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CABINET
DEFENCE AND OVERSEAS POLICY COMMITTEE

RELATIONS WITH OIL PRODUCERS: VENICE SUMMIT AND GLOBAL NEGOTIATIONS

Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

1. OD will take on 28 July the paper on 'A Possible Approach to the Oil Producers' - OD(80)45 - prepared by officials in mid-June. Since the paper was tabled, we have had the Venice Economic Summit and are now preparing for the Special Session of the UN Special Assembly in late August, which should launch the Global Negotiations. I would like to make some comments, linked to these two events, which are relevant to our discussion of the paper.
2. It was agreed at the Venice Summit to seek a constructive dialogue with the oil producers on energy and related issues. This increases the need for us to focus on the issues in the officials' paper and to open the way for talks with our closest Western partners. The paper rightly recognises that we will not secure commitments from oil producers unless we ourselves have something to offer. But the present energy situation is so unsatisfactory for the West that we should consider seriously what price we would be ready to pay to get a real assurance of more predictable supplies of oil and to avoid violent price increases.
3. The Venice Summit Communiqué reflects our desire to persuade OPEC to give more aid to developing countries. We must convince

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them not only that they have created the difficulties for the developing countries and have the resources to help them, but also that it is in their own interest to contribute to solutions on a larger scale than at present. The question is how to go about it. Do we simply urge OPEC surplus countries to give more aid, claiming that we can do no more ourselves? OPEC have not responded to such exhortations in the past. They point to their record as aid donors, which is not discreditable by recognised international standards (eg percentage of GNP). Their spending has fallen off in recent years, but this is partly for special reasons such as the ending of aid to Egypt. They are increasing the resources available to the OPEC Development Fund and converting it to a fully fledged aid agency. The OPEC countries bitterly resent the accusations that they are alone responsible for all the troubles of the developing countries. However justified these accusations, public pressure may only make them more difficult.

4. Statements of this kind may also complicate any efforts to talk to the oil producers; and could lead to an early impasse in any exchanges on improving oil supply and price. The officials' paper makes clear that OPEC surplus countries are already urging the West to do more on aid in return for serious discussion of the West's own problems - the exact reverse of our own argument.

5. It would clearly be easier to obtain larger additional OPEC contributions if the West could itself contribute to joint programmes. This has been done with some success in the past, eg in the International Fund for Agricultural Development (IFAD) where OPEC put up 43% of the funds against the West's 57%. The World Bank energy facility envisaged in the Venice Communiqué would involve both oil exporting and industrial countries. There are other ideas circulating for linking OPEC and Western finance.

It is very difficult for us to contemplate significant new aid commitments. If they are made through multilateral bodies (as is likely) this would run counter to our aid policy. But some of our partners may favour an extra injection of Western money, since they themselves can do more. Germany and Japan, for example, are increasing their aid spending. It would be hard for us to hold back our partners if they wish to do more. But the pressures on us to take our share will also build up, for example to contribute to the next replenishment of IFAD.

6. The question of how to engage oil producers in serious energy discussions is also relevant to the Global Negotiations (described in OD(80)30), to be launched at the UN Special Session in late August. On most subjects these negotiations will be an exercise in damage limitation. But they provide the only opportunity in sight for an international discussion of energy problems. Despite the other drawbacks, we should not lose this opportunity of making what progress we can on energy at the Global Negotiations, which could then be pursued elsewhere. There are signs that some OPEC countries already realise that the Global Negotiations may focus pressure on them. We want to keep up this pressure.

7. But the preparation for the Global Negotiations has thrown up a new set of problems. At the last preparatory meeting, the developing countries argued that the negotiations should be entirely conducted in New York, taking over the responsibilities for decision of other specialised international bodies, such as the IMF, the World Bank and the GATT. They also wanted the conclusions to bind all participating Governments legally, not only to conduct new national policies but also to introduce changes in the specialised bodies.

8. The Community and the other Western countries have so far rejected these demands and there are some signs that the developing countries may back down. In discussion with our partners we have said that unless these matters are properly settled, this could be a breaking point in the preparations. Some others have taken the same line. But we shall need to maintain this firmness of purpose in New York.

9. Some would argue that the intransigence of the developing countries provides a good opportunity for breaking off the preparations, so that the Global Negotiations never take place. We could seek to put the blame on the developing countries for making unreasonable demands, which frustrated serious discussion of energy and other problems. I do not believe that our Western partners - not even the French, the Germans or the United States - will in the event be willing to do this. There are too many Western statements - by the Community, by OECD, by the Venice Summit - in favour of the Global Negotiations; and our partners are too much concerned with how they appear to the developing world. I also doubt that we could avoid the blame being placed on the West, and specifically on ourselves, since we are in danger of acquiring a public reputation for being unhelpful towards the developing world.

10. Our partners will want to try to find a compromise. We should stiffen them against weakness and imprecision. But there is still some room for tactical flexibility which would protect our interests. We can discuss a wide range of subjects, including some monetary subjects, in the central body of the Negotiations and have them recommended for further treatment in specialised bodies. But the detailed consideration and operational decisions (if any) on monetary subjects, for example, must be taken in the IMF and cannot be unpicked when they come back to the central body.

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As for the final document emerging from the Negotiations, we should press that this be adopted by consensus (which will allow national reservations if necessary). While we might admit that this document could have a more solemn character than ordinary UN Resolutions, it could not have the binding force of an international treaty.

11. If we can find ways of launching the Global Negotiations on acceptable terms, then we may make a start with international discussion on energy. But if the Negotiations collapse, that opportunity for engaging OPEC will be lost.

12. Even so, we may face difficult decisions at the Special Session. Our Community partners are likely to have Ministers there at the start. We too should send an appropriate Minister.

13. My conclusions are:-

- (a) We should use the Global Negotiations to engage oil-producers in serious international discussion of energy.
- (b) We should try to persuade our partners to insist on satisfactory procedures for these Negotiations. But we have to seek solutions by working with the Community and the rest of OECD.
- (c) We should recognise that pressure on OPEC to give more aid will increase pressure on us to do the same; this would of course present difficulties for us.
- (d) We should seek discussions without delay with our Summit partners on how to approach the oil producers.

C.

Foreign and Commonwealth Office
23 July 1980