Confidential Filing

Trade with Mexico and Venezuela.
Visit by S/S Energy, Mr Howell.

TRADE

October 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~28.10.80~~							
9-12-80							

PREM 19/378

p/w references.

Trade

Foreign and Commonwealth Office

London SW1A 2AH

9 December 1980

Dear Michael,

Visit by Mr Howell to Mexico and Venezuela

In your letter of 28 October to Julian West you asked for comments on the Prime Minister's suggestion that under her chairmanship a mixed seminar of industrialists and administrators might consider our links with Mexico and Venezuela.

The Foreign and Commonwealth Secretary shares Mr Howell's view that we should be achieving more in these two major Latin American markets. In oil, gas, coal and nuclear energy we have much to offer. Lord Carrington saw for himself last August that the results of our efforts to encourage British firms to take advantage of opportunities in these fields have been disappointing. He agrees that the Government should continue to try to focus the minds of British industrialists, bankers and businessmen on the openings for a sustained and coordinate British initiative . He also agrees that there is a need, as suggested in the final sentence of Mr Howell's memorandum to the Prime Minister of 24 October, to co-ordinate the efforts of government and of private industry.

In Mexico loans and package deals are linked to the purchase of Mexican oil on the one hand and the supply of capital equipment and technology on the other. They seek alternatives to the US for high technology capital goods; and political considerations weigh heavily with them. As fellow oil producers and non-members of OPEC we have a clear common interest in sharing our oil technology with them. Whether we are able to do so on the same basis as the French and Japanese whom seem prepared to subsidise their technology transfer (i.e. industry) in order to get access to the oil, is another matter. Our own oil resources put us in a different category. In Venezuela there is a high level of protection: perhaps the best chance is to galvanise the efforts of our private industry. There appears limited scope for government encouraged package trading despite considerable common ground between the two countries in the energy field.

Lord Carrington read with interest the views of the Treasury (Wiggins's letter of 24 November) and the Secretary of State for Trade (Catherine Capon's letter of 1 December). He suggests that it might be appropriate

/for

for the Department of Trade to take the lead in examining these issues. The Foreign and Commonwealth Office and our Embassies in Mexico City and Caracas will be ready to give whatever support is needed.

I am copying this letter to the recipients of yours.

Yours ever

Roderic Lyne

(R Lyne)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON

Cabinet / Cabinet Committee Document

The following document, which was enclosed on this file, has been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES.

Reference: EX (80) 1st Meeting, Minute 2

Date: 4 December 1980

Signed C Wayland Date 6 July 2010

PREM Records Team

Original on Trade, April 1980, Non-Tariff Barriers, British International Trade Policies.

Extract

RTA to PM A03732 of 3 December 1980 Brief for EX Committee

Trade in the lead or whether an official committee under the Cabinet Office should be set up. I am not convinced that this is necessary: the task could be given to the Department of Trade. If however the Committee feels that there is a case for setting up an official committee, I will put recommendations to you for membership and terms of reference.

14. Finally, you might take the opportunity to discuss briefly the correspondence following the Secretary of State for Energy's minute of 24th October about his visit to Mexico and Venezuela. You will recall that you suggested that there might be advantage in your hosting a small half-day seminar of industrialists and administrators to foster Government/Industry co-ordination in approaching these two markets - Mr. Alexander's letter of 28th October to the Department of Energy. The Secretary of State for Trade - his Private Secretary's letter of 1st December to Mr. Alexander - has now advised against this. The particular question of the Mexican market is being pursued by the Departments of Trade and Energy. The Secretary of State for Trade's main point, however, is that there might well be other candidates, deserving more priority, for high level seminars of the kind suggsted. If this view is shared generally in EX you might invite the Secretary of State for Trade to consider the possibilities further, perhaps in the course of the further genera work which the Committee commissions, and make proposals.

CONCLUSIONS

14. In the light of the discussion the Committee will probably wish to call for further work on:-

(i) the identification of objectives and priorities;

(ii) the analysis of our competitors' activities, as proposed by the CPRS;

(iii) guidelines, and markets, for use of oil to secure major capital projects (including defence sales).

15. They will also wish to:

(a) Decide whether this work, and the handling of particular cases, should be dealt with by the Department of Trade with full consultation with all the other Departments concerned or whether a formal official Cabinet committee should be set up to support EX.

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

M O'D B Alexander Esq
Private Secretary
10 Downing Street
London, SW1

1 December 1980

Dear Michael

MR HOWELL'S VISIT TO MEXICO AND VENEZUELA

My Secretary of State read Mr Howell's report of his visit to Venezuela and Mexico and the Prime Minister's reaction recorded in your letter of 28 October with great interest.

He firmly believes that these oil rich markets, and more especially Mexico, are very well worth cultivating and is grateful for the valuable contribution to this end which Ministerial colleagues have made by their recent visits.

The particular suggestion for package deals in which manufactured goods, technology and investment would be traded against oil supplies offers the combined advantages of greater access to oil and market penetration for our exports. The problem we face is what incentives we can offer the Mexicans and any other oil producer that wishes to trade in this way. So attractive are the advantages that countries such as Japan and France, whose energy needs are among the first priorities of economic, industrial and foreign policy are ready to pay a premium in the form of subsidised credit and investment aids. Whether we should enter that game and if so what corresponding premium would be justified, where and how the money would be found will need to be examined before discussions could usefully be joined with industry. The British oil companies may for example consider that it is in their interests to offer a premium to obtain access to Mexican oil, but we would need to be clear of this before going further.

I understand that the Department of Energy and the other Departments concerned are examining these issues. Mr Nott suggests that the question of high level seminars of this kind should be considered in the broader context of which markets are likely to offer the greatest prospects for British exporters - and he is doubtful about whether Mexico and Venezuela would be at the top of the league. He does not want to be negative about the suggestion but he feels that the Prime Minister's time should be saved for occasions where more likely candidates could be considered with more important priorities in mind.

From the Secretary of State

Copies go to Julian West (Energy), George Walden (FCO), John Wiggins (HM Treasury), Ian Ellison (Department of Industry), Kate Timms (MAFF) and David Wright (Cabinet Office).

Yours sincerely

Catherine Capon.

CATHERINE CAPON
Private Secretary

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's Private Office

CONFIDENTIAL

Michael Alexander Esq
Private Secretary to
the Prime Minister
10 Downing Street
London SW1

24th November 1980

Dear Michael,

My Minister has seen a copy of your letter of 28 October to Julian West about the Prime Minister's suggestion for a seminar to be held at Number 10 or Chequers on trade with Mexico and Venezuela.

As you know, Mr Walker took a group of businessmen with him to Venezuela in September. His experience in that country, where he reached agreement with his counterpart on a number of areas in the agricultural and food sectors in which trade and cooperation would be mutually beneficial, confirms the points made in Mr Howell's note of 24 October and he thinks that a seminar with the right people from industry would be very useful.

My Minister's visit to South America included Argentina, where he also identified in an exchange of letters with the Argentine Minister areas in which there is real scope for increased trade and cooperation. Mr Walker feels that, in view of the prospects for increasing our exports to Argentina, it would be useful if the seminar were to cover that country as well.

Our Parliamentary Secretary, Mr Wiggin, visited Mexico last month with a team of businessmen. He likewise takes a very enthusiastic view of the prospects for our agricultural and food exports in that country, confirmed by recent sales of milk powder and by the positive interest shown in other agricultural exports.

For a variety of reasons all three countries now recognise the need to invest in agricultural inputs such as machinery, storage facilities and irrigation and to improve their distributive and processing facilities. This offers new opportunities for selling British equipment and especially expertise. There should also be increasing opportunities for our exporters of certain high quality processed foods and drinks in the longer term.

Given the role that Government plays in the economies of these countries Mr Walker suggests that one main purpose of the proposed seminar should be to examine how to encourage cooperation within industry and Government Departments so as to improve the effectiveness of our efforts in these markets. With the opportunities that have been identified the Minister feels that the agricultural and food sectors should be represented at the seminar at which he himself would like to be present, along with Mr Wiggin.

Yours sincerely

Kate Timms

V. K Timms
Principal Private Secretary

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

24 November 1980

M O'D B Alexander Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Dear Michael,

MR HOWELL'S VISIT TO MEXICO AND VENEZUELA

You sent me a copy of your letter to Julian West of 28 October asking for comments on the idea that the Prime Minister might host a small half-day seminar, involving industrialists and administrators.

The primary interest in this idea lies, I think with Departments other than the Treasury. It is for them to advise whether such a seminar would be helpful in increasing UK business in Mexico and Venezuela. But it would, of course, be important beforehand to establish quite clearly in what ways the government might be prepared to help. And, in particular, we must be sure not to arouse expectations that any additional public money would be made available.

As far as package or barter deals are concerned (eg involving Mexican oil), we should want any proposals very carefully examined, in view of the risks in such arrangements that we might be providing hidden subsidies.

I am sending copies of this letter to Julian West (Department of Energy), George Walden (FCO), Stuart Hampson (Department of Trade), Ian Ellison (Department of Industry), Kate Timms (MAFF), and David Wright (Cabinet Office).

Yours ever

John Wiggins

A J WIGGINS
Principal Private Secretary

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211-6402

Michael Alexander Esq
PS/Prime Minister
10 Downing Street
SW1

7 November 1980

Dear Michael,

VISIT TO MEXICO AND VENEZUELA

My Secretary of State was pleased to note the Prime Minister's interest in the development of package trade with Mexico and Venezuela. This is perhaps mainly the concern of the Departments of Industry and Trade. However, my Secretary of State would like to offer the following comments.

The seminar the Prime Minister suggests would be a useful means to bring out some of the main issues which need to be addressed if the UK is to engage more widely in such trading. Mr Howell suggests that two of these main issues might be the inducements which the government might have to offer to industry to persuade them to work together in this way - and this could bring up the unwelcome but inevitable question from the side of the industrialists as to how far HMG might be willing to underwrite the packages; and also the administrative arrangements which might be needed in Whitehall to ensure that action by Departments is not merely coordinated, but pushed forward on a unified and speedy basis.

In considering when it would be most useful to have the seminar, you will wish to have in mind certain related developments. One is the new EX Committee, which might generate policy guidance relevant to package deals; another is that the Mexican Deputy Minister of Industry (Hiriart) is to pay a postponed visit to London next month, and the purpose of discussions with him would be to identify possible new areas for Anglo/Mexican cooperation; a third is that the CPRS have recently been asked to undertake a study with the other Departments concerned of the institutional barriers to package trading; and, last but not least, Departments have been following up with the oil companies and industry what

possibilities they now see for new initiatives in Mexico and Venezuela.

I am copying this letter to recipients of yours.

Yours ever,

Julian

J D WEST
Private Secretary

CONFIDENTIAL

JS

BF 16.11.80

10 DOWNING STREET

From the Private Secretary

28 October 1980

VISIT TO MEXICO AND VENEZUELA

The Prime Minister has seen the Secretary of State for Energy's minute of 24 October about his visit to Mexico and Venezuela. She has taken note of the points made in Mr. Howell's summing up and has asked whether there might not be advantage in her hosting a small half-day seminar either here or at Chequers. She has in mind a mixed group of, say, thirty industrialists and administrators. I should be grateful if you and the other recipients of this letter could consider whether such a meeting would be profitable and, if so, how it might be put to best use.

I am sending copies of this letter to George Walden (FCO), John Wiggins (HM Treasury), Stuart Hampson (Department of Trade), Ian Ellison (Department of Industry), Kate Timms (MAFF) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

J.D. West, Esq.,
Department of Energy.

DS9

(1) I assume a copy of this has gone to K.S.
(2) Is there any prospect in running a small 2 day seminar at No.10 of those industrialists concerned with these markets - say 30(?)
Joining up with lunch or dinner, A Friday? or Wednesday? On Saturday at Chequers. MT.

PRIME MINISTER

VISIT TO MEXICO AND VENEZUELA

I visited Mexico and Venezuela last month, and met Ministers conerned with energy, commerce and foreign policy and President Lopez Portillo of Mexico. It was an experience at once encouraging and discouraging. Encouraging because in both countries I found much friendliness towards the UK, and a willingness - even eagerness - to develop more links with us; discouraging because, when I looked around for the UK presence in the energy and commercial fields, I found it did not match our technical potential, or the market opportunities, or the performance of our competitors. I should emphasise that with world prices of gas and oil at these high levels both these countries are now undertaking new energy investment on a colossal scale, comparable with the levels in the Middle East.

MEXICO

Going for us in Mexico are a welcoming attitude towards the UK; a wish to reduce dependence on the US; the wide British energy expertise, which is recognised; our special capabilities for offshore oil production in difficult conditions; and the numerous needs of the growing Mexican economy. Offsetting these factors are formidable disadvantages. Particularly when it comes to oil production, the Mexicans think first of American expertise and American equipment; and, if they need help, it comes naturally to telephone Houston. Our own firms are often comparative newcomers, and not well enough known. The UK has done little promotion of coal and nuclear, and when it comes to the package deals (industrial or services for oil) which the Mexicans like (and which the Japanese, the French, the Canadians and the Swedes have been able to pull off) the UK is not well organized to put them up or negotiate them. There were also comments from Mexicans and from the British business community that too many British businessmen hoped to pick up orders through short visits (instead of long-term cultivation of the market); and that the "joint ventures" in which British firms took part were few and small in size, showing that the UK has less interest than its competitors in the Mexican economy.

In my contacts, I sought to advertise our capacities and, in particular to nail the idea that the UK did not need Mexican oil because it had so much of its own. I argued that British companies wanted to acquire oil not only for the UK but for European customers; and pressed for suggestions as to what sort of "packages" might assist the development of energy trade, including oil trade. A few suggestions were made, the main one being that the UK should assist Mexico in developing its coal resources in exchange for a supply of crude oil. My officials are following up this and other leads in collaboration with other Departments, nationalised bodies and companies.

/VENEZUELA...

Prime Minister
I fear that Mr Howell is right in suggesting that only a greatly increased degree of government involvement will make it possible to land major contracts in countries like these.
MT 24/X

VENEZUELA

Venezuela is a smaller and more restricted market than Mexico, but well worth cultivating, not least because of its heavy oils which, in the fifteen-twenty year term are likely to represent one of the world's main sources of hydro-carbon fuel. All three of our main companies (Shell, BP, BNOC) have got their foot in the door and are exchanging personnel and experience with nationalised Venezuelan companies, though Shell (like EXXON) is dogged by a long-running dispute with the Venezuelans about compensation and taxation.

The Venezuelans see their strong points as their reliability as oil-exporters: and the long-term potential of their heavy oil. They seek from their partners not just dollars but some long-term contribution to strengthening the Venezuelan economy - not necessarily in the energy area. So once again the door is open for packages.

The Venezuelans made two specific suggestions for enlarging energy links with the UK. They want us to build refinery capacity to handle Venezuelan heavy oil - a suggestion I have passed on to the companies: and they suggested establishing a joint working group for collaboration in Venezuelan energy development. I noted this second suggestion, with the intention of replying when we see just what sort of offers the UK might be able to make.

POLITICAL THEMES

The Mexicans were concerned about their proposed Summit; and I said, as agreed, that the UK would be pleased to take part if the meeting was well prepared. The Venezuelans were less enthusiastic about the Summit, being not too sure how it fits in with the Group of 77 which they lead. On the other hand, they talked much of Caribbean security and the need to contain Castro.

Obviously, the Gulf war was much discussed and I was impressed by the responsible attitude of both countries, and their unwillingness to exploit the situation for short-term advantage. Venezuela instantly cancelled a cut in oil production which had been agreed with some other OPEC countries; and has since made extra oil available to Brazil (which depended largely on Iraq).

SUMMING UP

With so much political accord between us it is indeed a pity that we have achieved so little collaboration on energy. If my impression from my visit corresponds to those formed by my colleagues, there is a major challenge for us to develop our links with the two countries. It may be that some of the methods we shall have to consider (e.g. package trading) are not our traditional or preferred ways to proceed.

But the fact is that the UK has fallen behind in two very important markets. If we now want to catch up, we must be prepared to take exceptional trouble. In particular we have to recognise that, like it or not, these oil-and-gas-based fast expanding areas organise almost all their development and overseas economic links on a government to government basis. Either we organise our own government-industry co-ordination to this way of doing business or we miss out.

/Copies...

(3)

Copies go to Peter Carrington, John Nott, Keith Joseph, Peter Walker and Sir Robert Armstrong.

SECRETARY OF STATE FOR ENERGY

24 OCTOBER 1980