1975, governments have realized the need for the availability of large common funds which can be used flexibly and linked to agreed policies and goals in the energy field.

However one looks at this record of response to the energy crisis, some conclusions are obvious. It has been halting, piecemeal, often inconsistent, and inadequate. Where drastic action is called for, it has not been taken. The governments have been timid. The general public has followed a philosophy of business as usual and hope for the best. Meanwhile, the financial crisis has grown, political dangers have increased, and international action is postponed.
III. THE NEED FOR NEW APPROACHES: A LONG-TERM STRATEGY

In the light of this record we reaffirm the main recommendations of the earlier report of this Task Force (June 1974): the need for a joint commitment by the Trilateral countries to the efficient use and rational development of energy (meeting its high cost as may be necessary) with a general strategy and plan covering the next twenty years; and the requirement for early action, national and international, toward fulfillment of that commitment.

The common plan should establish a series of goals respecting levels of energy consumption, efforts for economy of use, rates of development, reduction of dependence on energy imported from outside the Trilateral area, and meeting the high cost of essential energy whether imported or produced at home. Obviously it is not wise or desirable to provide precise sets of figures to illustrate recommendations for a strategy which looks a decade and more ahead. But in the belief that some general targets for the next ten years should be established as a spur to necessary national and international action, we make the following recommendations.

A. GROWTH AND LEVEL OF DEMAND

The annual rate of increase in energy consumption over the next decade should be held below 2 percent in North America, 3 percent in Western Europe, and 4 percent in Japan.

This will mean a drastic reduction of demand but should still permit a modest rate of economic growth. The lower figure should be possible for the United States (which would still have the highest per capita consumption), and the higher figure for Japan (which would have the lowest per capita consumption), with Europe in between. These rates may be compared with those existing before 1973 (which then were expected to continue) of roughly 4.5 percent for the U.S., 5.5 percent for Europe, and 11.7 percent for Japan.

The fictional nature of projections based on those earlier rates makes it somewhat unreal to state the "savings" which can be realized by conservation, but holding demand to a 2 percent annual increase in the United States, for example, would mean that by 1985 consumption
would be running 27 percent less than originally projected. Savings in Europe and in Japan, with higher rates of pre-crisis projection, would be correspondingly greater.

<table>
<thead>
<tr>
<th>Area</th>
<th>1972 (actual)</th>
<th>1975</th>
<th>1980</th>
<th>1985 (projected at 2% annual increase)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>2425</td>
<td>2573</td>
<td>2841</td>
<td>3137</td>
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<tr>
<td>Canada</td>
<td>235</td>
<td>249</td>
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<tr>
<td>European Community</td>
<td>1180</td>
<td>1290</td>
<td>1495</td>
<td>1734 (projected at 3% annual increase)</td>
</tr>
<tr>
<td>Japan</td>
<td>345</td>
<td>388</td>
<td>472</td>
<td>574 (projected at 4% annual increase)</td>
</tr>
</tbody>
</table>


B. EFFICIENCY OF USE

*To hold demand growth at the proposed levels will require a major successful effort to reduce waste and increase efficiency of use. Our societies should be ever alert to the possibilities of even larger reductions in consumption, bringing demand closer to or below the level of annual renewal rather than of increase.*

The first requirement is a psychological change: acceptance of the fact that the era of cheap and abundant energy is over and a positive willingness to adjust to it. The second requirement is action on a number of fronts.

In the case of industrial consumption the price mechanism should be the main incentive to saving energy. Some measures can be taken at once, without heavy investment. In other cases longer lead-times or new advances in technology will be required. It should be noted that investment in efficiency of use will often be much less than for a corresponding increase in supply, and the return will often be more rapid.

Public policy will have an essential role in explication and persuasion, in enacting and enforcing standards, in allocating energy to
different uses, in equitable distribution of fuels, in helping to plan and finance economic adjustment and change, in reorganizing systems of transport, and in sponsoring research. Governments should aim at avoiding the expansion of energy-intensive industries and services. For instance, they should drastically reduce the building of new airports and the movement of freight by air. Such decisions would be more acceptable if taken as a result of Trilateral agreement. Individual countries, of course, all have their special conditions; Japan, for example, has less margin before cutting into the bone of essential industrial production.

Limitation of civilian consumption will also be necessary. Here a balance will have to be struck between the price mechanism and the use of mandatory controls. (The social and political implications of conservation are considered in Part VI of this report.)

C. DEVELOPMENT OF ADDITIONAL ENERGY

*The effort to increase supply within the next few years must rest primarily on intensified production of known reserves of fossil fuels in areas of secure supply.*

The first priority should go to the oil and gas resources of the North Sea and Alaska. The other major possibility is coal, which North America, Europe, South Africa and Australia have in quantity. Coal and its derivatives will not only supplement oil but in many instances will provide a substitute for it. Early decisions are necessary to perfect the technology for gasification of coal and extraction of oil from shale and tar sands, although significant energy supplies from the latter two sources may not appear until the mid-1980’s. The private oil companies will continue to have a significant role in the development of new sources, especially in investment decisions on exploration and production.

*The consuming countries should consult on the estimates each should set for the production of coal, oil, natural gas, nuclear power, hydro power, and oil from shale and tar sands, for 1980 and 1985.*

The resultant figures would indicate not only the goals for each country and region but also the picture for the consuming countries as a whole, including the possibilities for trade in energy resources between them. By 1985, each of the Trilateral regions should strive to cover 15 percent of total energy consumption with nuclear power. We recognize that this is an ambitious goal, in view of the continuing problems regarding safety, environmental protection, and possible diversion of nuclear
materials, and in view of the understandable public concern on these matters.

For the period after 1985 a similar but much more tentative set of goals should be set, with initial emphasis on research and development and continuing flexibility to adjust programs to scientific and technological change.

Oil shale, tar sands and nuclear power should then be contributing much more energy. While research on solar energy, geothermal energy, atomic fusion, and other possible sources should be given full rein, our conclusion is that the energy base from 1985 to the end of the century will still rest largely on fossil fuels (increasingly on coal and its derivatives) and on nuclear fission reactors. In planning for the long term, the competent authorities in the Trilateral countries should look continually at the comparative advantages and disadvantages of the various types of energy and try to choose the least disadvantageous combination in making their decisions on development.

D. REDUCTION OF DEPENDENCE ON OUTSIDE ENERGY

The United States and Canada should each strive for a position of substantial self-sufficiency in energy by 1985.

Although they might still be importing some OPEC oil (and the U.S. might be importing oil from Canada), the two countries should aim at holding imports of oil from uncertain sources to a level of less than 5 percent of total primary energy use. They should be, for all practical purposes, free to keep their economies going without disruption in case of a cutoff of OPEC oil; they would then not have to make demands on limited oil supplies available to other consuming countries and could even contribute to the total energy supply if they had built up additional export capacity in coal and other fuels.

The E.E.C. should reduce its dependence on uncertain imports of oil and gas, from the present 60 percent to 40 percent by 1985. In the same period, Japan should correspondingly reduce its dependence from 75 percent to 65 percent.

We recognize that neither Western Europe as a whole nor Japan can achieve energy independence for many years. The need is for immediate decisions proving a serious intent to move in that direction, for some noticeable progress within a few years, and for commitment to specific goals and time schedules. Further lowering of the above percentages
for Europe and Japan should be envisaged after 1985, especially through the growth of nuclear energy, but the setting of specific goals can await intervening developments.

We do not regard possible imports of oil and gas from non-OPEC sources as likely to change the basic problem. Prospects exist for increased production and new discoveries in or offshore Asia, Africa and Latin America, but since any country so favored would probably soon join OPEC, security of supply is uncertain. All possibilities, however, should be seriously explored. As to other fuels, the potential for coal supplies from Australia and South Africa is high.

The Soviet Union has vast reserves of energy, but its own increasing demands will limit its capacity to export. While some Soviet fuels should be available for Europe and Japan, the grandiose proposals under discussion by U.S. and Japanese companies with the Soviet government for the development and export of oil and gas seem to involve high costs and high risks, and should be weighed against comparable investments elsewhere. It is natural for Japan to diversify its sources of energy by looking to China (from which its oil imports are increasing) and to the U.S.S.R. It is doubtful whether Japan or any of the consuming countries could meet more than a small percentage (say 5 percent) of its total energy demand from Communist countries, and it would not be wise from a political standpoint to incur any substantial degree of dependence on them. But these risks are no greater than those of present dependence on the Middle East, and to diversify sources of energy means to diversify political risks.

E. EMERGENCY SHARING

We stress the importance of agreement on stockpiling and on sharing energy supplies in an emergency, and hope that all the Trilateral governments will accept the plan of the Energy Coordinating Group.

A strong and workable plan for coping with a cutoff of oil imports or other serious energy shortages is essential, not least for the deterrent effect in preventing such an emergency. We believe France and Norway would find it in their interest and in the common interest to join the emergency plan to maintain solidarity with the others in the event of crisis.

It is essential that the provisions for sharing be linked to equitable standards for conservation; otherwise, the provident will merely be subsidizing the improvident. The international oil companies should
cooperate in making the emergency plan work and should make all the necessary information on reserves, supplies, and prices available to the participating governments.

F. COOPERATION IN RESEARCH

Taking account of all the requirements of the long-term energy plan, the United States, Canada, the E.E.C. and Japan should work out a general framework for cooperation in energy research and development, within which the necessary specific arrangements can be made.

The Trilateral countries cannot afford separate and competing efforts in this field. On conservation, on many aspects of the development of nuclear energy, and on experimentation with new and still unusable forms of energy, they must put science and technology to work where there are the best chances for achieving results.

G. THE FINANCIAL BURDEN

Financial problems will beset the consuming countries at every stage of their long-term strategy, as they will be paying for high-cost energy whether it comes from OPEC sources or from their own. But the most serious stage, as indicated earlier, is the immediate one: now and the next few years when huge sums of money in payment for oil are being transferred to the account of producing countries. We shall not, in this report, make specific recommendations on such matters as emergency credits, arrangements between governments and private banks, types and directions of investment for oil money, or the role of the international financial institutions. We wish to stress three more general points:

1. The financially stronger countries, frankly recognizing common political interests, should be prepared to help their partners whose economies have been thrown into crisis by the effects of the high price of oil. This aid should be conditioned upon the most rigorous measures of self-discipline and self-help on the part of the recipients (although not with rigid uniform standards) and accompanied by joint commitments to preserve the international trading and financial system. All should recognize that emergency loans do not provide a lasting solution, and that the financially stronger countries such as the United States and Germany cannot assume the mounting burden of debt of the others.

2. The consuming countries must maintain continuing contact and negotiation with the producing countries to deal with the question
of oil price in the context of the many other questions, both economic and political, in which both sides are interested. A confrontation on the isolated issue of oil price should be avoided. But the producing countries must recognize the crucial importance of that issue to the future of the world economy. Discussion with them is necessary at an early date on the basis of cooperation.

3. The consuming countries must begin at once to put themselves in a position where they are less dependent on imported oil. This is necessary both to reduce the drain on their financial reserves and to give them greater bargaining power for lower oil prices. Thus, for the price problem as for the supply problem, the need is for concerted and far-reaching action to conserve energy and to develop alternatives to imported oil.

H. AVOIDANCE OF NATIONALISTIC MEASURES

The consuming countries should avoid attempting to solve problems which derive from the energy crisis with nationalistic measures such as devaluation of currencies and new controls on imports or exports.

Such measures, which would only lead to a spiral of competitive actions, could gravely damage the trading and financial system and the interests of all concerned. On investments in energy the consuming countries should have an agreed policy so as to avoid duplication at a time when the need for capital will far exceed the availability of funds.
IV. RELATIONS WITH OIL-PRODUCING COUNTRIES

Among the political challenges posed to the Trilateral countries by the energy problem, the foremost is to relations among themselves. But another challenge demands their immediate attention, that of relations with the oil-exporting countries, especially those in the Middle East. How is the adjustment to be made between vital consumer interests and the exercise by the producers of their new “oil power”?

In narrow terms, the main problem is one of persuasion: how to convince the members of OPEC to keep up the supply of oil, at bearable prices, during the period of continuing dependence. One method is diplomatic argument, which by itself is not likely to prevail against counter-argument based on tangible interest. Another method is economic pressure. No one consuming country, however, has the capacity to exert decisive pressure on the producers, and while consumer solidarity is useful and even necessary as a means of balancing the solidarity of the members of OPEC, attempts to mobilize collective economic pressure on them are of limited effectiveness because the preponderance of bargaining power is on their side. Economic warfare, in the form of attempts to deny food or other supplies, will court political disaster without bringing the desired results. Military action must be ruled out.

These and other considerations argue for a broader and more positive approach, seeking common and reciprocal interests going far beyond oil which can be furthered by cooperation in a variety of forms, bilateral and multilateral. The ensuing paragraphs touch on these interests and opportunities. While some of them apply to all members of OPEC, most of them are particularly applicable to the producing countries of the Middle East, for they are at the heart of the problem.

A. THE ARAB-ISRAELI CONFLICT

The Trilateral countries have to recognize that the question of the supply of oil cannot be separated from the existence of political conflict in the Middle East. The prospect that a new crisis would bring a new reduction or cutoff of Arab oil and again drive the consuming nations apart highlights the need for an early settlement and for an agreed American-European-Japanese approach to it.
This does not mean that the diplomatic roles would not be different; the United States will continue to be more directly and deeply involved than Europe or Japan in the process of mediation and negotiation, and in maintaining a balance with the Soviet Union and seeking its cooperation. The United States, with the Soviet Union, has a special responsibility, for only these two powers have the capacity to act to prevent war or to impose peace. But others who have a strong interest in Arab-Israeli peace may contribute to its achievement. Therefore, the negotiations should not be solely in American hands, with the other consuming countries shut out, nor should the latter take refuge in statements of policy publicly placating the Arabs which make more difficult the task of reaching a negotiated settlement. The Europeans and Japanese will feel involved in the policy only if they have a share in the peace negotiations; hence the need for a process of political consultation. All should know the shape of an emerging settlement, especially those which may be involved in guaranteeing it. In fact, American, European and Japanese ideas on the general terms of settlement, based essentially on the principle of non-acquisition of territory by force and the right of all states to secure existence, are not widely different. All have an interest, too, in timely negotiations, for all will suffer from the consequences of the indefinite deferral of a settlement. An agreed approach, allowing wide scope for changing tactics and for the parties themselves to come together on the final terms, should increase the chances both of Middle East peace and of continued access to oil. If the peoples of our countries can see the clear connection between the question of an Arab-Israeli settlement, that of energy, and that of international security and stability, they are more likely to support the related policies which are needed to deal with these questions.

B. COMMON INTERESTS IN SECURITY

The rivalries of local states and of outside powers have made the Middle East a region of dangerous instability. Members of the Trilateral group of nations, in different ways, can contribute to the security of the region. Certain of the major oil-producing states regard it as important that the existing balance not be upset and that no outside power acquire predominant power in the area of the Persian (Arabian) Gulf. Some of the governing regimes have uncertain or unfriendly relations with other states of the region, or must deal with unstable internal situations. Their newly-acquired wealth may serve as an invitation to subversion, revolution, or intervention from outside. Presumably they have a stake in the avoidance of strife and may see a benefit to their security in the assur-
ance of Western interest and in the presence of Western forces in the area, so long as the latter serve not as a threat of intervention in conflicts of local states but as support for their independence and nonalignment.

Similarly, their acquisition of American or European arms for the fulfillment of plans for national defense, besides helping to reduce balance-of-payments deficits from oil sales, opens doors to broad cooperation in military and technological fields. The obvious political and economic advantages of such sales, however, should not obscure the dangers of providing ever more sophisticated weapons, stimulating arms races or encouraging militarism. The danger of the spread of nuclear weapons to the region cannot be overlooked. The supply of arms is a complex matter, to which supplying and receiving countries should address themselves in a framework of common interest in security. We recommend, on the side of the suppliers, the establishment of some mechanism, possibly in the framework of the Atlantic Alliance, so that they may consult, exchange information, establish limits of competition, and coordinate decisions, bearing in mind the desirability of eventual negotiation, including the Soviet Union, for a general agreement on arms deliveries and arms levels.

C. NATIONAL DEVELOPMENT PROGRAMS
The highest priority in economic cooperation goes to helping the producing countries carry out their programs for the improvement of agriculture and the growth of basic industries. Besides meeting their wants, rapid development will promote exports of the industrialized countries and cut down the oil money balances. The countries of the Middle East and North Africa, on their part, should see the need for coordinating their development programs so as to avoid the building up of surplus capacities in their new industries over the next few years.

The building of petroleum-related industries such as refining and petrochemicals in the producing countries is natural and inevitable. The consuming countries should provide help, even though the temporary effect will be to add to OPEC's bargaining power, create competition for their own industries, and aggravate their situation regarding the cost and supply of oil products.

Similar considerations apply to further exploration for oil and gas in the producing countries. The effort required for it might better be used to develop energy in the consuming countries themselves. But if a basic purpose is to create a many-sided structure of cooperation with the producers, this side can hardly be omitted. It is obviously related to the
willingness of the producing countries to continue to supply oil from existing wells.

The producing countries, even those with the largest reserves, are acutely aware that their oil is not inexhaustible. The industrialized countries can help them to prepare for the day when they will look to other sources. Nuclear projects for desalination and generation of industrial power (with effective safeguards against diversion of nuclear material to military use) and joint experiments in solar energy would serve this aim.

D. NEGOTIATIONS ON THE SUPPLY AND PRICE OF OIL
Leaders of consuming countries have appealed directly for the lowering of prices, and leaders of some producing countries, notably Iran, have stated publicly why they do not do so, linking the question to inflation of currencies and the prices of other goods. This is a subject on which governments should talk seriously in private rather than polemically in public. It is, moreover, important to get the cooperation of some of the OPEC governments in sharing the burdens and risks of the recycling process and in making concessionary arrangements for the more needy oil-importing countries.

There are obvious limits on how far trade and prices should or can be handled on a government-to-government basis. But OPEC is not an ordinary phenomenon, the price of oil threatens the industrialized world with possible disaster, and there has to be a basis for discussion which the rulers of the major producing states accept. If talks covering the price of food, fertilizer, and other commodities can lead to greater understanding of difficulties on both sides and open the possibility of a better situation in respect of the supply and the price of oil, then they are well worth undertaking. The price of oil should not be a fixed datum, the central point of a continuing test of bargaining strength, but a derivative of many conditions, economic and political, which make up a long-term, mutually beneficial relationship.

E. INVESTMENT OF OIL MONEY OUTSIDE THE PRODUCING COUNTRIES
A wide field for cooperation exists in decisions on the investment of the oil producers’ surplus funds in the consuming countries. This side of the economic relationship provides for the first time a counterpart to the more familiar one of the flow of investment in the other direction. It creates mutuality, with each side having an interest in an inflow of resources for development and a concern for retaining control of funda-
mental economic decisions. In addition to profitable investment, the oil-producing states presumably have an interest in helping the consuming states to avoid serious economic dislocation or collapse under the burden of payments for oil, which could disrupt their own economies as well and strain political relations more than they wish.

The investment of producing countries’ surplus oil funds in the development of energy in the developed countries is a special case, for it raises the question whether they will wish to contribute to the possible erosion of prices and of the bargaining position they now enjoy. They may find that it is in their interest to do so, since oil will always be a premium fuel and the development of energy elsewhere will tend to make their own reserves last longer. Involvement in this type of undertaking could help create in oil-producing and industrialized countries alike a habit of looking together at the total energy situation in the long term and as a world problem.

The ability of the industrial countries to provide development capital for the less-developed and energy-poor countries of the Third World will be reduced because of the outflow of funds to pay for imported oil and the need for large amounts of capital to develop new sources of energy. The capacity of the oil-producing countries to furnish such capital, in contrast, will be greatly increased. They will have the opportunity, using existing international institutions or new ones of their own, to make investments which could give a strong impetus to the economic development of the Third World.

F. A LARGER ROLE IN WORLD AFFAIRS

The oil-producing countries do not play a role in international consultations and decisions relating to the world economy commensurate with their now greatly increased wealth and power. For example, they now hold about 5 percent of the voting power in the World Bank and the I.M.F. The industrialized countries should encourage their increasing participation, both in existing and future international institutions and in informal associations, in dealing with the familiar questions of finance, trade, and development. This will mean giving them more voting strength and top-level appointments, and larger responsibilities as well, with a corresponding reduction of the role of others. With the growing urgency of problems such as the balance of food and population, the effects of technological change, and protection of the world environment, the consuming and producing countries can cultivate responsible common interest in the exploration of possible responses and the building of new international institutions.
G. SPECIAL RELATIONSHIPS

Another influence which may modify the picture of confrontation over oil between consuming and producing countries is the variety of political interests, cultural ties and other factors which differentiate individual members of one group from each other and strengthen relationships with countries on the other side. Thus, the fact that a European nation or the United States may have a close association with a particular producing country is both natural and generally useful, so long as it does not weaken the position of the Trilateral countries as a whole. If OPEC or the Arab bloc loses cohesion, it will be because the members are following their own interests as they see them, rather than because of outside pressure or manipulation. The Middle East, in particular, is a region of many conflicting local interests, and oil solidarity has not displaced all of them.

There should be no hard and fast rules on how to approach the oil-producing countries either on oil matters alone or on the broader possibilities of cooperation. The private international oil companies are no longer in a position where they can make decisions or negotiate effectively with producing states concerning levels of production or the price of oil. Deprived of their assets in the producing countries (loss of the remaining equity being only a matter of time), they may be less subject to producer pressure and better able to serve the interests of the consuming countries. But the governments of the latter will be more directly involved with the producing countries than in the past.

The approach should be one of cooperation, not confrontation, but with a generally agreed strategy which takes account of differing positions of individual consuming countries. Of course, it takes two sides to produce cooperation, only one to produce confrontation. The important objective, in our view, is a serious and productive negotiation with the producing countries looking toward long-term solutions. It is desirable neither to rush into this without an agreed approach and strategy nor to delay unduly while seeking total congruence of the positions of the consumers. The approach should be organized by the International Energy Agency in consultation with France. The negotiation should include, at some stage, countries from those neither developed nor possessed of substantial energy resources of their own.

OPEC has not wished to negotiate with a bloc of all the consumers. In the situation of the past year, in which supplies were uncertain, consuming countries have naturally turned to whatever methods appeared
to promise some assurance that they would continue to get oil. Some of the bilateral agreements they have made contain specifics on oil deliveries and prices over fixed periods; some specify goods and services to be provided in return; others merely set a general framework of cooperation in many fields. Fortunately, this “scramble” for special arrangements did not do as much harm to general consumer interests as some critics feared, and the benefits to those who made them were often illusory.

There is much to be said for diversity of approach. As long as the general interest in equality of treatment is met and bilateral deals neither push up the price of oil nor unduly restrict the available supply, such arrangements need not be discouraged. When made after consultation and within the bounds of the agreed strategy of consuming states, they may be useful in keeping open doors and raising the total quantity of available oil supplies.

Similarly, the dialogue now begun between the E.E.C. and the Arab League is a promising means of opening up discussion on possible cooperation between European and Arab countries. Although there is no authority on the Arab side which could make a general agreement, the Community could open up the possibility of special arrangements with individual Arab countries. The United States, Canada, and Japan have no reason to object to such discussions or the agreements which emerge from them, again with the proviso that they are in accord with an agreed general strategy and do not damage the interests of others.

As a stimulus or as a supplement to general talks between governments of consuming and producing countries, we suggest that the Trilateral Commission set up an expert group which could discuss unofficially with OPEC representatives a whole gamut of issues (such as energy, trade, monetary matters, and relations with poor developing countries) on which the two groups have both conflicting interests and opportunities for cooperation.

Seizure of such opportunities by both sides could open the way to a large-scale multiplication and flowering of economic and political relationships involving the Trilateral countries with the oil-producing countries. Both should be prepared to share power and to share responsibilities. If the initial period of shock and stress can be surmounted and the process of cooperation can gain momentum, the vexing questions of price, recycling, hot money, and production cuts may be dealt with in the perspective of a growing mutuality of interest.
V. DEVELOPMENT OF ENERGY IN THE TRILATERAL REGION

We have already stressed the need for a common long-term strategy for the development of energy resources in the Trilateral countries themselves. Here we shall look mainly at the international political aspects of such action. They are determined to a large extent by the fact that the resources in question are unevenly distributed. In brief, North America has a strong position in current production and proven reserves of fossil fuels and wide possibilities in offshore and Arctic locations, plus a vast potential for the production of oil from shale and tar sands when the technology for its extraction is further improved; Europe, except for North Sea oil and gas and a declining coal industry, is in a much less favorable position; and Japan has practically no natural fuel resources.

For Europe, North Sea oil and gas present the special problem of the speed of their development. The most rapid possible exploitation would help to reduce dependence on the Middle East. On the other hand, these are depletable resources; Norway is already limiting production for various domestic reasons, and Britain may do the same. We recommend that the policy decisions be taken on a European basis, taking into consideration the total European and Trilateral energy situation and bearing in mind that what Europe can do for itself, particularly in the next decade, will improve its position in regard both to independence of Middle East pressures and to relations with North America on energy sharing and energy development.

If the United States with its Project Independence and Canada with a national energy policy develop their respective resources only to fill their own respective needs, the Europeans and Japanese will surely question the usefulness of international solidarity on other aspects of the energy problem, not to speak of other matters. Nuclear energy cannot promise them substantial relief from heavy dependence on OPEC oil for a long time. They have an obvious interest in the development of North American fossil fuel resources for the purpose of sharing in the increased production.

It may not be easy for the United States and Canada to accept the proposition that their energy reserves should be exploited, and exhausted, more rapidly than they would plan in the light of their own long-term requirements. There is a need for full and frank discussion, within each country and in international discourse, in order to find an
agreed balance and reconciliation of possibly conflicting interests. If the solidarity and cooperation of the Trilateral countries is necessary and desirable for reducing dependence on OPEC, for emergency sharing, for coping with high oil prices, and for moving ahead to develop nuclear power and other forms of energy for the future, then it should be valid as well for the development of known resources, whatever their location, within the Trilateral area.

Development of these resources on a large scale will require large new investments, as well as guarantees that the resulting high-cost energy will in fact have an outlet, for instance through long-term purchase contracts. The home countries should welcome added foreign capital, and participating foreign interests would have to share in the risks and in the guarantees.

Governments of the Trilateral countries should try to agree on a set of general rules covering the priority of development of various resources, a common fund to finance and guarantee investments, the degree of domestic and outside participation in investment, estimated volume of production, and the availability of a portion of the product for the export market. Mutually advantageous bilateral arrangements, of course, should not have to await the conclusion of a formal multilateral agreement.

Under appropriate legislation, private and mixed and public companies might all have a role. There is room for wide variety in practice, allowing scope for private enterprise and market forces to do what they can do more efficiently than governments. The wider the area of agreement is, the better the chances are for an overall long-term strategy to work. The sensitivities of Canada or Norway, of Britain or of the United States, are fully understood, and their sovereign governments have the last word, but our countries are not closed national preserves. It is legitimate and desirable, for example, that American companies should participate in the production of North Sea oil, Japanese companies in the mining of American coal, or an E.E.C. consortium in the processing of Canada’s tar sands.

This question is of the greatest significance as a test of Trilateral solidarity. Will it be seen as a conflict of national versus foreign interests, or of haves versus have-nots, or as an opportunity for contributions of different kinds to be made by all in the interest of a viable economy for the entire Trilateral region? If our nations do not succeed in finding common ground in dealing with themselves, it is difficult to see how they can stay together in dealing with the oil-producing countries.
VI. Social and Political Change

There can be little doubt that more serious shortages of energy and more drastic adjustment of economic patterns and social lifestyles lie ahead. We have noted that renewal by the Arab states of embargoes and cuts in exports, perhaps more severe than the last time, is a serious possibility, and that the financial drain caused mainly by high oil prices is forcing one consuming country after another to take measures in self-defense. There is nothing to be gained and much to lose if each tries to shift the problems elsewhere, at the expense of other countries and of the international economic system, in order to avoid facing them at home. Finally, the long-term energy strategy recommended by this report as the best course toward a more secure future will make heavy demands on governments, private industry, and the public, particularly in the area of energy conservation. Economic factors will by themselves induce certain changes. But the situation will call for a considerable degree of voluntary cooperation and of acceptance, voluntary or involuntary, of governmental regulation of an increased sector of personal life.

We cannot predict precisely what changes and adjustments will be necessary. The ground rule for civilian consumption should be for the state to ensure a socially just use of energy at the existing price level. This is the condition for the maintenance of a civilized life. Supplementary consumption, whether for heat, lighting, or transport, might be tolerated but at a much higher price.

There will surely be a slower overall growth of the economy, a restructuring of production, a high rate of investment, and a retreat from some of the more extravagant features of our consumer society. The cult of the automobile and the current methods of constructing, heating and cooling buildings can hardly remain unaffected. In essence, there will be a reallocation of capital, labor, technology, and available supplies of energy through the economics of scarcity. We foresee shifts from energy-intensive industries to others which consume less; from relatively non-essential (the highly-developed packaging industry, for example) to more essential production; and from wasteful to energy-efficient methods of transporting people and goods. Such shifts will mean changes in patterns of investment and of employment, a high level of technological unemployment, and perhaps a reduced working week. Serious social strains are bound to appear, especially if the economies of the industrial nations, now exposed to rising costs for energy and for labor, continue to be plagued by inflation and financial instability.
Not all our governments are strong, and it is a virtue of democracy that it is sensitive to the public mood. There are psychological barriers still to be passed in recognition of the challenge. It is a real question, therefore, whether the necessary sacrifices will in fact be accepted by powerful elements in the body politic, be they politicians, civil servants, trade unions, businessmen, or an undefined mass of ordinary citizens. In such cases, there is instability and turmoil whether a government tries to face the crisis or to avoid it. We foresee growing extremism, both of the right and of the left, which will feed on this instability.

Each nation, of course, will have to make its own decisions on how the necessary elements of social discipline, governmental control, and changes in customary modes of living can be reconciled with the vital need to preserve civic freedoms and democratic institutions. But none will be acting in isolation. Political chaos or the coming of anti-democratic forces to power in any of the Trilateral countries would be a most serious danger to their common security.

It is not possible to avert such dangers with vague formulas for solidarity and cooperation. On the economic side, the problems of industrial structure, the environment, and the mobility of labor will call for common planning and for a stronger international system than ever. Politically, sensitivity to each other’s problems and agreement on sharing burdens and shortages provide the only way to keep the system from breaking down.

Because all our countries will have to get along with less energy, it is indefensible that they should differ widely in the burdens and the discipline they accept, as they now do on the most important matter of all, conservation. Obviously the standards and practices cannot be the same everywhere, but there should be, first, an acceptance of the principle of equity; second, an attempt to define what is equitable and to get agreement on it; and third, some mechanism, in the International Energy Agency or the O.E.C.D., which could establish general criteria and make judgments on each country’s performance.

These social problems, in their consequences as in their causes, are in essence international. Our nations have to attack them together, in the context of the long-term strategy on energy and of common political interests. The steadiness required of governments and the dedication and self-discipline required of the people can hardly be sustained unless the people are convinced that the enterprise is a vital one and that their efforts are being matched by those of their allies. All must have a common sense of purpose, a confidence that democratic methods will see us through, and policies which justify that confidence.
All these matters requiring cooperation could be more easily and sensibly handled if the European Community had a common energy policy and could act as a unit in partnership with the United States, Canada, and Japan. Until that degree of unity exists, it is all the more important that all the Western European states, including France and Norway, be in a position to act effectively with other Trilateral countries through such bodies as the International Energy Agency and the O.E.C.D.

It would be useful to have, in addition, a non-governmental body of experts who could make a long-range evaluation of the social dynamics of the three regions, monitor the evolving situation, and report periodically to governments and to the Secretary-General of the O.E.C.D.

VII. Conclusions

Our conclusions have already been given in the body of this report. By way of résumé, we wish to state five broad sets of conclusions while re-emphasizing, under some of them, a number of specific recommendations.

A. A LONG-TERM STRATEGY

The Trilateral countries should have a common long-term strategy covering both the internal and the international aspects of the energy problem.

B. INSTITUTIONS TO MAKE IT WORK

Establishing the strategy and adapting it over time require continuous consultation and negotiation among the Trilateral countries and between them and the oil-producing countries. There must be an effective organizational structure for that purpose, including Trilateral institutions (such as the O.E.C.D. and the International Energy Agency) and an agreed division of labor between such institutions, their member governments, and the European Community.
C. INTERNAL GOALS
To reach a better balance between supply and demand in energy, our nations must take a number of concerted actions, especially the following:

1. Reduction of dependence on imported oil and gas
The United States and Canada should aim at being substantially independent, with less than 5 percent of energy demand filled by imported oil and gas, in 1985 and thereafter. Western Europe should reduce dependence to 40 percent, and Japan to 65 percent, by 1985.

2. Conservation
All consuming countries should make major efforts for conservation and efficiency of use, holding the annual growth of energy consumption over the next decade below 2 percent in North America, 3 percent in Europe, and 4 percent in Japan. Their peoples should be prepared for even sharper cuts if necessary and for a real (though presumably temporary) reduction in living standards.

3. Development of new sources
The common energy strategy should include setting rough national and Trilateral production goals, covering the period to 1985, for coal, oil, natural gas, nuclear power, and other forms of energy. Consequent decisions on investment for increased production, and for research on development of new sources of energy for the longer run, should be taken without delay. The Trilateral countries should plan together for future cooperation in the development of the extensive energy reserves of North America as an important means of meeting the long-run needs of the entire Trilateral area.

4. Meeting the financial drain
The consuming countries should recognize the dangers of the current drain on their monetary reserves for oil payments and should do their best to create conditions for a reduction of oil prices. At the same time they should reduce the impact of the crisis through recycling arrangements, emergency loans to the more hard pressed, and cooperation among themselves and with producing countries on the investment of surplus oil funds, meanwhile taking action by conservation and development of alternative sources of energy to reduce the future size of the problem.

These actions will have far-reaching consequences for the structure of our societies and the lives of our citizens. The Trilateral countries, accordingly, should reach broad agreement on what those changes will be and on equitable standards for bearing the burdens of scarcity and
adjustment. Both governments and peoples will have to show steadiness and a determination to preserve democratic institutions.

D. EXTERNAL GOALS

1. Relations with producing countries
The approach to the oil-producing countries should be based on the common interests and agreed strategy of consuming countries, but should also be attuned to the basic interests of the producers in security, in rapid economic development, and in a larger role in world affairs, and to the common interest of both consumers and producers in a functioning international economy. It is in this context that negotiation should take place on the supply and price of oil.

2. Arab-Israeli conflict
Although an Arab-Israeli settlement will not in itself resolve the energy problem, renewed war or failure to reach a settlement could seriously aggravate that problem. The Trilateral countries, following a generally coordinated approach, should use their influence on behalf of steady progress in negotiations between the parties and achievement without undue delay of a peace settlement based on essential acceptance of the principle of non-acquisition of territory by force and the right of all states to secure existence.

E. THE NEED FOR UNITY
The energy crisis has weakened the developed nations and driven them apart. They must re-create their unity. Only if they work together on energy strategy, and on the related problems of finance and trade, will they be able to repair the damage already done and move through the difficult transitional period to a new era of growth based upon dependable sources of energy. In working together they will create, in effect, a Trilateral energy community. In the experience of this constructive enterprise our nations can begin to move the now floundering international economic system to higher and firmer ground.
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