

- ① I assume a copy of this has gone to K.I.
- ② Is there any profit?

Prime Minister

I fear that Mr Howell is right in suggesting that only a pretty increased degree of government involvement will make it possible to land major contracts in countries like these.

PRIME MINISTER in summary -

small 2 day seminar

No. 10 of those with these members - say 30(?)

VISIT TO MEXICO AND VENEZUELA

Finishing up with lunch or dinner, A Friday? or Wednesday? On Saturday of course.

24/x

I visited Mexico and Venezuela last month, and met Ministers concerned 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...

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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.

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

JH.
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SECRETARY OF STATE FOR ENERGY

24 OCTOBER 1980

47 OCT 1980

