

Middle East (May 79)
Situation

Middle E. 75

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'Visit by Lee Kuan Yew'



10 DOWNING STREET

From the Private Secretary

20 June 1979

THE PRIME MINISTER'S DISCUSSION WITH THE PRIME MINISTER OF SINGAPORE,
MR. LEE KUAN YEW, AT 10 DOWNING STREET ON 20 JUNE 1979:
OIL AND THE MIDDLE EAST

The Prime Minister had an hour's *tete-a-tete* discussion with the Prime Minister of Singapore, Mr. Lee Kuan Yew, at No. 10 this morning, before offering him a working lunch at which Mr. Lee was joined by other members of his delegation and at which the Home Secretary, the Secretary of State for Trade and Mr. Peter Blaker were present. The *tete-a-tete* discussion concentrated on two subjects: oil/Middle East and Vietnamese refugees. The following is a summary of the main points which arose during the exchanges on oil and the Middle East.

Mr. Lee told the Prime Minister that the Chief Executives of two important oil companies had both told him during the past week that he should not be surprised if the price of oil on the spot market were to rise to between \$24 and \$28 p.b. before the end of 1979. The Prime Minister told him that Shaikh Yamani had told the Government on the previous day that Saudi Arabia intended to increase output by 1 million barrels per day and that this should relieve some pressure on the spot market. Mr. Lee criticised President Carter's decision to authorise a \$5 subsidy on imported oil but said that the deterioration in the energy situation and the implications for the world economy, should hit the United Kingdom less hard given her smaller dependence on oil imports. The Prime Minister pointed out that the UK would have to keep with world market prices; we could not subsidise our oil. For the future, a great deal would depend on how soon Iran returned to a normal level of exports.

Mr. Lee said that in his view Iran would remain unstable for many years. He then developed the theme that the Arab rulers had totally lost faith in the United States, primarily as a result of the treatment which the Shah of Iran had received at the hands of the Americans after thirty years of friendship between them.

/One Arab ruler

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One Arab ruler had remarked to him that a member of the PLO or an Iraqi Marxist could always, in the last resort, find refuge in the Soviet Union or Eastern Europe; but the Shah had been able to find no refuge. The Americans should have given the Shah their unwavering support, leaving him to provide his own solutions to Iran's problems instead of telling him what to do in public; in these circumstances, the Iranian army would probably have remained loyal. Mr. Lee said that the Arab rulers were drawing their own conclusions from what had happened in Iran and were making their own contingency plans, which did not necessarily involve a closer accommodation with the West. Mr. Lee told the Prime Minister that it was up to the Europeans, acting together, to nudge the United States' Administration towards firmer and more responsible policies: the Europeans should encourage the Americans to re-assert their dominance. The joint Western objective should be to convince a substantial group of Arab oil producers that they would be helped when they needed help and that they could look to Europe, if not to the United States, if their regimes were to be put in jeopardy. Whatever other longer-term policies needed to be pursued in order to cope with the energy crisis, Mr. Lee said, the first and immediate priority must be to recreate confidence in the West on the part of the Arab oil producers.

When the Prime Minister suggested that the Camp David Agreements might have contributed to Arab disillusionment with the United States, Mr. Lee agreed but commented that this was only one among several factors which, in combination, had resulted in the Baghdad Summit and the harder Arab line. President Sadat was now isolated in the Arab world and could, after the Havana Conference of the non-aligned, find himself isolated in the non-aligned movement as well.

I am sending copies of this letter to Bill Burroughs (Department of Energy) and Martin Vile (Cabinet Office).

B. G. CARTLEDGE

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