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OD(80) 19th Meeting

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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at
10 Downing Street on
MONDAY 4 AUGUST 1980 at 4.30 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon John Nott MP
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon David Howell MP
Secretary of State for Energy

Mr Neil Marten MP
Minister of State, Foreign and
Commonwealth Office and Minister
for Overseas Development

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr R L Wade-Gery
Mr R M Hastie-Smith

SUBJECT

RELATIONS WITH OIL PRODUCERS: VENICE SUMMIT AND GLOBAL NEGOTIATIONS

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RELATIONS WITH OIL PRODUCERS: VENICE SUMMIT AND GLOBAL NEGOTIATIONS

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The Committee considered a memorandum by the Foreign and Commonwealth Secretary (OD(80) 51) which examined how Britain should approach both the forthcoming Global Negotiations (GN) in the framework of the United Nations (UN) and also, in the light of the GN and of the Venice Economic Summit, the possibility of a dialogue with the oil producing countries of the Third World; and a note by the Secretaries (OD(80) 45) covering a report by officials on the prospects for such a dialogue. They also had before them a memorandum by the Foreign and Commonwealth Secretary (OD(80) 30) on the Global Negotiations and a minute dated 29 July from the Chancellor of the Exchequer to the Prime Minister on the same subject.

THE LORD PRIVY SEAL said that the GN were an unwelcome but unavoidable prospect. Britain's approach to them at the UN Special Session would need to be cautious and should be based on advance consultation with her principal partners. British interests would need to be robustly defended; but if Britain were suspected of being particularly hostile to Third World aspirations - and there were already signs of such suspicions in some quarters in eg India and Latin America - her commercial prospects and political influence would be damaged internationally and political controversy would be generated at home. Finding a satisfactory path between these conflicting dangers would call for delicate judgement and skilful negotiating tactics.

In discussion the following points were made -

a. It would not be in Britain's interest to take or be manoeuvred into the lead in organising and representing the position of the developed countries. There was a danger that the process of consultation with partners would commit the Government to positions which Britain lacked the resources to sustain. Alternatively, if she sought to mobilise support among the developed countries for a strong defensive stand, she might find herself pushed into retaining the Western lead at the GN themselves. Her partners privately shared her dislike of the GN, but would be happy to see the blame for any breakdown attributed primarily to British intransigence. It should not be forgotten that partners were also commercial competitors.

b. Trade concessions could not be contemplated. The British market was already among the most open in the world, and needed, if anything, to move towards matching the non-tariff barriers behind which so many others sheltered.

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c. It was a matter of concern, not least in the commercial field, that the volume of British aid should be falling when that of other donors was tending to increase. Against this, it had to be remembered that Britain remained a more generous aid giver, in terms of percentage of Gross National Product (GNP), than most of her partners. Any increase was out of the question; in present circumstances, restoration of the national economy must be the overriding priority. The objective should rather be to increase bilateral aid at the expense of multilateral. All participants at the Venice Economic Summit had agreed that this was desirable, and a report on the subject was to be made to the 1981 Summit. It was unsatisfactory that, despite efforts to contain it, British spending on multilateral aid was continuing to rise.

d. One factor contributing to Britain's high multilateral aid bill was her retention of a larger stake in the International Monetary Fund (IMF), and therefore in the International Bank for Reconstruction and Development than the relative size of her GNP now justified. Quotas had originally been fixed when the British economy ranked second only to the American. They had been much modified since, but Britain's was still just large enough to entitle her to have automatically a seat to herself on the Boards of each of the two bodies. Further study should be given to the balance of advantage and disadvantage which this involved.

e. There was no direct link between the GN and the continuing United Nations negotiations for a new Law of the Sea Convention, but the developing countries were pursuing comparable objectives in both cases.

f. There was a good case for the developed countries attempting a dialogue with the Third World oil producers, given the damage the latter were liable to go on doing to the world economy. They themselves seemed to be coming to regard some kind of deal with the oil consumers as inevitable. There were also rich export prizes to be won, and Britain with her special skills and her comparative independence in the oil market would be well placed to play a leading role. She might appropriately seek to act in concert with other countries which had oil resources but were not members of the Organisation of Petroleum Exporting Countries (OPEC), eg Mexico. The GN were perhaps not an ideal context but they would at least provide a possible departure.

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g. Against this, it was pointed out that the prospects for reaching a satisfactory understanding with the oil producers, in any forum, were not bright. Their terms were certain to be very high. Britain would not gain from taking the lead in negotiations which were liable to be expensive in the short run and in the long run unsuccessful. In any case, bloc to bloc negotiations might well prove disadvantageous to the West. Britain would in that case be wise to aim instead at bilateral deals with individual OPEC members.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that Britain should be represented at appropriate Ministerial level at the UN Special Session. The Government's approach to the GN should be based on cautious reconnaissance. It would not be possible to contemplate increased expenditure or trade concessions or to agree to alterations in the role of the IMF or IBRD. There would be advantage in having positions agreed with Britain's principal partners, but Britain should not herself take the lead in proposing such positions. Similarly Britain should not take the lead in seeking to arrange a dialogue with the Third World oil producing countries. But the idea of the GN being used as a route towards such a dialogue should not be ruled out; and the possible content of a dialogue could be considered further after the outcome of the UN Special Session was known. The need to shift the emphasis of British aid-giving from multilateral to bilateral programmes made it necessary to review Britain's stake in the IMF and IBRD; but it might well be unwise in that context to abandon a position of influence which would thereafter be difficult to regain if British circumstances improved.

The Committee -

1. Invited the Foreign and Commonwealth Secretary to arrange for the Government's representatives to be guided in their approach to the Global Negotiations by the Prime Minister's summing up of the discussion.
2. Invited the Chancellor of the Exchequer, in consultation with the Foreign and Commonwealth Secretary, to review and report on Britain's stake in the International Monetary Fund and International Bank for Reconstruction and Development.
3. Invited the Secretary of State for Energy, in consultation with the Foreign and Commonwealth Secretary, to keep under review the possibilities for a dialogue with the Third World oil producers, in the light of developments at the Global Negotiations and of bilateral contacts with individual producer countries over the coming months.

Cabinet Office
5 August 1980

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