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FM WASHINGTON

TO IMMEDIATE FCO

TELNO 1093

OF 260001Z APRIL 86

INFO IMMEDIATE BONN, PARIS, ROME, UKREP BRUSSELS, TOKYO, OTTAWA

MY TELNO 1060: TOKYO ECONOMIC SUMMIT: LIBYA SANCTIONS AND
OTHER POINTS

SUMMARY.

1. NOTHING NEW TO REPORT ON SUMMIT ISSUES, BUT ADVANCE WARNING IN CONFIDENCE OF A POSSIBLE AMERICAN DECISION IN THE NEXT FEW DAYS TO TERMINATE IMMEDIATELY THE OPERATION OF US OIL AND CONSTRUCTION COMPANIES IN LIBYA. THIS WOULD FREE THEIR HAND TO PRESS THEIR PARTNERS FOR AN OIL EMBARGO WHETHER AT THE SUMMIT OR SUBSEQUENTLY.

DETAIL.

2. WALLIS (STATE) TOLD US THIS AFTERNOON THAT THERE WAS NOTHING NEW THAT WE SHOULD KNOW ON SUMMIT ISSUES AS SUCH FOLLOWING THE PRESIDENT'S BRIEFING MEETINGS ALTHOUGH IN CONVERSATION HE ADDED GLOSSES OF MINOR INTEREST AS FOLLOWS

A) TIED MIXED CREDITS: THE PRESIDENT WOULD PROBABLY INTRODUCE THIS AND THEN HAVE IT REFERRED TO FINANCE MINISTERS.

B) AGRICULTURE: THE AMERICANS WOULD WANT TO PLAY THIS VERY MUCH BY EAR. THEY WOULD WANT THE SUMMIT DISCUSSION TO PAVE THE WAY FOR SUBSTANTIVE MULTILATERAL ACTION DURING THE FOLLOWING YEAR, NOTABLY IN THE GATT. THEY WERE CONVINCED THAT REFORM IN AGRICULTURE MUST BE ARRIVED AT BY MULTILATERAL AGREEMENT. THEY WOULD NOT NECESSARILY LOOK FOR SOMETHING IN THE COMMUNIQUE AT TOKYO, NOT LEAST BECAUSE THEY THOUGHT THE COMMISSION AND THE FRENCH WOULD OBJECT, BUT, FROM WHAT WALLIS SAID, WOULD CLEARLY NOT BE AVERSE TO IT IF THE DISCUSSION WENT WELL.

C) MARSHALL PLAN FOR THE MIDDLE EAST: THIS WOULD BE RAISED BY SHULTZ OR CONCEIVABLY BAKER. THERE CONTINUED TO BE CONSIDERABLE SCEPTICISM OF THE IDEA IN WASHINGTON, IF ONLY ON FINANCIAL GROUNDS, AND THERE WAS NO US COMMITMENT TO IT. BUT SHULTZ FELT THAT IT DESERVED DISCUSSION. HE WANTED THEREFORE TO AIR IT AT TOKYO AND SEE WHAT OTHERS THOUGHT OF IT.

3. THERE WAS ONE ISSUE NOT SPECIFICALLY RELATED TO THE SUMMIT THAT WALLIS WANTED TO WARN US ABOUT IN STRICT CONFIDENCE (AS YET THERE WERE FEW PEOPLE IN WASHINGTON WHO KNEW ABOUT IT AND NO OTHER FOREIGN GOVERNMENT WAS BEING INFORMED). THIS WAS THAT SERIOUS CONSIDERATION WAS BEING GIVEN IN THE ADMINISTRATION TO THE IMMEDIATE SUSPENSION OF THE LICENCES TO THE 5 US OIL COMPANIES AND US CONSTRUCTION COMPANIES STILL OPERATING LEGALLY IN LIBYA UNTIL THE END OF JUNE. AGAINST THE BACKGROUND OF CRITICISM

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/FROM EUROPE

FROM EUROPE, INCREASINGLY ECHOED ON THIS SIDE OF THE ATLANTIC, THAT THE US COULD NOT JUSTIFIABLY LOOK TO THE EUROPEANS TO IMPOSE ECONOMIC SANCTIONS WHILE PRESEVING THE CONTINUED OPERATIONS OF THEIR OIL AND CONSTRUCTION COMPANIES, THE FEELING WAS GROWING IN THE ADMINISTRATION THAT THE INTERESTS OF THE OIL COMPANIES WOULD HAVE TO GIVE WAY EVEN THOUGH THE LIBYANS WOULD BENEFIT RATHER THAN BE DAMAGED. THE SUSPENSION OF THE LICENCES WOULD PROBABLY BE ACCOMPANIED BY AN EMBARGO ON LIBYAN OIL PRODUCTS FROM ANY SOURCE, EG EUROPEAN REFINERIES. WALLIS RECOGNISED THAT THE FUNGIBILITY OF OIL WOULD MAKE THIS DIFFICULT TO POLICE AND SUGGESTED THAT CERTAIN OIL REFINERIES MIGHT HAVE TO BE BLACK-LISTED. WALLIS EMPHASISED THAT NO DECISIONS HAD YET BEEN TAKEN, BUT THEY MIGHT BE SOON POSSIBLY OVER THE WEEKEND.

4. WE ASKED WHAT THIS IMPLIED FOR THE DISCUSSION OF LIBYA AT THE ECONOMIC SUMMIT. WALLIS WAS SOMEWHAT EVASIVE. HE DID NOT THINK IT WOULD BE SENSIBLE TO RAISE THE MATTER IN PLENARY OTHER THAN PERHAPS FOR THE AMERICANS TO EXPLAIN WHAT THEY WERE DOING. ASKED DIRECTLY WHETHER THIS PRESAGED A REQUEST TO OTHER PARTICIPANTS TO IMPOSE AN OIL EMBARGO ON LIBYA, HE SAID HE THOUGHT THAT UNLIKELY AT TOKYO BECAUSE OF LACK OF PREPARATION, BUT IT COULD COME UP IN THE BILATERALS. CERTAINLY IF HE WERE ASKED FOR ADVICE THAT WAS WHAT HE WOULD RECOMMEND. IN FURTHER DISCUSSION HE MADE CLEAR HIS OWN VIEW THAT THERE SHOULD BE AN OIL EMBARGO ON LIBYA (AND WHITEHEAD SAID AS MUCH TO ME RECENTLY). LIBYAN FOREIGN EXCHANGE EXPENDITURE WAS ALREADY WAY AHEAD OF THEIR REVENUES, IT WOULD BE VERY DIFFICULT FOR THE LIBYANS TO DISPOSE OF THEIR OIL IF THEY LOST THEIR EUROPEAN MARKET (IT WOULD NOT BE EASY OR COST FREE FOR THE RUSSIANS TO HELP THEM) AND EVEN THOSE IN WASHINGTON WHO ARGUED THAT ECONOMIC SANCTIONS DID NOT WORK THOUGHT THAT THEY MIGHT IN THIS CASE.

5. WITH REGARD TO THE COST TO THE US COMPANIES CONCERNED, WALLIS SAID THAT THIS WOULD ARISE LESS FROM THE LOSS OF THEIR ASSETS OR REVENUES BECAUSE THEY RECEIVED ONLY 16 PER CENT OF THE OIL PRODUCED, THE REMAINDER GOING DIRECTLY TO THE LIBYAN GOVERNMENT. EVEN THIS 16 PER CENT WAS TAXED BY THE LIBYANS, SO THAT THE ACTUAL TAKE OF THE OIL COMPANIES FROM THEIR OPERATIONS IN LIBYA WAS ONLY ABOUT 5 PER CENT OF OUTPUT. SINCE ALL AMERICANS HAD NOW LEFT THE OILFIELDS AND THEY WERE NOW ENTIRELY RUN BY LIBYAN NATIONALS, THE SUSPENSION OF THE US COMPANIES' LICENCES TO OPERATE WOULD MAKE NO PRACTICAL DIFFERENCE AND WOULD NOT AFFECT PRODUCTION. THE COST TO THE COMPANIES WOULD BE IN RESPECT OF THE PERFORMANCE BONDS WHICH THE LIBYANS WOULD BE ABLE TO CALL IN. WALLIS DID NOT KNOW HOW MUCH WAS INVOLVED, BUT SAID IT WAS SUBSTANTIAL.

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6. WE WOULD HOPE TO HEAR OF ANY DECISION TO TAKE ACTION ON THE ABOVE LINES BEFORE IT WAS ANNOUNCED. MEANWHILE WE SHOULD RESPECT WALLIS'S CONFIDENCE. ALTHOUGH WALLIS' LINE WAS THAT ANY DECISION WOULD NOT BE RELATED TO THE SUMMIT, IT SEEMS SOMEWHAT UNLIKELY (DESPITE WALLIS'S STUDIED CAUTION) THAT IF THE AMERICANS DO DECIDE TO TAKE THE ABOVE ACTION, THEY WILL NOT USE IT AT THE SUMMIT AS A MEANS OF PRESSING THE OTHER PARTICIPANTS AND IN PARTICULAR THE EUROPEANS TO IMPOSE AN OIL EMBARGO.

7. I HEAR THAT ARMAND HAMMER, CHAIRMAN OF OCCIDENTAL PETROLIUM, ONE OF THE U.S. COMPANIES INVOLVED, WILL BE IN TOWN THIS WEEK AND WITH A FULL COMPLEMENT OF ADVISERS. THIS SUGGESTS IMPORTANT TALKS WITH THE ADMINISTRATION, THE CONTENTS WOULD NO DOUBT LEAK RAPIDLY.

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