

Part A

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Begins: 30/4/81  
Ends: 5/5/81



PO -CH /GH/0054



PART A

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PART A

Chancellor's (Howe) Papers

VISIT OF THE VENEZUALAN  
FINANCE MINISTER MAY  
1981

Disposal Directions: 25 years

*D. H. H.*  
25/7/95

*W*

30/4/81

Annex 2 1

## VENEZUELA: COUNTRY BRIEF

Political

1. A Spanish colony for over 300 years, Venezuela was effectively liberated by Simon Bolivar in 1821. Initially part of the Republic of Greater Colombia proclaimed by Bolivar in 1819, it achieved independent national status in 1830 when that union disintegrated.

2. Strife between centralising conservatives and federalising liberals and long periods of military dictatorship mark much of Venezuela's history. Only since 1958 has there been multi-party democracy. Two parties have dominated the scene: Accion Democratica (AD), founded in 1931 by Romulo Betancourt and exiled former members of the Venezuelan Communist Party - and the Christian Democrats (COPEI), founded in 1946 by Rafael Caldera and pro-clerical conservatives. Both Betancourt and Caldera are still active in politics; and Caldera is a possible COPEI presidential candidate in 1983. AD has moved to the right since its inception and COPEI to the left. Both now occupy middle ground with COPEI marginally more concerned with social reform than AD.

3. The present government, headed by Dr Luis Herrera Campins, dates from March 1979. It is the second COPEI Administration since 1958. It lacks a majority in congress (where COPEI have four fewer seats than AD in the Chamber of Deputies and the same number of seats in the Senate), and is consequently dependent on the support of other smaller parties for the passage of legislation.

4. The Administration enjoys little popular support. This is partly because it is blamed (unfairly) for a stagflationary economy. But mishandling of various corruption issues, and a lack of political judgment, have contributed to its poor image. It has also done little to tackle the growing problems of urban congestion (40% of the population now live in the Caracas area) and a deterioration in law and order. Its unpopularity has given

rise to talk of military intervention, but experienced observers consider this unlikely. The Administration is expected to see out its term of office (March 1984). While democracy in Venezuela should not be taken for granted, it looks more firmly rooted there than anywhere else in South America.

#### Foreign relations

8. Venezuela's interest and influence on international affairs has been growing. It pursues an active policy on several fronts; OPEC, the North/South Dialogue, and Central America and the Caribbean. In OPEC it exercises a moderating influence on prices. In North/South fora it projects itself as a leader of the developing world in the call for a New International Economic Order. In Central America and the Caribbean it strives to counter the spread of Cuban/Soviet influence by the provision of soft credit for the purchase of its oil (a scheme in which Mexico is a partner).

9. Relations with the US are close, and better than Venezuelan rhetoric might lead one to believe. The countries of Western Europe and Japan are growing in importance as trading partners, and politically the relationship with some of the Western European countries is acquiring focus and depth from a shared concern over developments in Central America and the Caribbean. Frontier disputes limit relations with Guyana and act as an irritant to relations with Colombia. Jealousy and suspicion colour the Venezuelan attitude to Brazil. Venezuelan membership of the Andean Pact (a pro-democratic regional common market also including Colombia, Ecuador, Peru and Bolivia) is increasingly unenthusiastic.

#### Anglo-Venezuelan relations

10. Britain was closely associated with Simon Bolivar's struggle for independence. British volunteers made an important contribution to his military campaign. This is still remembered with gratitude in Venezuela, where British troops have the unique privilege of marching with fixed bayonets.

11. From the middle of the 19th century relations deteriorated as a result of unpaid Venezuelan debts and our refusal to acknowledge Venezuelan claims to a large part of British Guiana. There has been a gradual improvement during the 20th Century and

Guyanese independence in 1967 removed an obstacle to good relations. In recognition of Venezuela's growing international influence, its capacity to act as a pro-Western force in Central America and the Caribbean and the commercial opportunities created by its oil wealth, our objective is to strengthen and consolidate relations in all fields.

12. Recently we have been developing a dialogue on Central America and the Caribbean and Venezuela has been receiving greater Ministerial attention. Lord Carrington visited Venezuela in August 1980; Mr Parkinson in September 1979; Mr Walker and Mr Howell in September 1980. Dr Carlos Andres Perez, Venezuelan President at the time, visited the UK in 1976, and various Venezuelan Ministers have followed him. An invitation is now being conveyed to the Foreign Minister to visit London in June, and the Ministers for Development and Planning will be attending an investment seminar in London in early May.

13. Venezuela no longer receives British aid. The British Council are represented in Caracas, and concentrate on the promotion of British expertise through training and consultancy arrangements paid for by the Venezuelans, as well as English language teaching and cultural exchanges. There are between 2,000 and 3,000 UK passport holders residing in Venezuela.

South America Department  
Foreign and Commonwealth Office  
April 1981

STATISTICAL DATA

Land Area	912,030 square kilometres
Population (mid-1979 est)	13.5 million (average growth rate between 1970 and 1979: 2.9%)
GNP per capita (1979)	\$2,808
Exports (1979)	\$14.2 billion
Imports (1979)	\$10.8 billion
Principal Exports (1979 est)	Petroleum (86.7%) iron ore (0.9%)
Principal Imports (1979 est)	Machinery and transport equipment (47.2%), manufactured goods (26.5%), chemicals (10.3%), foodstuffs (9.3%)
Major Markets (1979)	USA (37.8%) Netherlands Antilles (17.6%) Canada (10.2%) EC (9.2%)
Major Importers (1979)	USA (42.8%) Japan (8.5%) Canada (6.7%) West Germany (6.4%)
Trade Balance (1979)	\$120 million (+)
Official foreign currency reserves (mid-1980)	\$6.62 billion
Public External debt (end 1979 est)	\$14.2 billion
UK Exports (1980)	£131 million (beverages £45 million, transport equipment £9 million, specialised machinery £8 million)
UK Imports (1980)	£117 million (petroleum, petroleum products and related minerals £104 million)

POLITICAL STRUCTURE

The Federal Republic of Venezuela is made up of the Federal District, 20 States, and 2 Federal Territories (comprising two of the under-developed frontier regions in the south and the east). The present constitution of 1961 draws on the same conceptual basis as that of the United States and envisages a three-way division of power between the Executive, the Legislature and the Judiciary.

The Executive is headed by a President, elected by universal suffrage every five years. A Presidential candidate may be nominated by a registered political party or by any ad hoc group of private citizens. His election is decided by a simple majority of votes. The President cannot call for new elections at his discretion. He cannot succeed himself immediately.

The Congress consists of a Senate (2 members for the Federal District and each of the States but none for the Federal Territories a total of 42) and a chamber of Deputies (on the basis of roughly 1 deputy for every 50,000 inhabitants). Elections to Congress are on a proportional basis and coincide with Presidential elections. Voting is compulsory for men and women over 18.

The 20 states have each a legislative assembly, with a 5 year term, and a governor nominated by the President. While they have a fair degree of autonomy, real political power rests with the Federal government in Caracas.

5/5/81

## VENEZUELA ECONOMY

President Herrera Campins, who was elected for a five-year term in March 1979, has yet to show signs of solving the problems of administrative inefficiency and corruption in Venezuela, though public sector finances have, at least temporarily, been brought under a greater degree of control. However, the large external debt burden which he inherited has led to the erosion of international confidence in the country, despite its position as OPEC's fourth largest oil exporter.

Real growth in 1980 was virtually zero for a second year in succession. This has been largely the result of a tightening in public sector finances after the poorly controlled and particularly wasteful spending by the numerous decentralised public agencies in the mid to late 70s. This improvement was achieved not only by stricter budgetary control but also by the completion of many of the larger government projects. Other factors adversely affecting growth were the further fall in the production of oil (which accounts for 22% of GDP and 95% of exports) and the emergence of supply bottlenecks. While the economy has stagnated, inflation has, paradoxically, risen sharply over the past two years to 23% from 7% in 1978. This has been due in large part to substantial corrective price increases over this period but generous wage concessions and a build-up in inflationary expectations have also contributed.

The improvement in the fiscal position and the accompanying cooling off in the economy have combined with further large oil price increases to bring about a marked improvement in the balance of payments despite a sizeable increase in interest payments and a reduction in the exportable surplus of oil. Last year there was a current account surplus of \$2.6 bn after a deficit of almost \$6 bn in 1978. However, while this improvement made it possible to limit the rise in total external debt last year this is still, at about \$25 bn, very large as a result of the heavy balance of payments financing requirement in 1978 and early 1979. Much of this borrowing was undertaken by public sector agencies and tended to be shorter-term banking debt. Despite attempts at refinancing (eg, last year's \$1.8 bn "jumbo" euro-loan), the debt is still badly

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structured; over 80% of it is owed to banks and of this around 60% (equivalent to about half of <sup>expected</sup> earnings from exports of goods and services) is due this year. As a result of these heavy repayment requirements Venezuela was the largest euro-market borrower last year - \$7.5 bn compared to \$6.6 bn in 1979 - and, in contrast to other large oil exporters, faced widening spreads on loans. However, for the moment at least, it is the authorities' inability to cope fully with the administrative/management problems of the nation's external debt rather than creditworthiness per se which is of greater concern to lenders.

This year the authorities are giving greater weight to the reduction of inflation. However, this is likely to conflict with the return to real growth envisaged in the recently adopted Sixth Development Plan. The Plan might also lead to a return of fiscal and balance of payments problems - the latter especially, given that the scope for increasing oil production will remain limited until at least the end of the decade. Nevertheless, confidence is underpinned by the favourable prospects for the oil price. In addition, the authorities appear to be stepping up efforts to restructure external debt; there is a plan to "eliminate short-term debt" which forms part of draft legislation currently being debated by Congress and a \$1 bn refinancing "jumbo" is being contemplated for later this year. Rumours of a \$2-4 bn euro-loan, however, were recently refuted by Public Credit Director Zubillaga.

Bank of England  
5<sup>th</sup> May 1981



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5/5/81 - ANNEX 4

OIL

VENEZUELA OIL ISSUES

Venezuela originated the idea of OPEC. As a founder member, and for many years its largest producer and exporter, Venezuela was, until the rise of the Middle East producers, the most influential member. Venezuela nevertheless retains considerable influence and is OPEC's leading member outside the Middle East, and since the outbreak of the Iran/Iraq war its second largest producer.

The Venezuelan Energy Minister, Humberto Calderon Berti, stated as recently as 20 April that the present world oil glut has created a 'critical' situation for OPEC. He insisted, however, that Venezuela was not planning any reduction in its oil prices since they had been set by OPEC standards at the Ministerial meeting in Bali last December. He noted that the present oil glut was "due basically to the somewhat high production from members of OPEC" and that countries which had been forced to lower oil prices recently had been selling above the rates determined in Bali. The Minister also commented that the effort to establish a unified pricing system that allows gradual increases is healthy for OPEC.

(ii) Venezuela and Mexico Oil Facility

Venezuela and Mexico agreed in August 1980 to provide a total of 160,000 barrels a day of crude oil on special terms to 9 states in the Caribbean and Central America - Barbados, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua and Panama. The volumes allotted to each country are intended to meet their full net annual import requirements. The agreements, which build on existing assistance provided by Venezuela alone, are for 1 year and renewable. The oil is not being sold at reduced prices. But 30% of the cost will be funded by cheap loans from the Mexican and Venezuelan governments. Assuming an average oil price of \$32 a barrel for the first year of the agreement, the loans would total about \$560 million.



Venezuela oil statistics

Production: 1980 2.16 million barrels per day (mbd)  
1981 Jan-April 2.17 mbd

Exports: 1979 2.08 mbd  
1980 1.8 mbd Reduced because of  
production cutback and  
increased local demand.  
1981 planned exports  
of 1.9 mbd.

Reserves: Published proven reserves are 19.5 billion  
barrels. However, reserves are calculated  
on a conservative basis and the amount is  
probably nearer 30 billion.

Companies: State oil company, Petroleos de  
Venezuela (Petroven) created in 1976.

Refining: Refining throughput in 1979 was 966,800  
b/d, equivalent to about 70% of capacity.

Exploration: A major exploration programme, started  
in 1978 has led to significant findings -  
particularly in the Orinoco Oil Belt  
and the Tuy-Cariaco Basin, north east  
of Caracas.

Prices: Prices were last raised on 1 January.  
Typical prices are currently:

Oficina (34° API) \$38.06  
Tia Juana Light (31° API) \$36.00  
Tia Juana Medium (24° API) \$32.03



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Revenues:

1980            \$18 bn

1981 (est)    \$21.9 bn

In 1979 69% of fiscal revenue came from oil.

British  
Interests:

Phillips Petroleum have been supplying 13,000 bd of heavy crude oil from Venezuela for bitumen refining, providing about 20% of UK bitumen requirement. Phillips maintain good relationship with Petroven and expect to be able to renew appropriate supply contracts in future years.

UK OIL ISSUES

## PRICES:

Government does not set official prices for North Sea crudes. Price of UK oil is set by the market and reflects prices of comparable African crudes. BNOC is obliged to follow the market and does not lead. Last increase was 1 January 1981: \$3 increase to \$39.25 per barrel, following Bali conference. Government continues to urge restraint in timing and size of any price movements by OPEC producers.

NORTH SEA FISCAL REGIME Budget announcements - New tax, Supplementary Petroleum Duty, 20% on gross revenues from UK oil and gas production. Legislation will be effective from January 1981 to June 1982; in the meantime, further study and consultations with oil companies before permanent arrangements are made. Special reliefs for Petroleum Revenue Tax also restricted. Measures will yield £1b 1981-82. Increases in real price of oil brought substantial benefits to oil companies which now face very different economic prospects from when the earlier tax regime was introduced (1975).

PRODUCTION 1980: Britain for the first time had a balance of trade surplus in oil. UK North Sea production 1.6-1.9 mbd in 1981, rising to approx 1.8-2.4 mbd by 1984. UK Continental Shelf receiverable oil reserves now estimated at about 160-320 bn barrels.

DEPLETION POLICY Secretary of State for Energy announced Government review of oil depletion on 23 July 1980. Government will honour Varley assurances made in 1974, but will consider flexible policy including delays in the development of fields discovered since 1975, supervision of oil and gas recovery of existing fields, tighter gas flaring controls and ban on oil production above approved levels except in exceptional circumstances. On strategic and security of supply grounds, it is in the national interest to extend oil supplies towards the end of the century. Not possible to set out rigid plan in view of uncertainties.

ECONOMIC BENEFITS North Sea oil and gas production raise UK national income and improve balance of payments. The benefit to current account in 1980 was about £4bn. Part of the gain to income is represented by tax revenues from the North Sea. The real exchange rate can be expected to rise as a result of these factors, the structure of the economy in the long term will tend to shift in favour of non-traded goods.

Following their last conference, at Bali in December, the OPEC States have raised their official prices to an average of about £35 a barrel. Average world prices are now about 170% higher than they were in 1978 Q4, before the Iranian revolution. But there is a wide range, from Saudi Arabia's light crude at £32 a barrel to Libya's (higher quality) crude at £41.

2. At the moment the supply/demand situation is easier than for much of the last year. If there is no new interruption, supply should balance or slightly exceed demand for the rest of 1981. On the supply side, a key factor has been the willingness of the Saudis to increase production to make up for some of the output lost as a result of the Gulf War. Demand, meanwhile, has fallen considerably - by 5% in 1980 and could well fall further this year.

3. OPEC are to hold their next regular price-fixing conference in Geneva on 25 May. It is doubtful whether present market conditions will permit any significant price rise though the Saudis may increase their relatively low prices in a move towards price re-unification in OPEC. They may also trim production a little.

DEPARTMENT OF TRADE  
BRIEF FOR COURTESY CALL BY VENEZUELAN MINISTERS

5/5/81

Annex 5

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POINTS TO MAKE

We welcome this initiative and hope it will result in greater UK commercial presence in Venezuela. We recognise that more substantial investment would directly effect level of our bilateral trade.

In which sectors would Venezuela particularly welcome more foreign investment?

Is there any likelihood of relaxation of Andean Pact Regulations in order to attract investment?

To what extent will the 6th National Development Plan expand the economy?  
And what investment opportunities will this create?

Investment

As a member of the Andean Pact, Venezuela has somewhat restrictive investment regime, under which repatriation of profits and capital are regulated and some sectors reserved for national companies. UK investment in Venezuela is relatively small; it includes such companies as Coats Patons, Reckitt and Colman, BAT, ICI, Vestey, Unilever.

Venezuelan seminar

The Venezuelans are trying to encourage more foreign investment and joint ventures in an effort to broaden and diversify the industrial base. To focus attention on the suitability of Venezuela for investment they are holding one day seminars in Italy and the UK in May and possibly France and Germany in the autumn. Three Ministers (Dr Luis Ugueto, Minister of Finance, Dr Porras Omana, Minister of Development and Dr Ricardo Martinez, Minister for Co-ordination & Planning) are leading a team of 50 prominent figures from the public and private sectors. The Seminar is being sponsored jointly by the CBI and Canning House.

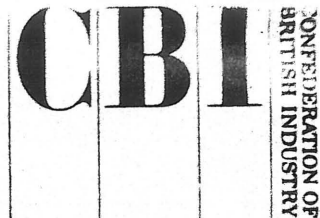
(Dr Martinez was here as our guest in September 1979). Also attached is a copy of the seminar programme produced by the CBI.

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Director-General  
Sir Terence Beckett CBE

Secretary  
Denis Jackson

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A Conference presented by the Venezuelan Government in association with CBI and Canning House

## VENEZUELA

Dr Ricardo Martinez:	Minister for Coordination and Planning
Dr Enrique Porras:	Minister for Trade

Thursday 7 May 1981  
CBI Headquarters, Centre Point, London

With its vast resources of oil and other natural wealth, and the highest per capita income in Latin America, Venezuela is a country deserving of more attention from British firms. With the sixth plan (1981-85) commencing this year and an easing of the economic brakes (deliberately applied over the last 2 years), the prospects for Venezuela and the opportunities offered to British business are considerable.

Dr Ricardo Martinez, Venezuelan Minister for Coordination and Planning and Dr Enrique Porras, Minister of Trade lead a major delegation of more than 30 high level Venezuelan officials and representatives of the private sector to Europe. They will address this major full day London conference which will provide a quite outstanding opportunity to hear of prospects arising in Venezuela and will be of crucial importance to all firms interested in the area.

The very comprehensive programme, details of which are given overleaf, will cover many aspects of the Venezuelan economy and will emphasise opportunities for British firms including outstanding openings for business by way of joint ventures.

Demand for places at the conference is expected to be very heavy and places are limited so please complete and return the booking form below to CBI as soon as possible or phone Karen Castle on 01-379 7400 for immediate telephone reservations or further information.

The delegate fee of £80 plus VAT is fully inclusive of buffet lunch with wine, morning coffee and afternoon tea.



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VENEZUELA - The Programme

Chairman - Mr Christopher Thompson, Chairman,  
NEI International Ltd

0900 Registration commences

The Venezuelan delegation will be welcomed by  
Sir Terence Beckett, Director-General of the CBI

0930 The Conference commences INTRODUCTORY SESSION

- Dr Ricardo Martinez, Minister for Coordination  
and Planning

- A senior representative of the Camara Venezolano-  
Britanica

- The President of the Consejo Venezolano de la  
Industria

- A senior British government representative

1100 Coffee

1115 The President of Maraven (PETROLEUM)

1135 The President of SIEX (FOREIGN INVESTMENT 1)

1155 The President of the Corporacion Venezolana de  
Guayana. (REGIONAL DEVELOPMENT)

1215 The President of the Instituto de Comercio Exterior  
(FOREIGN INVESTMENT 2)

1235 QUESTION AND ANSWER SESSION - A chance for questions  
and discussion on any aspect of the mornings programme

1315 Buffet Lunch

1430 SEMINAR SESSIONS ON KEY SECTORS OF THE VENEZUELAN  
ECONOMY

A. THE INDUSTRIAL SECTOR

Coordinator - Jorge Baiz (Fondo Credito Industrial)

Delegates - Gustavo Perez Mijares  
(Consejo Venezolano de la Industria)

Alberto Quiroz (Maraven)

Ciro Anez Fonseca (Fedecamaras)

B. AGRICULTURAL AND AGRICULTURAL INDUSTRIES SECTOR

Coordinator - Victor Gimenez Landinez  
(Fondo de Credito Agropecuario)

Delegate - Andres Sucre (Corporacion  
Venezolana de Guayana)

C. HOUSEBUILDING SECTOR

Coordinator - Eduardo Fuentes (Banco Nacional  
de Ahorro y Prestamo)

Delegates - To be announced

D. BANKING AND FINANCIAL SECTOR

Coordinator - Ricardo Martinez (Minister for  
Coordination and Planning)

Delegates - Carlos Zubillaga  
Leonor de Gonzalez

E. FOREIGN INVESTMENTS SECTOR

Coordinator - The President of SIEX

Delegate - Sebastian Alegrett (Instituto  
de Comercio Exterior)

1600 Tea

1615 REPORT OF THE SECRETARIES OF THE WORKING GROUPS TO  
THE PLENARY SESSION

- Industrial Sector: Carlos Granier
- Agricultural and Agricultural Industries Sector: Dr Rafael Monsalve
- Housebuilding Sector: Dulce Maria Garcia
- Banking and Financial Sector: Polo Casanova
- Foreign Investments Sector: Maria Josefina Legorburu

1715 CLOSING SPEECHES by Dr Enrique Porrás, Minister of  
Trade and Mr Christopher Thompson, Chairman of the  
Conference

1730 CLOSE OF CONFERENCE  
approx

The above programme is provisional and may be subject to change.

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MEMBERS OF THE VENEZUELAN DELEGATION

THE MINISTER FOR COORDINATION AND PLANNING,  
Dr Ricardo Martinez

THE MINISTER FOR TRADE,  
Dr Enrique Porras

THE PRESIDENT OF THE "INSTITUTO DE COMERCIO EXTERIOR"

THE PRESIDENT OF THE "SUPERINTENDENCIA INVERSIONES EXTRANJERAS"

THE PRESIDENT OF THE "FONDO DE CREDITO INDUSTRIAL"

THE PRESIDENT OF THE "FONDO DE CREDITO AGROPECUARIO"

THE PRESIDENT OF THE "BANCO NACIONAL DE AHORRO Y PRESTAMO"

THE PRESIDENT OF THE "CORPORACION VENEZOLANA DE GUAYANA"

THE AMBASSADOR TO THE UNITED KINGDOM

THE PRESIDENT OF "MARAVEN"

THE TECHNICAL SECRETARY TO THE MINISTER OF COORDINATION AND  
PLANNING

THE DIRECTOR OF "CREDITO PUBLICO" OF THE MINISTRY OF FINANCE

THE PRESIDENT OF "FEDECAMARAS"

THE PRESIDENT OF THE "CONSEJO VENEZOLANO DE LA INDUSTRIA"

THE PRESIDENT OF THE "ASOCIACION DE INDUSTRIALES METALURGICOS"

THE PRESIDENT OF THE "CAMARA DE COMERCIO VENEZOLANO-BRITANICA"

THE PRESIDENT OF THE "BANCO MERCANTIL Y AGRICOLA"

THE VICE PRESIDENT OF THE "BANCO MERCANTIL Y AGRICOLA"

MEMBERS OF THE VENEZUELAN EMBASSY IN LONDON

SENIOR REPRESENTATIVES OF LEADING VENEZUELAN FIRMS

The above list is provisional and may be subject to change.

5/5/81. 19

CHANCELLOR OF THE EXCHEQUER

Copied to:  
Chief Secretary  
Financial Secretary  
Minister of State (C)  
Minister of State (L)  
Sir Kenneth Couzens  
Mr Barratt  
Mr Mountfield  
Mr Slater  
Mr Hawtin

VISIT OF VENEZUELAN FINANCE MINISTER  
WEDNESDAY 6 MAY AT 2.30 PM

At the Venezuelan Government's initiative, Dr Luis Ugueto is in London with the Venezuelan Ministers of Planning and Development, with a team of 50 from the public and private sectors, to hold a Seminar on Thursday 7 May aimed at encouraging more investment in Venezuela. The team has just visited Italy. Venezuela has one of the few democratically elected governments in South America.

The Financial Secretary will host a reception for the team on Thursday and Lord Trefgarne is expected to speak at the opening of the Seminar. Other courtesy calls will be made to Mr Biffen, Mr Walker and Mr Howell on Friday.

There are no points which we particularly wish you to raise.

#### INVESTMENT

At Annex 5 is the Department of Trade's brief on investment including points for you to make (though Mr Biffen is more directly concerned).

You could also enquire about the success of the team's visit to Italy.

#### OIL

Venezuela is a member of OPEC, and oil accounts for over 90% of its export earnings. You could refer to the intended meeting with Mr Howell but say you are interested in what Dr Ugueto thinks about:-

- i. the prospects for oil prices in the near future, given that some countries (including Mexico) have recently reduced prices in the face of falling demand;
- ii. the likely outcome of the OPEC meeting due at the end of May; does he think Saudi Arabia will succeed in persuading other OPEC members to agree to an "OPEC long term strategy" to maintain high levels of production (thereby increasing downward pressure on prices) and to a unification of prices?

Background briefing is also attached.

#### THE ECONOMY

The attached Bank of England report on Venezuela's economy shows it was the largest euro-market borrower last year and faces heavy repayments in 1981. You could enquire about any plans for the restructuring of debt. You could also ask how it is proposed to deal with the problem of inflation (now some 23%) in relation to the plans for real growth envisaged in Venezuela's Sixth Development Plan.

#### GENERAL

Attached are:-

- Annex 1 A personality note about Dr Ugueto
- 2 Political Country brief including Anglo-Venezuelan relations (includes trade statistics)
- 3 Venezuela's Economy
- 4 Oil : Venezuela, UK and World situation
- 5 Investment : Department of Trade

Mr J F Slater will support you at the meeting.

*E E M Baker*  
MISS E E M BAKER

5<sup>th</sup> May 1981

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CHANCELLOR OF THE EXCHEQUER

21  
cc. Chief Secretary  
Financial Secretary  
Minister of State (C)  
Minister of State (L)  
Sir Kenneth Couzens  
Mr Barratt  
Mr Mountfield  
Mr Slater  
Mr Hawtin

VISIT OF VENEZUELAN FINANCE MINISTER  
WEDNESDAY 6 MAY AT 2.30 PM

Further to my brief of 5 May, I attach briefing on the World oil situation, which provides some information additional to that in Annex 4. It is recommended that you should at least read paragraphs 6-7.

*E E M Baker*  
MISS E E M BAKER  
6 May 1981

WORLD OIL SITUATION

1. Following their last conference, at Bali in December, the OPEC States raised their official prices to an average of about \$35 a barrel. Average world prices are now about 170% higher than they were in 1978 Q4, before the Iranian revolution. But there is a wide range, from Saudi Arabian at \$32 a barrel to Libyan crude at \$41.

2. The market is now weak. High quality North African and North Sea crudes are currently being traded on the spot market at some \$3 below official prices, and some producers have removed premia and surcharges above official prices (the UK does not charge such premia), although none of the major producers has yet reduced official prices. If there is no new interruption, supply should balance or slightly exceed demand for the rest of 1981. On the supply side, a key factor has been the willingness of the Saudis to increase production (to over 10 million barrels a day) to make up for some of the output lost as a result of the Gulf War. Moreover, production in Iran and Iraq has been higher than expected, with the war continuing at a low level of activity. Demand, meanwhile, has fallen considerably - by 5% in 1980 - and could well fall further this year.

3. Sheikh Yamani has recently been quoted as saying that the Saudis are prepared to maintain high production levels in order to impose price unification within OPEC. Yamani has said that the Saudis' objective is to re-align OPEC prices on a \$32 a barrel marker (the current Saudi price). That would imply a reduction in official selling prices of other OPEC producers. However, it is not clear how far the Saudis are prepared to press their case. They may just be taking up a negotiating position, in advance of the next OPEC meeting in Geneva on 25 May. Another possible outcome of the meeting is that the Saudis increase their own prices somewhat (perhaps by \$2 to \$34 a barrel) as a step towards price unification, with the others agreeing to freeze prices at present levels.

4. Beyond unification of prices, the Saudis' aim is to secure OPEC agreement to a Long Term Strategy for pricing which would, in principle, result in oil prices rising steadily in line with real economic growth in the industrialised countries.

5. Venezuelan attitude

The Venezuelans tend to take a fairly moderate stance within OPEC. They support the Saudis on price unification and the Long Term Strategy. But their moderation is probably tempered by the fact that they are among the "high absorbers". And they seem unlikely to support any Saudi moves to reduce prices, and they may argue that the Saudis should cut production to reduce the present weakness in the market.

Line to take

6. UKCS prices (if raised)

Price of Forties was increased to \$39.25 a barrel, from 1 January, following Bali decisions. If the question of a possible cut in prices including North Sea prices, is raised, you should answer cautiously. You can say that HMG does not set official prices for North Sea crudes. These are set by the market and reflect prices of comparable African crudes. So the question of a change in North Sea prices would only arise if the prices of comparable crudes were to change.

7. OPEC Long Term Strategy (if raised)

We welcome constructive attempts to bring more stability to the oil market, though, of course, we note that the Strategy has not yet been agreed. Nor are we sure how far, in practice, it would determine oil prices in the face of strong market pressures.



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SKP:TCZ00423762-00016 CUST:423762  
REF1 423762 NRM  
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IRENE RIPLEY

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