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TELEGRAM NUMBER 4109 OF 26 SEPT 80.

INFO UK DEL OECD, UKREP BRUSSELS, OTTAWA, BONN, PARIS, ROME,
TOKYO AND BAGHDAD.

VISIT OF SECRETARY OF STATE FOR ENERGY.

MR HOWELL CALLED ON SECRETARY DUNCAN TODAY. SAWHILL AND GOLDMAN WERE ALSO PRESENT ON THE U.S. SIDE. MR HOWELL BEGAN THE MEETING BY REFERRING TO CALDERON BERTI'S CALL FOR OPEC COUNTRIES TO EXERCISE MODERATION IN THE CURRENT SITUATION. THE VENEZUELAN HAD INDICATED THAT THE PLAN AGREED IN VIENNA FOR A NUMBER OF OPEC COUNTRIES TO CUT PRODUCTION MIGHT BE SHELVED FOR THE TIME BEING.

2 DUNCAN ASKED HOW MR HOWELL VIEWED THE IMPLICATIONS OF THE IRAN/IRAQ CONFLICT. MR HOWELL SAID THAT THE SITUATION WAS CLEARLY VERY DIFFERENT FROM THE IRAN CRISIS LAST YEAR IN THAT WORLD OIL DEMAND WAS CONSIDERABLY LOWER.

STOCKS WERE HIGH. HE HAD BEEN TAKING THE LINE WITH THE PRESS THAT THE PROBLEM WAS CONTAINABLE AT THE MOMENT. DUNCAN SAID THAT HE AGREED WITH THIS VIEW AND THAT THIS WAS CERTAINLY THE BEST LINE TO TAKE IN PUBLIC STATEMENTS. THE SITUATION MIGHT OF COURSE DETERIORATE LATER.

HE HAD FOR INSTANCE HEARD TWO REPORTS THIS MORNING THAT OIL PIPELINES FROM IRAQ TO THE MEDITERRANEAN WERE NOW OUT OF ACTION. HE ASKED WHAT STEPS MIGHT NEED TO BE TAKEN TO AVOID RENEWED PRICE ESCALATION AND MENTIONED THAT LANTZKE, WHO HAD CALLED ON HIM IMMEDIATELY BEFORE-HAND, INTENDED TO RAISE THE QUESTION OF STOCK MANAGEMENT AT THE SOM MEETING NEXT WEEK. LANTZKE RECOGNISED THAT IT WOULD NOT BE FEASIBLE TO REACH ANY SUBSTANTIVE DECISIONS AT THAT MEETING BUT WANTED TO ENCOURAGE MEMBER COUNTRIES TO INITIATE CONSULTATIONS IN THEIR CAPITALS.

3. NEITHER DUNCAN NOR MR HOWELL THOUGHT THAT THERE WAS ANY CASE FOR CALLING A SPECIAL IEA MINISTERIAL AT THIS STAGE. LANTZKE HAD INDICATED THAT HE WOULD ONLY CALL SUCH A MEETING IF THERE WERE A DRAMATIC RISE IN SPOT MARKET PRICES. AT THE MOMENT THERE WERE NO SIGNS OF THIS HAPPENING.

4. IT WAS AGREED THAT IT WAS IMPORTANT NOT TO GIVE ANY PUBLICITY TO CONSULTATIONS ABOUT CONTINGENCY PLANS. DUNCAN STRESSED THAT ANY PUBLIC MENTION OF THE POSSIBILITY OF GOVERNMENTS UNDERWRITING TANKER INSURANCE MIGHT LEAD INSURANCE COMPANIES TO DISCONTINUE COVERAGE IMMEDIATELY. THE U.S. WAS STUDYING THIS PROBLEM BUT HAD NOT YET REACHED ANY DECISIONS. SAWHILL COMMENTED THAT THE ADMINISTRATION ALREADY HAD THE LEGAL POWERS TO INTERVENE ON

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INSURANCE BUT STRESSED THAT MANY PRACTICAL DETAILS WOULD HAVE TO BE SORTED OUT BEFORE ANY ACTION WAS TAKEN.

5. DUNCAN RAISED THE PROBLEM OF COUNTRIES WHICH WERE ABNORMALLY RELIANT ON OIL FROM IRAQ. HE HAD SPOKEN TO GIRAUD ON 24 SEPTEMBER WHO HAD SEEMED FAIRLY RELAXED ABOUT THE FRENCH SUPPLY POSITION. BRAZIL WAS PROBABLY IN THE WORST SITUATION SINCE NEARLY 60 PERCENT OF THEIR SUPPLIES WERE AFFECTED. THE U.S. ADMINISTRATION WAS ASSESSING WHAT COULD BE DONE TO HELP BRAZIL, PARTICULARLY TO AVOID THEIR ENTERING THE SPOT MARKET. MR HOWELL AND DUNCAN AGREED THAT EVERY EFFORT SHOULD BE MADE TO DEAL WITH THE IMPACT OF THE SUPPLY DISRUPTION BY INFORMAL CONSULTATIONS BETWEEN COUNTRIES AND OIL COMPANIES WITHOUT ACTIVATING IEA SHARING ARRANGEMENTS. THE ITALIAN ENERGY MINISTER, WHO HAD BEEN IN WASHINGTON YESTERDAY, HAD TAKEN THE SAME LINE. IT WAS NOTED THAT ACTION TO HELP BRAZIL MIGHT SET A PRECEDENT FOR CLAIMS BY OTHER AFFECTED COUNTRIES.

6. DUNCAN ASKED FOR MR HOWELL'S VIEWS ON THE OPEC LONG-TERM PRICE STRATEGY RECOMMENDATIONS. IN HIS VIEW THERE WAS A RISK THAT, UNLESS THE PRICE FORMULA WAS ACCOMPANIED BY PRODUCTION ASSURANCES, IT WOULD ESTABLISH ONLY A FLOOR PRICE RATHER THAN A SAFE-GUARD AGAINST FURTHER SUDDEN INCREASES.

IN ADDITION A DANGEROUS PRECEDENT MIGHT BE SET FOR OTHER COMMODITIES. MR HOWELL SAID THAT HE RECOGNISED THESE RISKS BUT THAT THE ALTERNATIVE OF LEAVING THINGS AS THEY NOW STOOD MIGHT BE EVEN WORSE. DUNCAN AGREED WITH THIS POINT BUT ADDED THAT IT MIGHT BE HELPFUL, AND WOULD PROBABLY DO NO HARM, IF THE MAJOR CONSUMING COUNTRIES COULD AGREE A COLLECTIVE VIEW OF OPEC'S LONG-TERM STRATEGY PLANS. HE HAD ALREADY RAISED THIS POINT WITH THE ITALIAN MINISTER AND LANTZKE. GIRAUD HAD PUT THE SAME ARGUMENT TO HIM.

A COLLECTIVE VIEW MIGHT BEST BE REACHED BY INFORMAL DISCUSSIONS AMONGST A FEW KEY COUNTRIES, WHICH WOULD HAVE TO INCLUDE FRANCE, OUTSIDE THE IEA OR SUMMIT FORA. THIS MIGHT BE ARRANGED IN THE FRINGES OF AN IEA MEETING E.G. : THE GOVERNING BOARD IN OCTOBER. MR HOWELL AGREED THAT SUCH DISCUSSIONS WOULD BE USEFUL.

7. AT THE CONCLUSION OF THE MEETING GOLDMAN EXPRESSED SATISFACTION AT BRITISH GAS'S DECISION TO REDUCE THE PRICE THEY WERE OFFERING FOR ALGERIAN LNG. THE U.S. WAS GRATEFUL FOR HMG'S ROLE IN BRINGING THIS ABOUT.

8. PLEASE ADVANCE TO PS/SECRETARY OF STATE, SIR D MAITLAND, DE LE B JONES AND KELLY IN DEPT OF ENERGY, MISS BROWN AND FALL, ESSD.

HENDERSON

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