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CIAE-00 COME-00 DODE-00 FRB-02 H-03 INR-10 INT-08

L-03 LAB-06 NSAE-00 NSC-10 PA-04 RSC-01 AID-20

CIEP-02 SS-20 STR-08 TAR-02 TRSE-00 USIA-15 PRS-01

SPC-03 FEA-02 OMB-01 SCI-06 IO-14 FPC-01 SAJ-01 DRC-01

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FM AMEMBASSY BONN
TO SECSTATE WASHDC 9933
INFO AMEMBASSY COPENHAGEN
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AMEMBASSY LONDON
AMEMBASSY ROME
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AMEMBASSY THE HAGUE
AMEMBASSY PARIS
AMEMBASSY BRUSSELS
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USMISSION OECD PARIS
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY TOKYO
AMEMBASSY TEHRAN
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E.O. 11652:  GDS
TAGS:  ENRG, PFOR, GW
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SUBJECT:  ENERGY:  FRG FLIRTING WITH BILATERALISM
SUMMARY: THE MIDDLE EAST WAR AND THE CONCOMITANT ENERGY CRISIS HAVE BROUGHT SHARPLY HOME TO FRG POLICY MAKERS GERMANY'S DEPENDENCE ON OIL IMPORTS FROM ARAB (AND IRANIAN) SOURCES. WHILE THE FRG STILL PROFESSES ITS PREFERENCE FOR MULTILATERAL SOLUTIONS TO THE ENERGY CRISIS, IT IS BEING MADE INCREASINGLY NERVOUS BY THE EFFORTS OF THE UK, FRANCE AND JAPAN TO MAKE BILATERAL ARRANGEMENTS WITH THE PRODUCER COUNTRIES. IN RESPONSE TO THESE PRESSURES, THE FRG IS BEGINNING TO EXPAND ITS OWN BILATERAL CONTACTS WITH SEVERAL OIL PRODUCING COUNTRIES. IF THE US IS GOING TO HAVE A SAY IN HOW THIS POLICY DEVELOPS, WE MUST DO SO QUICKLY WHILE THE FRG THINKING REMAINS IN THE FORMATIVE STAGE. END SUMMARY.

1. IN ITS RECENT PUBLIC STATEMENTS AND ACTIONS THE GERMAN GOVERNMENT IS PROVIDING EVIDENCE OF GIVING SERIOUS CONSIDERATION TO JOINING THE COMPETITION WITH FRANCE, UK AND JAPAN FOR THE FAVORS OF THE GOVERNMENTS OF THE OIL PRODUCING COUNTRIES. CHANCELLOR BRANDT WAS RECENTLY QUOTED AS SAYING THAT UNTIL THE EC DEVELOPED A COMMON APPROACH TO THE ENERGY CRISIS GERMANY WOULD INCREASE ITS BILATERAL CONTACTS WITH PRODUCING COUNTRIES. ECONOMICS MINISTER FRIDERICHS MADE AN EVEN STRONGER STATEMENT BEFORE THE PARLIAMENT TO THE EFFECT THAT THE FRG WOULD MAKE EFFORTS FOR INCREASED COOPERATION WITH OIL PRODUCING COUNTRIES WITHIN THE COMING MONTHS AND WOULD UNDERTAKE STEPS TO INSURE THE SUPPLY OF THE GERMAN ECONOMY WITH THE NECESSARY RAW MATERIALS. FRIDERICHS AND HIS DEPUTY ROHWEDDER PLAN A NUMBER OF VISITS TO OIL PRODUCING COUNTRIES IN THE COMING WEEKS.

2. THE PRIMARY TARGET OF GERMAN INTEREST THUS FAR HAS BEEN IRAN AND THE FRG VIEWS IRAN AS THE TEST CASE OF ITS POLICY VIS-A-VIS THE OIL PRODUCING COUNTRIES. THE GERMAN GOVERNMENT HAS BEEN ACTIVELY NEGOTIATING WITH THE IRANIAN GOVERNMENT ON BEHALF OF A CONSORTIUM OF GERMAN OIL FIRMS FOR THE CONSTRUCTION OF A 25 MILLION TON OIL REFINERY. THE REFINERY WOULD BE BUILT BY GERMAN FIRMS, IRAN WOULD PROVIDE THE CRUDE AND GERMANY WOULD RECEIVE THE PRODUCT OUTPUT OF THE REFINERY. THE GERMAN CONSORTIUM IS HEADED BY GELENBERG, AND INCLUDES Veba, Union Kraftstoff and some of the German subsidiaries of the major oil companies. We were told a German negotiating team is now in Teheran and that Minister Friderichs intends
TO MAKE AN UNANNOUNCED TRIP THERE SOON TO HELP
THE NEGOTIATIONS ALONG. FRIDERICH IS ALSO PLANNING
TO VISIT THE SHAH IN SWITZERLAND SOMETIME NEXT MONTH.
THE FRG HOPED TO HAVE THIS DEAL WRAPPED UP BY THE
END OF FEBRUARY BUT IT NOW ESTIMATES THAT IT WILL
TAKE SOMewhat LONGER. A SECOND MAJOR PROJECT UNDER
ACTIVE NEGOTIATION IN IRAN INVOLVES THE DELIVERY
OF 10 BILLION CUBIC METERS OF NATURAL GAS PER YEAR
TO GERMANY. THE FRG DISCUSSED THIS PROJECT IN SOME
DETAIL DURING ITS RECENT BILATERAL CONVERSATIONS
WITH THE SOVIET UNION (REPORTED SEPTEL).

3. IN ADDITION TO IRAN, THE FRG IS EXPANDING ITS
CONTACTS WITH SEVERAL OTHER PRODUCING COUNTRIES.
A. ALGERIA - THE ALGERIANS ARE REPORTED TO BE

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INSISTING THAT ANY NEW CONTRACTS FOR PETROLEUM DELIVERIES WILL BE LINKED TO NEW EXPLORATION VENTURES. THE GERMAN FIRM DEMINEX (SUPPORTED WITH GOVERNMENT FUNDS) HAS JUST SIGNED AN EXPLORATION CONTRACT WITH CONFIDENTIAL.

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SONATRACH AND THE FRG EXPECTS THAT THIS WILL PAVE THE WAY FOR NEGOTIATIONS ON PETROLEUM DELIVERIES.

B. IRAQ - NEGOTIATIONS HAVE BEEN GOING ON FOR SOME TIME BETWEEN GERMAN FIRMS AND THE IRAQI GOVERNMENT. ALTHOUGH OUR GOVERNMENT SOURCES STATE THAT THE ABSENCE OF DIPLOMATIC RELATIONS WITH IRAQ IS AN OBSTACLE TO GOVERNMENT-TO-GOVERNMENT NEGOTIATIONS, THERE HAS BEEN SPECULATION IN THE PRESS THAT IRAQ IS A TARGET COUNTRY FOR GERMAN EFFORTS AT PRODUCING COUNTRY COOPERATION.

C. SAUDI ARABIA - ECONOMICS MINISTRY SECRETARY ROHWEDDER HAS ALREADY MADE ONE TRIP TO SAUDI ARABIA AND IS PLANNING ANOTHER. AT THIS STAGE OF THE GAME THESE TRIPS APPEAR TO BE ONLY FACT-FINDING MISSIONS TO DETERMINE THE S.A.G.'S PARAMETERS FOR FUTURE COOPERATION.

D. OTHER - THE FRG HAS JUST SIGNED AN AGREEMENT WITH NORWAY PROVIDING A FRAMEWORK FOR PRIVATE FIRMS TO DELIVER 6 BILLION CUBIC METERS OF NATURAL GAS YEARLY TO THE FRG. THE HEAD OF THE INDONESIAN OIL COMPANY IBNU WAS HERE IN DECEMBER FOR A PRIVATE CONVERSATION WITH FINANCE MINISTER SCHMIDT AND LIBYAN PRESIDENT JALLUD IS REPORTED TO BE COMING TO BONN LATER THIS WEEK.

4. THERE ARE SEVERAL REASONS FOR THIS INCREASE IN FRG BILATERAL CONTACTS WITH THE PRODUCING NATIONS BUT THEY ALL STEM FROM GERMANY'S DEPENDENCE UPON ARAB (AND IRANIAN) PETROLEUM. FIFTY-FIVE PERCENT OF GERMANY'S ENERGY REQUIREMENTS ARE FULFILLED BY PETROLEUM MOST OF WHICH IS IMPORTED FROM THESE SOURCES.
THE FRG DOES NOT WANT TO DO ANYTHING THAT MIGHT
JEOPARDIZE ITS ACCESS TO THESE PETROLEUM SOURCES
AND INDEED IT FEELS COMPelled TO DO WHAT IT CAN TO
SECURE CONTINUED ACCESS TO THEM. WHEN THE ARABS
PLACED GERMANY IN A SEPARATE CATEGORY FROM FRANCE
AND UK DURING THE MIDDLE EAST WAR, IT STRUCK A
SENSITIVE GERMAN NERVE. GERMANY'S ANXIETIES HAVE
INCREASED AS IT HAS SEEN THE UK, FRANCE AND JAPAN
SCRAMBLING FOR DEALS WITH THE ARAB PRODUCERS. GERMANY
DOES NOT WANT TO BE LEFT OUT IN THE COLD. IN ADDITION
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THE GOVERNMENT FEELS THE NEED TO PROTECT ITS DOMESTIC
POLITICAL POSITION BY DEMONSTRATING TO THE PUBLIC
THAT IT IS PROTECTING ITS INTEREST IN THE FACE OF
THE HIGHLY PUBLICIZED ACTIVITY OF OTHER INDUSTRIAL
COUNTRIES.

5. IN FORMULATING A MODEL FOR ITS BILATERAL RELATIONS
WITH PRODUCERS, THE FRG IS DRAWING ON ITS BILATERAL
TREATIES OF ECONOMIC COOPERATION WITH SEVERAL EASTERN
EUROPEAN COUNTRIES. THESE TREATIES PROVIDE A
CHAPEAU OR INTER-GOVERNMENTAL FRAMEWORK WITHIN
WHICH PRIVATE GERMAN FIRMS CAN NEGOTIATE ON SPECIFIC
PROJECTS. THE GERMANS STILL BELIEVE THAT THE
RESPONSIBILITY FOR THE DEVELOPMENT OF A PROJECT RESTS
WITH PRIVATE FIRMS BUT IT FEELS A GOVERNMENT CHAPEAU
IS NECESSARY TO GIVE ITS FIRM A BETTER CHANCE AT
GETTING THE BUSINESS. THE FRG HAS JUST BOUGHT A
CONTROLLING INTEREST IN THE GERMAN OIL PRODUCER

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Gelsenberg in order to give it some ability to play a more active role in this game. Some officials have told us that even if a common EC approach to the energy crisis can be worked out, there will still have to be inter-governmental arrangements between the producing countries and the governments of the firms involved in large projects. Since firms within the EC are established on a national level, these chapeau agreements will also have to be primarily bilateral.

6. The Germans continue to stress the desirability of a multilateral approach to the problems of the energy crisis in both their public and private statements and we have no reason to doubt that they will work hard for such a position within the EC.
NEVERTHELESS, THEY APPEAR TO BE HEDGING THEIR BETS
A BIT. THEY MAY VIEW BILATERALISM AS
AN INEVITABLE WAVE OF THE FUTURE AND WANT TO
PROVIDE THEMSELVES THE ABILITY TO RIDE WITH THE WAVE
IF NECESSARY RATHER THAN BE DROWNED BY IT.

7. THE GERMAN THINKING ON THIS SUBJECT REMAINS VERY
MUCH IN THE FORMATIVE STAGE AND THE GOVERNMENT DOES NOT
APPEAR TO BE LOCKED INTO ANY CONCRETE FORMULA. THE
FEBRUARY 11 ENERGY CONFERENCE PROVIDES AN IDEAL
OPPORTUNITY TO SHAPE THEIR THINKING ALONG LINES
COMPATIBLE WITH US INTERESTS -- AN OPPORTUNITY THAT IF
NOT SEIZED NOW MAY BECOME MORE ELUSIVE IN THE FUTURE.
HILLENBRAND

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