



EMBASSY OF THE
UNITED STATES OF AMERICA
Bern, Switzerland

November 19, 1976

The Honorable
Ambassador Paul Rudolf Jolles
Director
Division of Commerce
Bundeshaus Ost
3003 Bern

Dear Mr. Ambassador:

My government is concerned about recent press and other reports to the effect that certain countries may seek to strengthen the linkage between the outcome of the CIEC and the OPEC decision in December on oil prices.

We believe it would be dangerous for industrialized countries to strengthen the linkage between the CIEC and OPEC. A number of OPEC spokesmen have been publicly attempting to make clear that the final decision on oil prices by OPEC will depend in large measure on concessions extracted from industrialized countries in the CIEC. This would reverse the linkage we would be seeking, and would strengthen OPEC ties to other LDCs. While we agree on the need for an integrated approach to the North/South relationship, including the multilateral trade negotiations in Geneva and direct aid, a direct linkage between the North/South dialogue (involving long term issues which we will have to address regardless of the final OPEC price action) and OPEC price decisions, which was considered and ruled out by the G-8 at the onset of the CIEC exercise, risks serious losses on both fronts.

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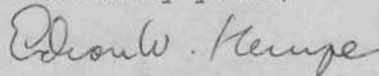
We are convinced that there is no negotiable CIEC package which industrialized countries could accept and which would also represent sufficient inducement to OPEC to refrain from a substantial oil price increase over several years, given lack of leverage by consumers over oil prices. While the oil price decision can affect our ability to take actions responsive to LDC proposals in the North/South dialogue, we must address these issues on their own merits in the CIEC. Linking CIEC and OPEC in the way it has been characterized in recent reports would undermine this effort, making decisions in OPEC depend on decisions in CIEC, rather than the reverse.

We have been relatively successful in CIEC in intensifying LDC restraints on OPEC. A strategy linking the two would negate these gains and confirm the effectiveness and utility of the OPEC/LDC alliance.

The outcome of the OPEC December Ministerial to decide on prices has not yet been determined and we continue to believe a price increase is not inevitable. Linking the two now could result in OPEC maintaining that it had been planning a large increase but is willing to reduce it in exchange for costly concessions on resource transfers in the CIEC. In other words, actual increases in oil prices would not necessarily be any different than OPEC would have arrived at absent CIEC, but the cost to the industrialized countries would be higher.

In our view, the connection which some OPEC officials have made between CIEC and OPEC is more rhetorical than actual. While lack of satisfaction with CIEC outcome -- a highly subjective judgement -- could be used by OPEC to justify an oil price increase, it is unlikely that OPEC countries view CIEC as a major factor in a decision on an oil price increase.

Sincerely yours,



Edson W. Kempe
Counselor for Political,
Economic and Commercial Affairs