

FOR RELEASE 2:00 PM EDT  
MONDAY, OCTOBER 21, 1974

INTERNATIONAL COOPERATION:  
COMMON ACTION FOR COMMON PROBLEMS

Remarks by

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at the

Canadian-Empire Clubs

Toronto, Canada

October 21, 1974

The events in the world economy this past year seem to me to have made clearer than ever two facts about the external environment that our countries share.

One is how far things have come from the day when a single economic problem at a time--depression, reconstruction, economic development, or whatever--tended to dominate the international scene. Now we confront a much more complicated situation. Today there are a number of problems, each of them grave, which press in upon the world community.

The other is that the world is not going to make much progress in solving these problems without a great deal more international cooperation than we have seen so far.

Consider the world situation for a moment.

There is an energy problem--and I shall have more to say about that shortly.

There is the possibility of supply constraints on certain critical minerals and raw materials and, therefore, of shortages similar to those experienced in oil.

People are going hungry in the world and some experts believe there is a threat of widespread famine in the future unless food production is raised and distribution and consumption patterns are altered. Closely related to the food problem is the continuing question of what to do about restraining population growth.

There is inflation in large doses worldwide. And, meantime, balance-of-payments problems are afflicting both

industrialized and underdeveloped countries and causing serious dislocation in the monetary system.

All these problems--and more--await our cooperative attention.

Yet when you look at the past year, what do you find? Some mutual progress, yes, but also renewed evidence that national interests are not easily submerged in behalf of joint responses to global problems. Many countries, including the United States, are having difficulty in solving and acting on their domestic problems. A lag in this process reflects a tendency which may already exist to turn inward and revert to more nationalistic policies toward trade and capital movements.

These attitudes may not be surprising. But they are disturbing. They are disturbing because they may impede efforts to arrive at satisfactory solutions to the problems we share. Carried too far, they would imperil the framework for international cooperation which we now possess. This would greatly diminish the chances of arriving at new and stronger institutions to facilitate trade, investment, monetary stabilization, and foreign aid.

Let me take just a minute to put this framework in historical perspective, because I think we should understand clearly what is at risk.

It's worth recalling that it was not until almost the middle of the 19th century that Great Britain, then the

leading world power, accepted the idea of free trade. From then on, we began to see treaties governing the international flow of goods and capital. Eventually, there was a network of agreements and institutions which provided both order and flexibility and which nurtured the increasing interdependence of nations.

Toward the end of World War II, we were faced with the final collapse of old empires and the old order. We set about creating a more formal structure that would retain the successful elements of the past and at the same time respond to contemporary requirements.

Thus, the Bretton Woods agreement of 1944 established the International Monetary Fund. IMF preserved the earlier principle of fixed exchange rates, added to it a comprehensive set of rules governing international financial conduct, and established a pool of currencies available to tide countries over temporary imbalances. The Bretton Woods agreement also set up the World Bank, recognizing the need for capital to maintain and stimulate economic development.

A third creation dating from the early postwar period was the General Agreement on Tariff and Trade (GATT), which established a set of rules to promote the international flow of goods and services.

These instruments, supplemented by some important cooperative agreements at the regional level, provided the

basis for expanding international trade and capital movements from the end of World War II on. Operating on a principle of nondiscrimination among nations, they stimulated a trend toward lowering the barriers to economic exchange. They also provided a framework of rules administered by accepted international institutions--in other words, a means for resolving commercial and financial issues that arose among countries.

By and large, the postwar system has been more economic than political in its orientation, a fact which has contributed to free international exchange. Yet, while care should be taken to preserve its good features, one need not argue that the system is perfect. On the contrary, it has been obvious in recent years that changes and repairs are in order--that there are certain problems that are beyond the capacity of the existing system, beyond what it was designed for. But to admit that rebuilding may be called for is not the same as advocating a retreat from the system and its principle of the progressive relaxation of trade and other restrictions. Rebuilding is a constructive course; retreating, in my opinion, is destructive.

Let me turn to the energy problem as an example of what I am talking about.

It's true that the world has moved from a position of oil shortage to oil surplus because of the end of the Arab oil embargo, the effects of conservation measures, and higher prices which reduced consumption. But our difficulties did not

vanish with the lifting of the embargo. The long-range problems of energy supply and energy prices are still with us. There is still no stability about price levels and there is inadequate assurance about contractual terms for supplies.

For some years, consuming nations face the prospect of having to import more oil. They will have to pay more for it, which will aggravate both inflation and balance-of-payments problems. They will have to pursue use restrictions which are likely to be neither popular nor pleasant. For the next ten to fifteen years, there is the far more challenging task of sizably changing the world's energy supply mix so that our dependence on oil and gas is reduced.

Now let us look at some of the responses to the world energy problem.

One response has been a resort--often unrealistically--to the idea of self-sufficiency or energy independence. We saw a goal of independence proclaimed in the United States several months ago, where the government indicated that it will seek alternative forms of energy. In the meantime, however, the government has come to the realization that it is more practical to work toward interdependence between producing and consuming nations.

Certainly, it makes good sense for any country to lessen its dependence on expensive and interruptible oil imports

to the extent that it can and to the extent that it is economically practicable. What's more, the development of domestic resources is consistent with the world's need to make use of a wider range of energy sources. Yet it also must be recognized that complete self-sufficiency is beyond attainment for most countries.

Even Canada, which is distinctive in being both an industrial nation and a net exporter of energy, is likely to find itself, at least in the medium term, in a position more like that of consuming countries as it begins to experience a decline in conventional oil production. This first occurred in the United States in 1970. I understand it can be expected in Canada within the next few years.

One important step in the development of Canada's energy resources will be a pipeline system to bring natural gas from the western Arctic to the consumption area. Such a project will permit existing and expanded markets to be served at a time when production from existing fields is peaking. Because of the vast distances involved and the difficult engineering problems imposed by the Arctic environment, the cost of any pipeline will be in the multi-billion dollar range.

Such projects are necessary and can be justified. They illustrate, however, that even where self-sufficiency is possible, it is apt to involve the serious drawback of greatly increased cost. Maximum development of a nation's resources

inevitably will require the discovery and processing of marginal reserves. This can be a very expensive experience, even compared with today's energy cost levels. And it can entail high social and environmental costs as well.

A second response to the world energy problem, almost a panic reaction, took place at the height of the crisis last winter.

Acting bilaterally, the governments of some major consuming nations started dealing directly with the governments of producing countries in an effort to assure continued supplies for themselves, regardless of the impact on others. In so doing they were adopting, in effect, an attitude of beggar thy neighbor, while also indicating what I believe to be an unjustified loss of faith in the market place and the private oil industry.

The trouble with this response is that in direct commercial dealings between governments, economic considerations tend to become overshadowed by political considerations. Beyond this, the consuming country gives up a degree of security and sacrifices some of the benefits that can normally be achieved by dealing with multiple and diverse suppliers.

But perhaps the worst aspect of these deals is that they tend to create an atmosphere of bitter contention and a seeking of preferences, not necessarily confined to oil. Such

an atmosphere inevitably works to undermine the multilateral exchange of goods that has fostered international economic growth in the past.

Finally, there was a third response, very much related to what I have just said. During the worst of the crisis--and in the absence of any agreement among the consuming countries--the small amounts of oil that were auctioned by the producing countries became the target of a scramble at which prices were bid up again and again.

It is only natural, of course, for countries to look to their own interests in times of trouble, and to try on their own to resolve their difficulties. But it seems to me that nations do have an obligation to see to it that the actions they take do not damage others, and that the policies they pursue internally reflect an accommodation between their own objectives and those of other countries.

In addition, a cooperative approach is generally less costly for the nations involved. In other words, a sense of communal responsibility as well as enlightened self-interest is needed. I would hope this is the lesson that emerged from last winter.

As matters stand now, three issues, all related to the energy problem, strike me as of compelling importance and requiring immediate cooperative attention.

The first involves the relationship between the consuming and producing countries. It centers on the need, an urgent one in my opinion, to arrive at more satisfactory arrangements about the supply and price of oil.

Every nation has a justifiable concern for the rate at which its resources are consumed, and a right to negotiate with others on the terms on which these resources should be sold. But if the international system about which I am so much concerned today is going to work, the consuming nations, too, must have arrangements they can rely on for the long term. Producers and consumers must, in some way, work together toward a mutually agreeable outcome. Price changes must not be so sudden and so large as to be disruptive. It is necessary to recognize the worldwide concern over price movements which promote inflation and endanger economic stability. In short, there has to be more assurance and more stability in price and supply matters than we have had during the past year.

Just how that can be achieved is still far from clear. But there are already certain guidelines being discussed which can be followed by the consuming nations in dealing with the problem. It seems to me that these consuming nations must arrive at a

closer basis for cooperating among themselves. In particular they should persist in the effort to create a supply-sharing mechanism to take effect in the event of a future emergency.

Here there are more encouraging signs. Twelve consuming nations, including Canada and the United States, are working on arrangements to take common measures to restrict oil consumption during a crisis, to build up and share petroleum stocks, and, in the case of consuming countries which also produce oil, to share domestic oil production among the other members.

In talking about common action, I mean a process of consultation by which solutions can be found which serve the long-term interests of all nations. As we move toward this objective, we should also aim, as far as possible, to move decisions about price and volumes back to the market place and the demonstrated competence of private industry.

Recent experience justifies this. In the selective embargo last winter, for lack of a practical alternative, the allocation of supplies was left largely to the multinational oil companies. Even their critics concede that they performed a difficult task well and largely offset the effects of the bilateral deals that were made.

So in general, the experience of last winter sustains the conclusion that the international oil industry can be relied upon to operate the system which discovers, produces, and distributes oil for the world economy. The private oil companies possess not only the technical and managerial skills required; they have the capital resources and the tested market systems to assure that supplies flow both efficiently and equitably.

A second general area in which common action is essential involves the development of resources. We need to bring order to the complex of rules and regulations which affect the environment in which we operate.

There should be more clarity and consistency, for example, in the rules designed to protect the natural environment. Another area of concern involves the seas, which occupy 70 percent of the world's surface and where such issues as navigation rights and mineral rights are increasingly important to the world economy.

Specifically, we need to bring greater legal order to such long-standing issues as the breadth of territorial seas, access and rights to mineral resources on the continental shelf and its margins, and rights to the resources of the deep seabed. The issue here is whether the international community can agree on a comprehensive legal regime for the world's oceans which will usher in an era of cooperation and development, or whether the oceans will serve instead as an increasing source of conflict among nations.

A third common action we need is to find some way of offsetting the adverse balance-of-payments effects of higher-priced energy imports. In 1973 the member nations of the Organization of Petroleum Exporting Countries (OPEC) had an income of \$22 billion from oil. The estimated oil income of \$85 billion by OPEC in 1974 is about four times the record figure of the previous year, and going higher.

International oil trade, as a percentage of total world trade, has risen from less than 8% in 1970 to about 20% in 1974. These figures are of staggering proportions, in terms of both the massive amounts involved and the substantial, but to some extent unforeseen, adjustments that must occur.

Difficult economic problems could arise even if the oil-exporting nations could spend all of their oil revenues. But these difficulties are compounded by the inability of the producers to increase their spending as rapidly as their income.

This means that importing countries' payments gaps will have to be closed by other means, either by sharply reduced growth or by long-term continuing financing of their deficits. The financial problems facing the industrialized countries are severe, and the plight of the resource-poor developing nations is particularly desperate.

Since last fall, the forecasts of inflation and payments deficits for virtually all countries have been continually revised upward, while growth rates have been revised

downward. There is an increasing awareness by both government and business that a nationalistic approach is inadequate to reverse these trends. The solution must be an international one.

So far, the private financial markets have been the main vehicle for transferring the huge financial surpluses of producer countries to consuming countries in need of financing. But the ability of the private system to meet the need is limited. It is limited by considerations such as borrower creditworthiness and bank capitalization. While international organizations like the IMF can also play a constructive role, it would seem inevitable that, before very long, an increasing portion of the recycling of funds will have to be done under the auspices of multilateral government guarantees. An international approach has the best opportunity to meet the stringent criteria for solution to this problem: First, funds must flow to consuming countries in rough proportion to their oil-related trade deficits. Second, a substantial proportion of the producer country surpluses must be converted from short to long-term claims. Finally, the transfer of funds must be accomplished without adding undue instability in foreign exchange markets.

So we have to deal with supplies and prices, both current and for the long-term. We have to develop resources. We have an enormous world balance-of-payments problem. All this constitutes a long and difficult agenda. It will not be resolved

quickly. But it must be resolved at some point--and resolved cooperatively--if nations are to achieve lasting harmony and stability in their economic relations with each other.

I remember something that Prime Minister Mackenzie King said toward the end of the Second World War when I was still living in Canada. He was speaking on peace, security and prosperity, and he made quite clear the importance that he attached to interdependence.

"We maintain," he said, "that prosperity, like security, cannot be the possession of any nation in isolation. We believe that lasting prosperity will come only through international cooperation. In particular, we are convinced that Canada's prosperity and the well-being of our people, in all regions, and among all classes, are bound up with the restoration and expansion of peacetime world trade."

That statement was made nearly 30 years ago. It would be entirely consistent with its spirit to extend these views beyond trade to the international sharing of resources, to monetary cooperation and to cooperative solutions for the many serious problems which now afflict the world economy. In these enlarged terms, Prime Minister King's words still ring true.