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WASHINGTON ENERGY CONFERENCE,
FEBRUARY 11-13, 1974

TEXT OF STATEMENTS BY THE
SECRETARY OF STATE FOR EXTERNAL AFFAIRS,
THE HONOURABLE MITCHELL SHARP,
AND THE MINISTER OF FINANCE,
THE HONOURABLE JOHN TURNER,
AND TEXT OF FINAL COMMUNIQUE.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Statement by Secretary of State for External Affairs,
the Hon. Mitchell Sharp
Washington Energy Conference, February 11, 1974

From time to time the world economy is threatened by such serious strains or dislocations as to imperil the livelihood of hundreds of millions of people. We all recognize that this is such a time because none of us - not even the most fortunate - will escape if the general response is not adequate to the dimensions of the crisis. Canada therefore welcomes the opportunity to be present here today and the initiative of the United States Government in calling this conference.

We are dealing with a complex series of inter-related problems for which there are no self-evident answers. The interrelationship of political events in the Middle East, the desire of oil producers to extract maximum benefit from finite resources, the abrupt shock to countries' balance of payments positions resulting from increased oil prices, the added impetus given to the already serious world inflation, the emotionally charged state of relationships between developed and under-developed countries, the essential role of imported oil in the economies of developed and of less developed

countries alike all have combined to produce a situation of overwhelming difficulty.

In some ways Canada appears to be in an enviable position. We export about as much oil as we import. Hence the increase in the world price of oil has not caused a deterioration in our balance of payments, i.e. it has not resulted in a decrease in the world economic resources available to Canada. Neither have we profited. On the other hand, the geographical division of the Canadian internal market for petroleum products has caused economic hardship in precisely those areas of Canada that can least sustain shocks of this nature. In fact the rise in price has resulted within Canada in some of the same kinds of problems between oil producers and consumers that are confounding relations on the international scene.

As I have said, Canada is both an exporter and an importer of oil and at present an exporter of natural gas. In worldwide terms or in terms of the total needs of our principal export market the quantities of our exports of these products are relatively modest. Proven conventional reserves of both oil and gas in Western Canada are expected to decline, and in the absence of significant

new finds, exports too can be expected to decline since the relatively small remaining reserves will be required to meet domestic requirements. Some promising discoveries have been made in the Canadian Arctic and off our East Coast but they are not yet adequate to justify production.

As to the oil sands of Alberta, estimates of the oil in place are indeed of a significant quantity rivalling the resources of the Middle East. However, a number of technological problems remain to be overcome before production of the major part of these resources becomes economically feasible. There are also a number of factors which the authorities in Canada would have to take into account before deciding whether to proceed with a massive development such as has been suggested in some quarters -- disturbance of the natural environment, availability of labour and machinery and the effects on the Canadian economy as a whole of the enormous investment that would be required in order to produce large quantities of oil. In any event it is unlikely that any significant volume of oil for export will be available from this source for quite some time. We are satisfied, however, that we, by developing the tar sands, will be able at least to reduce what would otherwise be a higher Canadian

demand for imported oil and thus free overseas oil for other importers.

Although Canada may not be as vulnerable as most of the countries around this table to the direct effects of the energy crisis, we are, as a responsible member of the world community and as a major trading nation, directly and immediately concerned with the world-wide results of the changes in oil prices.

The analysis that has been done by the OECD, the IMF and others that Ministers of Finance discussed in Rome, points up that there are problems in the areas of general trading practices; financial and monetary affairs; availability of resources to developing countries; the future framework for world trade in oil; and the development of new energy sources. In all these areas there is a requirement for a widening of the dialogue beyond the countries represented here.

It will not be possible for oil importing countries quickly to balance with exports the higher value of their oil imports. Attempts to do so would be futile as so many countries are in the same boat. Not only would they be futile, they could lead us all into a spiral of lower

and lower growth and higher and higher unemployment. On the contrary, countries affected by the oil crisis should recognize the importance of maintaining the pace of their own economic activity. Predatory practices such as competitive devaluation, currency manipulations, import restrictions and bilateral deals that are inconsistent with the rules of GATT and that are inconsistent with the maintenance of economic and political stability would be counterproductive. Indeed, in the present circumstances it is all the more important that the trade negotiations now planned should be proceeded with and enlarged to embrace not only access to markets but also security of supply.

There is a clear community of interest between oil exporters and developed countries in protecting the world financial system. The oil exporters are, after all, being paid in money. We share an interest in protecting its value. Despite our best efforts there may be something of an adversary atmosphere in working out certain aspects of the oil trading relationship. It would be a pity if this were also to enter into our approach to monetary

and fiscal matters. Can we not envisage a participation of oil exporters in the IMF and World Bank commensurate with their increased importance in terms of world financial power? Given the mutuality of interest which exists, there is every reason for developed countries and oil exporters to work together to deal with problems in this area.

Most developing countries are badly hit. Overall the increase in their bill for imported oil will exceed the total flow of aid last year from all private and public sources. They lack the reserves to meet more than a fraction of the expenditures called for and they are the countries least able to obtain credit to finance their imports. If no solution is found they will have to reduce the pace of economic activity already inadequate. In fact they will have to cut back imports of food for their people and of fertilizers and fuel required to produce food domestically. The supply of other necessities will also be cut back. For many countries the situation must be termed disastrous. On humanitarian grounds, in terms of the solidarity of the international community and in view of the political consequences of serious distress in such a wide area of our planet, a special international effort is called for.

It is tempting to point a finger of accusation at oil producers. We must, however, recognize that not all oil producers find themselves in the same economic circumstances. They are not all rich. Moreover, accusatory exhortation from developed countries is not the best way of calling forth a spirit of co-operation. Our example would be more persuasive. Without any doubt we need the help of oil producing countries if we are to succeed in producing the necessary enlargement of the flow of development aid bilaterally or through multilateral institutions. Canada is prepared to play its part.

The inter-relationship of the political objectives of Arab oil producers and the economic objectives of all OPEC members is bound to complicate the present problem. This conference, however, is not intended to deal with basic political issues at play in the Middle East. It will be hard enough to achieve any progress in dealing with the strictly economic dimension of the problem, which is our main concern here.

Neither buyers nor sellers of oil have an interest in anarchy or confusion in the market place. Both desire and would benefit from stability and certainty. Hence a framework which would allow oil prices to be determined on a basis considered fair and reasonable by both buyers and sellers is to be sought. Canada, as both a producer and importer of oil, is experiencing the delicate problem of reconciling these interests within our own borders; we see no alternative to undertaking the same process internationally: that is to move to broader discussions among consumers and producers including suitable representation of less developed countries.

Oil is not the only source from which energy can be drawn, and in the long run oil prices must accommodate themselves to the cost of producing energy from alternative sources. Indeed, this kind of price structure will make possible an orderly development of other sources. There seems little doubt that adequate energy can be produced for the foreseeable future to meet world needs if investments are made sufficiently in advance of future requirements.

Research and development on the more efficient use of energy, the protection of the environment, and the development of new sources of energy will play an obvious role in ensuring future energy supply for all countries.

A demonstrated ability to conserve existing energy sources while bringing on alternative supplies of energy could moderate any further upward movement in the price for petroleum. We would welcome and be prepared to participate in a pooling of energy research and development amongst developed countries, a pool which would be shared with developing countries.

It should be relatively easy for us to focus on the facts of the situation and identify the main issues. We will probably be able to agree that there are a number of areas where action is required. The difficulty will come in determining the nature of action to be taken and the means which should be employed. It is unlikely that the variety of problems lend themselves to any single solution. Existing international institutions should be employed wherever possible. Good work has already been done by the IMF, the World Bank and OECD. We should

not rule out, however, further methods of approach which would allow us to co-ordinate our efforts and to establish the contacts, which we must do, with those not represented here today. They too may be seeking consultation with us and with each other. We should make it crystal clear at the conclusion of this conference that we seek co-operation which will lead to immediate and effective concerted action on the most urgent problems.

ADDRESS BY THE HON. JOHN TURNER, MINISTER OF FINANCE,
WASHINGTON ENERGY CONFERENCE, FEBRUARY 12

Even before the supply restrictions and the price increases of last fall, the world was in the grip of a substantial inflation. Oil so thoroughly permeates our modern economies that a trebling or more of its price can only add greatly to the inflation that is already running. Canada is immune from direct balance of payments problems, but not the contagion of inflation. This added inflation cannot be dealt with by restrictive monetary or fiscal policy. The only possibilities are in the economic (and political) forces that are at work in the crude oil market itself.

The increase in the oil price is so great as to constitute a threat to the levels of demand that are necessary to sustain growth of output and employment. It may well be necessary to use measures to sustain demand in the world economy in the face of the oil price increase. At our meeting in Rome, we made the same point regarding expansionary policies.

It has been said often that the oil importing countries are going to experience massive increases in their deficits. The danger in this fact for the world economy lies in the possibility that industrial countries will individually seek to reduce or eliminate their current account deficits when collectively they cannot in the short run. Unless this fact is genuinely appreciated and acted upon, we face the prospect of growing trade restrictions and a fracturing of the trading system.

We need to cement the world trading system by getting on with the planned trade negotiations on an even wider basis to embrace security of access to supply as well as to markets. We need, too, rules of conduct relating to bilateral arrangements between oil producers and importers.

The need to finance deficits is the counterpart of the fact of deficits. This is a horrendous problem for some less developed countries. For the industrial countries it is a matter of assisting the recycling of oil payments into investments in the deficit countries. There are many technical aspects of this complicated matter requiring examination.

The uncertainty of the situation and the violence of the shocks to payments positions means that exchange markets will be volatile and will require some careful management. We need an international code of conduct governing that management, for instance, surveillance by the I.M.F. as agreed to by the Group of Twenty. As Mr. Schultz has said, we must look at constructive measures dealing with the uncertainties, e.g. consideration of borrowing mechanisms, long-term investments.

The general point to make here is that the industrial countries must remain in contact with each other, and work out the rules of conduct needed and submit to the international surveillance of developments and policies that is essential to maintaining an integrated trading community.

Many channels are available to us now.

- (a) We have the OECD and particularly its Council, its Economic Policy Committee and its very useful Working Party 3.
- (b) We have the Fund with its soon-to-be improved surveillance machinery.
- (c) We have the GATT.
- (d) We have the central bankers' forum in the BIS.
- (e) We can revive the G-10 for certain specific purposes.

We should be prepared to use all of these channels and others if we need them in a spirit of co-operation. A steering committee could allocate and supervise work in various agencies, sound out countries not represented here as to what type of subsequent conference they would prefer; give recommendations to individual governments as to what types of conference should be held.

What should the conference achieve? It should dramatize and clarify the problem and mobilize public opinion to evoke some consensus on the issues. It should bring together by follow-up in some decision-making forum or fora the industrial nations and the oil producing nations and the L.D.C.'s (less developed countries). Participation means education, particularly regarding the facts and analysis. Our purpose should be to develop international vehicles to deal with two urgent problems: (1) current account deficits of industrial countries (trade patterns, capital flows, bridge financing, exchange rate movement), (2) assist the L.D.C.'s to ensure continuity of aid flows and extension of credit.

If we are not all determined to work together, we face the collapse of the structure we have worked so hard to build in these post-war years. This is the testing time for the world economy. Canada is looking for some concrete evidence of an international commitment and Canada will be prepared to co-operate with other nations fully in this regard.

WASHINGTON ENERGY CONFERENCE

FEBRUARY 1974

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COMMUNIQUE

COMMUNIQUE

Summary Statement

1. Foreign Ministers of Belgium, Canada, Denmark, France, the Federal Republic of Germany, Ireland, Italy, Japan, Luxembourg, The Netherlands, Norway, the United Kingdom, the United States met in Washington from February 11 to 13, 1974. The European Community was represented as such by the President of the Council and the President of the Commission. Finance Ministers, Ministers with responsibility for Energy Affairs, Economic Affairs and Science and Technology Affairs also took part in the meeting. The Secretary General of the OECD also participated in the meeting. The Ministers examined the international energy situation and its implications and charted a course of actions to meet this challenge which requires constructive and comprehensive solutions. To this end they agreed on specific steps to provide for effective international cooperation. The Ministers affirmed that solutions to the world's energy problem should be sought in consultation with producer countries and other consumers.

Analysis of the Situation

2. They noted that during the past three decades progress in improving productivity and standards of living was greatly facilitated by the ready availability of increasing supplies of energy at fairly stable prices. They recognized that the problem of meeting growing demand existed before the current situation and that the needs of the world economy for increased energy supplies require positive long-term solutions.
3. They concluded that the current energy situation results from an intensification of these underlying factors and from political developments.
4. They reviewed the problems created by the large rise in oil prices and agreed with the serious concern expressed by the International Monetary Fund's Committee of Twenty at its recent Rome meeting over the abrupt and significant changes in prospect for the world balance of payments structure.
5. They agreed that present petroleum prices presented the structure of world trade and finance with an unprecedented situation. They recognized that none of the consuming countries could hope to insulate itself from these developments, or expect to deal with the payments impact of oil prices by the adoption of monetary or trade measures alone. In their view, the present situation, if continued, could lead to a serious deterioration in income and employment, intensify inflationary pressures, and endanger the welfare of nations. They believed that financial measures by themselves will not be able to deal with the strains of the current situation.

6. They expressed their particular concern about the consequences of the situation for the developing countries and recognized the need for efforts by the entire international community to resolve this problem.

At current oil prices the additional energy costs for developing countries will cause a serious setback to the prospect for economic development of these countries.

7. General Conclusions. They affirmed, that, in the pursuit of national policies, whether in the trade, monetary or energy fields, efforts should be made to harmonize the interests of each country on the one hand and the maintenance of the world economic system on the other. Concerted international cooperation between all the countries concerned including oil producing countries could help to accelerate an improvement in the supply and demand situation, ameliorate the adverse economic consequences of the existing situation and lay the groundwork for a more equitable and stable international energy relationship.

10. With respect to monetary and economic questions, they decided to intensify their cooperation and to give impetus to the work being undertaken in the IMF, the World Bank and the OECD on the economic and monetary consequences of the current energy situation, in particular to deal with balance of payments disequilibria. They agreed that:

- In dealing with the balance of payments impact of oil prices they stressed the importance of avoiding competitive depreciation and the escalation of restrictions on trade and payments or disruptive actions in external borrowing.*
- While financial cooperation can only partially alleviate the problems which have recently arisen for the international economic system, they will intensify work on short-term financial measures and possible longer-term mechanisms to reinforce existing official and market credit facilities.*
- They will pursue domestic economic policies which will reduce as much as possible the difficulties resulting from the current energy cost levels.*

* France does not accept paragraphs cited with asterisks.

8. They felt that these considerations taken as a whole made it essential that there should be a substantial increase of international cooperation in all fields. Each participant in the Conference stated its firm intention to do its utmost to contribute to such an aim, in close cooperation both with the other consumer countries and with the producer countries.

9. They concurred in the need for a comprehensive action program to deal with all facets of the world energy situation by cooperative measures. In so doing they will build on the work of the OECD. They recognized that they may wish to invite, as appropriate, other countries to join with them in these efforts. Such an action program of international cooperation would include, as appropriate, the sharing of means and efforts, while concerting national policies, in such areas as:

--The conservation of energy and restraint of demand.

--A system of allocating oil supplies in times of emergency and severe shortages.

--The acceleration of development of additional energy sources so as to diversify energy supplies.

--The acceleration of energy research and development programs through international cooperative efforts.*

* France does not accept paragraph cited with an asterisk.

-- They will make strenuous efforts to maintain and enlarge the flow of development aid bilaterally and through multilateral institutions, on the basis of international solidarity embracing all countries with appropriate resources.

11. Further, they have agreed to accelerate wherever practicable their own national programs of new energy sources and technology which will help the overall world-wide supply and demand situation.

12. They agreed to examine in detail the role of international oil companies.

13. They stressed the continued importance of maintaining and improving the natural environment as part of developing energy sources and agreed to make this an important goal of their activity.

14. They further agreed that there was need to develop a cooperative multilateral relationship with producing countries, and other consuming countries that takes into account the long-term interests of all. They are ready to exchange technical information with these countries on the problem of stabilizing energy supplies with regard to quantity and prices.

15. They welcomed the initiatives in the UN to deal with the larger issues of energy and primary products at a world-wide level and in particular for a special session of the UN General Assembly.

Establishment of Follow-on Machinery

16. They agreed to establish a coordinating group headed by senior officials to direct and to coordinate the development of the actions referred to above. The coordinating group shall decide how best to organize its work. It should:

--Monitor and give focus to the tasks that might be addressed in existing organizations;

--Establish such ad hoc working groups as may be necessary to undertake tasks for which there are presently no suitable bodies;

--direct preparations of a conference of consumer and producer countries which will be held at the earliest possible opportunity and which, if necessary, will be preceded by a further meeting of consumer countries.*

17. They agreed that the preparations for such meetings should involve consultations with developing countries and other consumer and producer countries.*

* France does not accept paragraphs cited with an asterisk.