



Foreign and Commonwealth Office

London SW1A 2AH

4 June 1979

Dear Bryan,

Call on the Prime Minister by the
President of the European Commission on 21 May, 1979

In your letter of 21 May you asked for advice on how a study could be initiated on the bargaining position of the West, and of the EEC in particular, vis-a-vis OPEC in any forthcoming negotiations on oil prices and supplies.

Officials are preparing a note on this subject, which I shall then forward to you and to the Private Secretaries of other departments concerned. If the Prime Minister and her colleagues agree with the note's conclusions, they could be reflected in the briefing on producer/consumer contacts both for the European Council meeting at Strasbourg and for the Tokyo Summit.

The Prime Minister may meanwhile like to know that officials have over the past three months been doing some preliminary work considering the basis for producer/consumer contacts and the objectives which the West in general, and the UK in particular, should set themselves. We have so far concentrated on:

- (a) studying the medium term outlook for the world energy market, with special emphasis on oil production and prices. I attach a paper, which was prepared by the FCO, Treasury, Bank of England and Department of Energy officials, and which has been submitted to Ministers concerned in these Departments;
- (b) seeking the views of our main partners on medium term prospects, and making sure they are aware of our thinking. We passed an earlier version of the paper - written before the Iranian revolution - to the Americans, French and Germans, and we have now instructed our posts in these countries to hand over a suitably bowdlerised version of the present paper;
- (c) defining the objectives of the developed consumer countries in any dialogue with OPEC. Some preliminary work has taken place within the IEA and EEC, and work will continue. The note by officials will set out our present conclusions;

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- (d) trying to define OPEC producers' objectives, which will probably continue to be to resist negotiations on energy alone (and especially on oil prices), to seek a wider agenda covering trade and aid issues, as during the CIEC negotiations, and generally to blame consumers for the world's energy difficulties.

K The Americans have hitherto taken the lead and traded heavily on their special relationship with Saudi Arabia. But this relationship is not what it was. As regards producer/consumer contacts, some of our partners are in favour, others are pessimistic about the West's bargaining position; the Americans have been very negative though there are signs of change. The producers may not agree to any talks except on their own high terms, though there are differences of view between them which we might be able to exploit.

Before any contacts, let alone negotiations take place, therefore, it will be vital to concert the West's bargaining position. Once we have done our homework, we could press for coordinated Western (and Community) research on our bargaining position in negotiations. But the timing and tactics will need further consideration.

We have made enquiries about the CIA paper of 1976 and will send you a copy as soon as it can be located.

I am sending a copy of this letter to the recipients of yours and also to the Private Secretary of the Chancellor of the Exchequer in view of the fact that the Treasury have been closely involved in the work on this subject and chaired the interdepartmental group that produced the paper I have enclosed.

Yours *ASW*

Paul
(P Lever)

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