

CONFIDENTIAL



DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

01-211 4391

cc Brian Fall (fco)

①

Now p.a.

A.J.C. 2/3.

SIR KENNETH COUZENS KCB
PERMANENT UNDER-SECRETARY OF STATE

19 March 1983

Dear Brian

hs
hs

Prime Minister

You may like to discuss with Mr. Pym on the way to Brussels whether he should speak to Mr. Schulz.

A.J.C. 18/3.

THE US AND OIL PRICES.

I think Julian Bullard may have explained to you our concern about the line which members of the US Administration are taking on the recent OPEC agreement and on the oil price generally. Sir Peter Baxendell of Shell has expressed to us his concern about this, and I attach a copy of a note about evidence given to a Congressional Committee on 17 March by US Secretary for Energy Hodel. Kit McMahon of the Bank of England tells me that the US Treasury are taking a similar line at international meetings and that something comparable may have been said by Secretary Schulz.

Our Secretary of State has arranged to speak to Secretary Hodel on the telephone tomorrow to urge a more cautious line. It does seem to us that if it were possible to convince Secretary Schulz of the need for caution, that would be a great gain. We therefore wondered whether the Foreign Secretary might be willing either to speak to Mr Schulz or to send him a message. I attach a note of a possible line, though you will of course be better able than we to get any political aspects right. Another possibility which occurs to us is that Sir Oliver Wright might talk to the President of Exxon and ask whether he was confident that the US Government line was fully appropriate; but clearly that would be a more speculative and indirect route.

I am copying this to John Kerr at the Treasury, and John Coles at No.10.

Yours

Ken Couzens

B J P Fall Esq
Private Secretary to the
Secretary of State for Foreign
and Commonwealth Affairs
Downing Street, SW1.



CONFIDENTIAL

THE SECRETARY OF STATE MIGHT SAY:-

We are rather worried about reports reaching us of comments by the US Administration on the recent OPEC agreement and on the oil price. Of course we agree that the fall which has taken place is helpful to the world economy. But we do not think it would be helpful to take responsibility for destroying the recent OPEC agreement by telling the markets that it might fail; or to produce a sharp and precipitous fall in the price. Gradual changes are one thing. Further shocks to the world economy, in either direction, are another. They are destabilizing and can produce political as well as economic trouble.

The US authorities know well the risks to the international (and US) banking system if Mexico were to be plunged into renewed difficulties, with political risks also. There would be acute problems for countries like Venezuela, Nigeria and Indonesia. The balance of strength in the Middle East could be affected. Many of the problems of a sharp adjustment would hit the system before the more pervasive benefits come through: that is why gradualism is better. There would also be exchange rate upheavals and a problem of redirecting exports from industrial countries. Moreover, if the fall went too far (eg to \$20) we believe that we would before long be faced with a price rebound. Meanwhile there would have been the wrong signals for investment, substitution and conservation.

We in London know how much effort and political capital the OPEC countries put into the recent agreement. We have no special sympathy for the OPEC cartel and believe strongly in market principles. Nevertheless, we fear there will be considerable bitterness among the countries if major OECD countries appear to be



CONFIDENTIAL

-2-

destroying the agreement.

We hope therefore that the State Department might use its influence to prevent official "talking down" of the agreement, and the oil price, by the Administration; especially in the present febrile market.



CONFIDENTIAL

629/3/83.

PS/Secretary of State

cc PS/Minister of State
PS/PUSS (Commons)
PS/PUSS (Lords)
PS/PUS
Mr Guinness
Mr Morphet
Mr Wiggins
Mr Brown
Mr Meyrick

WORLD OIL PRICES: US REACTIONS

You asked for information on recent press reports of the US Secretary Hodel's remarks on oil prices. The Embassy have a full report on its way to us in the bag. The gist of what was said is as follows.

/prices

2 Hodel appeared yesterday before a Congressional Sub-Committee on government operations. He said that he did not believe that the new \$29 pb marker price would hold. He expected to drop to \$25 (the day before, he said that he expected prices to drop to the mid \$20s). In response to a further question, he said that even if prices should drop below \$20, he still believed that substantial incentives for oil exploration and development would remain.

/previously

3 The Embassy note that these remarks follow a consistent line taken by US officials. George Hadley (Assistant Under-Secretary at the Department of Energy) said in public recently that "even a relatively precipitous decline in oil prices to \$20 would be manageable from an energy perspective. The adverse effects on oil company profits and on energy security from diminished incentives for exploration, conservation and alternative energy developments would be more than offset by increased efficiency in other sectors, higher economic growth and employment, and lower inflation. A decline in oil prices is generally a good thing".

4 I will forward the Embassy's full report as soon as it arrives. Meanwhile, we shall prepare briefing for the Embassy on the lines of the paper that the Secretary of State has sent to the Prime Minister.

Penelope Boyd
P A BOYS
ICU
Room 1411
Ext 5509
18 March 1983