

EXECUTIVE SECRETARIAT
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Remarks

Executive Secretary
 29 April 85
 Date

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DEPARTMENT OF STATE

Washington, D.C. 20520

April 25, 1985

Executive Registry
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Senior Interagency Group No. 34

TO : NSC - Mr. Robert Kimmit
 CIA - [redacted]
 Commerce - Mrs. Helen Robbins
 Energy - Mr. William Vitale
 Defense - Col. R. J. Affourtit
 Interior - Mr. Stephen Gleason
 OPD - Mr. John Svahn
 Transportation - Ms. Linda Arey
 Treasury - Mr. Edward Stuckey
 USTR - Mr. Dennis Whitfield

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SUBJECT: IESG Meeting: Summary of Discussion

Attached are a Summary of Discussion of the IESG meeting held on April 15, 1985, and a list of those who attended.

Nicholas Platt
 Nicholas Platt
 Executive Secretary

Attachments:

As Stated.

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CONFIDENTIALU.S.-Japan Energy Working Group

Under Secretary Wallis reported on the meeting of the U.S.-Japan Energy Working Group (EWG) in Tokyo on March 14, 1985. He said that the U.S. side emphasized the President's desire to accelerate progress on the November 1983 Joint Statement on Energy of President Reagan and Prime Minister Nakasone. The Japanese co-chairman, Teshima of MOFA, stated that the Japanese considered bilateral energy trade as important as any of the sectors in the MOSS discussions. On imports of U.S. steam coal, the Japanese side indicated there might be an increase within the short-term; on metallurgical coal imports, U.S. supplies should take a long-term perspective. With regard to the Sakhalin project, the U.S. side made clear that the USG would be disappointed if Japanese importers chose to purchase Sakhalin LNG over competitive U.S. supplies. The Japanese side indicated it would increase imports of refined petroleum products such as naptha and residual fuel oil, but not of gasoline and kerosene.

The Japanese again inquired about the possibility of buying Alaskan crude oil but, according to the Under Secretary, this interest did not necessarily mean the Japanese would purchase this crude oil if it became available for export. Before turning to George Bradley (DOE) for a status report on a strategy paper on possible U.S. oil exports, the Under Secretary noted that Secretary Shultz had drawn his attention to a Wall Street Journal article the previous week which stated that the U.S. could reduce its bilateral trade imbalance by \$16 billion per year if exports of Alaskan crude oil were permitted. The article raised the question whether, in the current atmosphere, there was a greater willingness to consider exports of Alaskan oil. Japanese Foreign Minister Abe had asked about Alaskan oil exports in a meeting with Secretary Shultz on April 13, and the Secretary said that the Department of State specifically and the Administration generally favored such exports but that the Export Administration Act (EAA) created complications. It was less than simple to charge ahead on this issue.

U.S. Crude Oil Exports

Summing up the status of the DOE strategy paper on U.S. oil exports, Mr. Bradley said that DOE believed it important to push ahead. DOE had already identified different scenarios and had done extensive research. An initiative on U.S. crude exports to Canada was one possibility; another was exports of Cook Inlet crude. He noted that Canadian Prime Minister Mulroney had reaffirmed Canada's desire to increase U.S.-Canada energy

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trade during his recent bilateral with President Reagan. Mr. Bradley asked for Commerce's views on the legal aspects of an Administration initiative.

David Diebold (Commerce) responded that three issues were on the table: exports of crude oil to Canada; exports from the North Slope; and exports from Cook Inlet. Under Secretary Wallis interjected that Abe had mentioned during his meeting with Secretary Shultz a letter he had received from Alaskan Governor Sheffield in which Governor Sheffield offered to sell Japan 6,000 b/d of royalty crude from the Cook Inlet area. Mr. Diebold continued that lawyers from interested agencies had met on several occasions to sort out the legal obstacles to U.S. crude exports; he was awaiting their final report. A Presidential determination would be necessary to export Cook Inlet crude, and the lawyers had reached the conclusion that the current "swap" program with Canada was not broad enough to encompass greater volumes of U.S. crude exports to Canada. This also would require a Presidential determination or one by the Secretary of Commerce. The criteria for crude exports to Canada and for exports from Alaska were somewhat different, however, but these were ready to elevate to the policy level for action.

Replying to a query from Don Pearlman (Interior), Mr. Diebold said he anticipated the interagency legal analysis would be available within several days and that the analysis could be presented for Secretary Baldrige's review by the end of the week. He said that Commerce at that point had not tracked Congressional interest on the subject.

William F. Martin (NSC) commented that he was somewhat shocked at the pace of the interagency review: former Treasury Secretary Regan in January had asked for an early review of the question of U.S. crude exports to Japan so that it could be factored into the bilateral between the President and Nakasone immediately before the Bonn Summit, and no results had been brought forward even though that meeting was only two weeks away. Mr. Martin also asked how the interagency findings would be transmitted to the President and National Security Advisor McFarlane. Mr. McFarlane's interest had been aroused further by an arrangement promoted by Jessie Calhoun, head of the Maritime Union, by which he would support Alaskan oil exports if U.S. ships participated in transporting Japanese cars to the U.S. market. Mr. Martin had told Mr. McFarlane that exports from Cook Inlet should be carefully considered. From the White House perspective, an options paper was urgently needed. Mr. Martin stated his view that it would be inappropriate to proceed with

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crude exports to Canada and not to Japan. Crude exports to Japan would demonstrate the President's commitment to free trade, and the timing was perfect in the contexts of the U.S.-Japan trade imbalance and the USG's efforts to promote a new round of multilateral trade negotiations. The USG should take action in the next two weeks. Under Secretary Wallis agreed that the USG needed to reply to Nakasone on the question of Alaskan crude exports.

Allan Wendt (State) said that there appeared to be interagency agreement on policy with regard to liberalizing U.S. crude exports to the maximum extent possible; that policy needed to be put into practice. The group of interagency lawyers, even if not totally in agreement, thought that exports could be allowed. The President needed recommendations, and there was flexibility in Department of Commerce regulations, which could be amended relatively easily. There was a timing factor with Canada as well as with Japan; Canada would remove its volumetric restrictions on crude oil exports by June 1, but was concerned about a price spike unless crude could be imported from the U.S. in certain regions. There was every reason to move forward on U.S. crude exports to Canada and from Cook Inlet as quickly as possible.

Jack Silvey (DOE) noted that Commerce perhaps did not see a clear policy consensus on the issue of U.S. crude exports. He said the IESG needed Commerce's guidance on what steps had to be taken by May 2, the date for the Reagan-Nakasone bilateral in Bonn, for a policy to move forward. Mr. Diebold explained that there were three separate issues or one bunched together, depending on different approaches. If a decision were made to proceed with either exports to Canada or from Cook Inlet, the President or Secretary Baldrige would have to make a determination that such exports were in the national interest. Commerce was certainly ready to move on a decision.

After Under Secretary Wallis commented that the USG would not want to pursue initiatives immediately in all three possible avenues for U.S. crude exports; exports from Alaska's North Slope did not appear feasible at the current time. Mr. Diebold said that would be Commerce's recommendation as well given the status of the EAA. Responding to Mr. Martin's questions about the process for decision, Mr. Bradley said that specific options would be developed. The question was, even with options, how would an initiative receive Cabinet-level approval? Mr. Bradley agreed that an options paper would be available in two days. Mr. Martin and Under Secretary Wallis noted that the DOE paper should include the steps that President would take to permit exports and the timing involved.

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Canadian Energy Developments

Mr. Wendt reported that the Canadian Government on March 28 announced agreement with its three producing provinces to dismantle the bulk of the National Energy Program (NEP), including removal of price and volume controls on crude oil exports. Greater crude exports would likely result. Because of its fear of price spikes in certain regions, especially in the Eastern provinces, the Canadian Government wanted to have the possibility of importing U.S. crude oil. The March 28 announcement also included promulgation of a more market-based system for gas exports. The announcement implied that the Toronto city-gate price would no longer determine prices for gas exports to the U.S. market. The Canadians planned also to phase out gradually taxes on gas exports and to phase out their Petroleum Incentives Program (PIP) for exploration in federal lands. The announcement made no mention of revision of the NEP's retroactive back-in clause, but the USG was told that Canada intends to phase out this provision with regard to exploration on federal lands. The Canadian Government was sensitive to the fact that some observers believed it was moving to liberalize its energy trade too quickly. On the whole, the USG welcomed these Canadian developments, which were an admission that past Canadian policies were not in the national interest.

Consultations with the European Community

Mr. Wendt described the upcoming visit of EC Commissioner Mosar as essentially a "get acquainted" session. Mosar would stop in the United States after visits to Algeria and Canada. He evidently wanted to talk about the issue of oil product imports, on which the USG has had a consistent position. The USG should take advantage of Mosar's visit -- during which he will talk to various USG agencies and with key Congressmen -- to discuss emergency preparedness, energy security (especially concerning European gas), and oil stocks.

Emergency Preparedness

Mr. Bradley noted that the House Subcommittee on Fossil and Synthetic Fuels had the previous week passed the Administration bill on renewal of the Energy Policy and Conservation Act (EPCA) with minor changes relating to contingency measures for conservation by state governments. The full House Energy and Commerce Committee would mark up the bill on April 24 or May 1 and would consider various amendments. In response to Mr. Pearlman's questions whether these amendments would be technical or substantive in nature, Mr. Bradley said they likely

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would be more substantive. In this regard, he cited a possible amendment regarding a test of the Strategic Petroleum Reserve (SPR). There was also discussion about shutting in production from the Naval Petroleum Reserve (NPR). A number of other issues might arise, including in the area of economic response measures.

Following a question by Dave Tarbell (Defense) regarding the NPR, Mr. Silvey said that there was an assumption that the language in the Subcommittee's bill would be amended to avoid shutting in the NPR; the Administration, he said, would support this. Mr. Pearlman then asked whether the Administration supported such an amendment in the context of promoting a simple extension of EPCA. Mr. Bradley responded that DOE hoped that language on NPR would not interfere with passage of a simple extension. While Interior had opposed continued sales from the NPR, Mr. Pearlman noted that there had been a clear-cut understanding in the Cabinet Council on Natural Resources and the Environment (CCNRE) that there would be no attempt to tamper with a simple extension of the existing EPCA. He asked whether the Administration's agreement to revised language on the NPR might not open "Pandora's box". Mr. Bradley remarked that it would be the Congress, not the Administration, that reopened the issue. Mr. Silvey commented that Deputy Energy Secretary Boggs had said recently in Congressional testimony that he assumed the Congress would not shut off sales from the NPR simply because the Administration wanted to freeze the SPR at 489 million barrels. This was the way the issue was presented to the Congress.

Mr. Tarbell stated that, in Defense's view, the Administration needed to push a consistent line on the NPR; if sales from the NPR were halted, it would cost the USG \$1.3 billion per year in foregone revenues. He asked whether there had been further discussions on "out year" spending for the SPR and sought a specific description of USG policy in this regard. While simple extension of EPCA was important, the USG should seek to continue to sell NPR oil and eventually to achieve a 750 million barrel SPR. A different decision should require discussion at the Cabinet level. He then asked if a one-year moratorium on SPR fill was the current Administration position. Dan Taft (OMB) answered that the budgetary process provided for annual review of SPR fill. The budget agreement reached between the President and Senate leadership, however, included a three year moratorium on SPR fill. Mr. Tarbell responded that the issue of SPR fill went beyond budgetary considerations and needed discussion in the full Cabinet. There were conflicting signals and the interagency process was not working well. Messrs. Bradley and Silvey commented that the Administration needed to assess the current situation and to clarify it.

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IEA Ministerial

Mr. Wendt began discussion of the recent meeting of the IEA Governing Board. The upcoming IEA Ministerial was discussed at length at the Governing Board meeting, and the results were reassuring. The IEA Secretariat was preparing two types of documents for the Ministerial. The first was an umbrella paper ("brief note") entitled "Energy Policies: Past and Future Priorities", which would outline what the IEA had achieved; lessons learned; energy challenges for the present and future; and what specific policies were necessary for IEA countries to adopt to achieve a lasting and balanced energy mix.

The umbrella paper would be buttressed by background papers. Topics would include the oil market, oil product imports, and emergency preparedness; the electricity sector, focussing on fuel substitution and pricing policies; a paper of 30-40 pages on natural gas, a first draft of which was expected that week; and a paper on research and development that would promote greater collaborative efforts. Mr. Wendt said the IEA Secretariat would utilize the background papers to bring appropriate conclusions into the umbrella paper. On the issue of natural gas, tentative plans called for a meeting of USG gas experts on April 18 and a meeting of experts from IEA countries in Paris on April 30. The CIA had completed an internal USG study on this subject which would help analyze the Secretariat's paper on the same subject. The USG wanted to ensure that the Secretariat's paper contained an objective, factual analysis, especially with regard to the approaching supply gap in the European market, which could reach 30-40 billion cubic meters per year. The USG should reserve judgment on the IEA paper until a first draft was available at the end of May. In the meantime, the USG would formulate its own conclusions to compare with those of the IEA. The June 13 meeting of the IEA Governing Board would ensure that preparations for the July 9 Ministerial were well in hand. Overall, the Ministerial was shaping up well.

Mr. Martin said he wanted to echo Mr. Wendt's comments and complimented the CIA for its sound and sobering analysis of the European gas situation. The Soviet Union could capture 60% of the European gas market by the next century; this indicated that Norway would have to reform its tax structure and that the Europeans would have to pay a security premium for non-Soviet gas. A low-key approach on European gas was preferable: while the Europeans have agreed to discuss natural gas at the IEA Ministerial, they have not yet agreed to pay the price for non-Soviet gas. Mr. Wendt concurred and noted that it was difficult to obtain agreement of the 21 IEA members on any topic,

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and agreement on natural gas could be controversial. Mr. Martin replied that the USG was not asking IEA members to agree to anything more than they had already agreed to at the 1983 Ministerial; rather, the USG was asking for progress in implementing what had been agreed to. He added that the building of additional oil stocks would also be an important topic at the Ministerial and ranked with natural gas and research and development as the most important subjects from the USG perspective. Mr. Tarbell added that other IEA members needed to face up to the fact that they have not done much to build stocks. Mr. Wendt said the USG wanted Ministerial approval of the strategy on stocks agreed to at the July 1984 Governing Board meeting. The Administration's proposal for a moratorium on SPR fill would not help in this regard, however.

Mr. Martin then asked Under Secretary Wallis whether language on energy would be included in the communique of the Bonn Economic Summit. Under Secretary Wallis said that the communique would likely include several sentences on energy and that the Japanese have supported our efforts for inclusion of language on energy.

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INTERNATIONAL ENERGY SECURITY GROUP
April 15, 1985
2:30 PM
Operations Center Conference Room
Department of State

List of Attendees

State

Under Secretary Wallis, Chairman
Robert Cekuta
Elinor G. Constable
Thomas Forbord
Charles Higginson
John Hope
Robert Knickmeyer
Charles Patrizia
Lucian Pugliaresi
Pamela Rockwell
Daniel Serwer
David Sloan
Allan Wendt

NSC

William F. Martin

Commerce

David Diebold
Cecil Hunt
Doug Perry
John Richards

Interior

Donald Pearlman

Energy

Craig Bamberger
George Bradley
John Broadman
Robert Price
David Pumphrey
Jack Silvey

USTR

Robert Reinstein

Treasury

Ernest Chase
Charles Schotta

CIA



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Defense

David Tarbell

OMB

Arnie Brooks
John Pfeiffer
Dan Taft

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11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	NIO/Econ		X		
20	VC/NIC	X			
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Date _____

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Remarks

Executive Secretary

8 Apr 85
Date

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United States Department of State



Washington, D.C. 20520

April 5, 1985

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Senior Interagency Group No. 34

TO : NSC - Mr. Robert Kimmitt
 CIA -
 Commerce - Mrs. Helen Robbins
 Energy - Mr. William Vitale
 Defense - Col. R. J. Affourtit
 Interior - Mr. Stephen Gleason
 OPD - Mr. John Svahn
 Transportation - Ms. Linda Arey
 Treasury - Mr. Christopher Hicks
 USTR - Mr. Dennis Whitfield

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SUBJECT: International Energy Security Group Meeting:
 April 15, 1985

Under Secretary Wallis will chair a meeting of the International Energy Security Group (IESG) on Monday, April 15 at 2:30 p.m. in the Operations Center conference room (room 7516) of the State Department. We ask that you notify your representative(s) of the meeting, which will last approximately one hour. Attendance will be limited to members of the IESG (or alternates) plus one.

The agenda for the meeting follows:

- I. Report on U.S./Japan Energy Working Group Meeting
- II. U.S. Crude Oil Exports
- III. Report On Canadian Energy Developments
- IV. Consultations with the EC
- V. Energy Emergency Preparedness
 - Expiration of the Energy Policy and Conservation Act
 - Budget provision for the Strategic Petroleum Reserve

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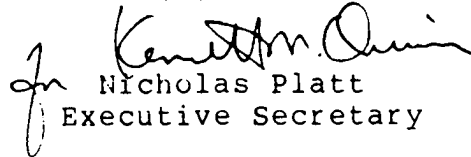
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VI. Preparations for the July 9 IEA Ministerial

- Results of March 27 IEA Governing Board Meeting
- Further USG preparations
- Progress report on the IEA gas study

VII. Other Business

Please provide Steve Ordal (632-1445) with the name(s) of your agency's representative(s).


for Nicholas Platt
Executive Secretary

Attachment:

List of Representatives and Alternates to the IESG

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Revised 4/3/85

MEMBERS OF THE INTERNATIONAL ENERGY SECURITY GROUPNational Security Council

William F. Martin 395-3440
 Special Assistant to the President and
 Senior Director for Coordination
 National Security Council
 Room 368 - OEOB

Roger W. Robinson 395-3622
 Senior Director of International
 Economic Affairs
 National Security Council
 Room 365 - OEOB

White House Office of Policy Development

Martin Smith 456-7993
 Special Assistant to the President for
 Policy Development
 Room 234 - OEOB

Office of Management and Budget

Randall E. Davis 395-4844
 Program Associate Director for
 Natural Resources, Energy & Science
 Room 260 - NEOB

Alternate: Daniel Taft 395-3285

Department of Energy

Jan W. Mares 252-5800
 Assistant Secretary for International
 Affairs and Energy Emergencies
 Room 7C-C16, Forrestal Building

Alternate: George Bradley 252-5858

Department of Treasury

David C. Mulford 566-7993
 Assistant Secretary for International
 Affairs
 Room 3430

Alternate: Charles Schotta 566-5881

Department of Commerce

Lionel H. Olmer 377-2867
 Under Secretary for International
 Trade
 Room 2867

H. P. Goldfield 377-1461
 Assistant Secretary for Trade
 Development
 Room 3832

Department of Defense

Fred C. Ikle 697-7200
 Under Secretary for Policy
 Room 4E-830 - Pentagon

Alternate: David Tarbell 695-2659

Department of Interior

Donald H. Pearlman 343-7351
 Executive Assistant to the
 Secretary
 Room 6151

Alternate: Earl E. Gjelde 343-7351

Department of Transportation

Matthew V. Scocozza 426-4544
 Assistant Secretary for Policy
 and International Affairs
 Room 10228
 400 - 7th Street, S.W.

Alternate: Donald Igo 426-0783

Office of the US Trade Representative

Charles H. Blum 395-7320
 Assistant U.S. Trade Representative
 for Industrial Trade Policy
 Room 407 - WINDER BUILDING
 600 - 17th Street, N.W.

Alternate: Robert Reinstein 395-7203

Central Intelligence Agency

David Low
National Intelligence Officer for
Economics
Room 5G-00

Alternate:

Department of State (Cont'd)

Richard Burt 632-9625X1
Assistant Secretary for European
and Canadian Affairs
Room 6226

Alternate: Thomas Niles 632-9625X1

Department of State

Allen Wallis 632-3256
IESG Chairman
Under Secretary for Economic Affairs
Room 7256

Richard Fairbanks 632-1868
IESG Co-Chairman
Ambassador-at-Large S/SA
Room 7527

Alternate: Charles Patrizia 632-1868

Paul D. Wolfowitz 632-9596
Assistant Secretary for East Asian
and Pacific Affairs
Room 6206

Alternate: Richard Howarth 632-0366

Richard W. Murphy 632-9588
Assistant Secretary for Near Eastern
and South Asian Affairs
Room 6244

Alternate: James Placke 632-9076

Peter Rodman 632-2372
Chairman, Policy Planning Council
Room 7311

Alternate: Lou Pugliaresi 632-9571

Elinor G. Constable 632-7950
Acting Assistant Secretary for Economic
and Business Affairs
Room 6828

Alternate: E. Allan Wendt 632-1498