

Ref: A02783

PRIME MINISTER

MT

Relations with Oil Producers: Venice Summit
and Global Negotiations

BACKGROUND

Although there is only one item on this meeting's agenda, it will have to deal with a number of linked subjects rather awkwardly spread over the four papers, which were themselves prepared at widely different dates, as follows.

- i. OD(80) 30 of 17 March: Lord Carrington's "advance notice" paper on the coming Global Negotiations (GN) phase of the North-South dialogue.
 - ii. OD(80) 45 of 13 June: a report by officials on the idea of an "energy dialogue" with the OPEC countries.
 - iii. OD(80) 51 of 23 July: Lord Carrington's latest paper, which considers the energy dialogue idea in the context of the GN.
 - iv. The Chancellor of the Exchequer's minute to you of 29 July, which sets out the Treasury's serious worries about the danger of our being pushed into making damaging concessions at the GN or in any dialogue with the OPEC countries.
2. The matter is urgent because the United Nations Special Session which opens in New York on 25 August is due to "launch" the GN, although the detailed negotiations themselves are not due to start until next January. The West's approach to them is to be worked out at the OECD Co-ordination Group's meeting on 21 August; and the attitude of the European Community in particular will be discussed by Ministers of the Nine in New York on 24 August. We therefore need to start advance consultations with our main partners straight away. But our negotiators must first be given a general indication of Ministers' collective views. Decisions on points of detail can come later.
3. The Venice Economic Summit's communique committed the 7 participants on these issues as follows -

a. Energy

"We would welcome a constructive dialogue on energy and related issues between energy producers and consumers in order to improve the coherence of their policies."

b. Relations with Developing Countries

"We approach in a positive spirit the prospect of Global Negotiations in the framework of the United Nations and the formulation of a new international development strategy."

4. The GN have no real friends in the developed West. They have been accepted as the least damaging way of meeting the developing countries' insistence on pursuing North/South issues by one means or another. We cannot now avoid them. But their dangers are real, and they will call for careful handling and probably some difficult decisions when the crunch points are reached.

5. The Secretaries of State for Industry and Energy and the Minister for Overseas Development have been invited to attend. The Foreign and Commonwealth Secretary is abroad, but the Lord Privy Seal will of course be present.

HANDLING

6. There is no tidy way of disentangling the various issues. But you may like to suggest that the Committee should discuss the 3 main subjects in roughly the order of urgency, as follows -

A. Energy issues apart, what should be our general approach to the GN?

B. Should we try to use the GN as a route towards a dialogue with the oil producers?

C. What should be the content of such a dialogue?

7. Our approach to the GN. The Lord Privy Seal should lead, followed by the Chancellor of the Exchequer. A general discussion should then develop. Several other Ministers are departmentally involved (Mr Marten, Mr Nott and Mr Howell); Lord Soames is well versed in the subject from his Brussels days; and Sir Keith Joseph has strong personal views on it. There will be general agreement on the main dangers: impossible trade concessions; pressure for more aid, which we cannot afford; damaging changes in the roles of the IMF and World Bank; and, more generally, attempts to railroad the developed

countries by making the results of the GN legally binding on the participants. There will be general support for the Foreign Office view that we should seek to mobilise our main partners in opposition to these dangers. But there will be less agreement over tactics (eg Sir Geoffrey Howe's view that we should organise a Western threat to walk out of the GN in certain circumstances); and over what we do in cases where our partners prove inadequately robust (eg more aid-giving). There will be a pretty sharp division over what to do if the going gets really tough: Sir Ian Gilmour will argue for "damage limitation", ie minimum concessions to keep our partners with us; whereas Sir Geoffrey Howe thinks that international isolation would be preferable to making any substantive concessions at all. This crack can be papered over for the present by agreeing to wait and see. But the Committee will need to decide now on whether we should start immediate lobbying for the imposition of Western pre-conditions as proposed by the Chancellor in paragraph 7 of his minute. Our partners may well not take kindly to such lobbying at this stage, which they may (wrongly) suspect related in some way to our being ourselves an important oil-producer.

8. The GN as a route to an Energy Dialogue. The Lord Privy Seal and the Secretary of State for Energy should lead. The Chancellor of the Exchequer may wish to argue the suggestion in his minute that energy might be better dropped as a GN subject altogether; but his colleagues are unlikely to regard this as practicable, not least because the Venice communique specifically mentions energy as an important GN subject. The consensus will probably be that it would be right to try using the GN as an avenue of approach to an energy dialogue (since no other is in sight), and to try wedge-driving between the OPEC countries and the non-oil developing countries (if only to make it harder for both groups to line up together against the West); but that the chances of success should not be exaggerated. An OECD working group at official level has recently concluded that the GN will offer little scope for useful trade-offs between energy and non-energy subjects. Do the Committee broadly agree with that?

9. The content of an Energy Dialogue. This is much the most difficult (and least immediate) of the 3 main issues. The Secretary of State for Energy should lead. His personal view, based on considerations going much wider than his departmental responsibilities, is that a deal could and should be struck with

the energy producers; and that it would be worth paying quite a high price (eg in terms of political support, matching aid flows, tariff concessions and/or the indexation of financial assets) in order to protect Western economies from the macroeconomic damage they are otherwise liable to suffer from inadequate oil production and sudden price leaps. The Lord Privy Seal will certainly wish to comment on the general prospect for a dialogue; on the practicability of paying in political coin; and on the chances of holding the oil producers to their side of any bargain. The Chancellor of the Exchequer will strongly oppose asset indexation and perhaps also any other type of economic concession. The Secretaries of State for Trade and Industry will wish to comment on likely OPEC demands for tariff concessions on oil-based or energy-intensive products. The Minister for Overseas Development should be asked about the danger of our being pressed for aid increases not only by OPEC (as a quid pro quo for increased OPEC aid-giving) and by the non-oil developing countries (as potential recipients) but also by some of our richer Western partners. If such pressures do build up, how do the Committee think they should be dealt with? More generally, are there any effective means open to us or our allies for persuading OPEC countries to shoulder a larger share of the aid donors' burden.

10. It will not be difficult to make out a strong case against any given concession to the oil producers, particularly in our present circumstances. Nevertheless Mr Howell's ideas do rightly underline a central weakness in the economic situation of the Western world; and it would be wrong to deny them serious consideration simply because they run counter to much that has hitherto been the conventional wisdom. At this stage, the consensus in the Committee will probably be that we should discuss the possible content of an energy dialogue further with our Venice partners, but in a purely exploratory spirit and without commitment on what (if any) price might in the end be payable. You will wish to establish whether this consultation can be open-ended; or whether there are particular concession areas which our negotiators should rule out altogether, eg asset indexation.

CONCLUSION

11. Subject to the discussion, you will probably be able to guide the Committee -
- i. to endorse both the general approach to the GN (including energy issues) and the specific conclusions set out in the Foreign and Commonwealth Secretary's paper of 23 July (OD(80) 51);



ii. to note but not at this stage endorse the defensive GN strategy proposed by the Chancellor of the Exchequer;

iii. to agree that they should revert in the autumn to the question of an energy dialogue, in the light of developments in New York (and perhaps elsewhere) in the meantime.

ROBERT ARMSTRONG

CONFIDENTIAL

1 August 1980