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Subject on Energy,
Jan 80, Oil Prices. CONFIDENTIAL

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OO JEDDA DESKBY 121245Z
OO RIYADH DESKBY 121245Z

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. 29/89

GRS 619
CONFIDENTIAL
DESKBY JEDDA AND RIYADH 121245Z
FM FCO 121145Z MARCH 83
TO IMMEDIATE JEDDA
TELEGRAM NUMBER 123 OF 12 MARCH
INFO IMMEDIATE RIYADH
MIPT : MESSAGE TO KING FAHD

1. FOLLOWING IS TEXT OF MESSAGE: BEGINS: I WRITE TO THANK YOUR MAJESTY FOR YOUR PERSONAL MESSAGE ABOUT THE PRESENT OIL PRICE SITUATION. I MUCH APPRECIATED THE WAY IN WHICH SHEIKH YAMANI BRIEFED THE SECRETARY OF STATE FOR ENERGY, MR LAWSON, WITH SUCH FRANKNESS AND CLARITY ABOUT DEVELOPMENTS AT THE OPEC MEETING IN LONDON.
2. IT IS CERTAINLY NO PART OF THE POLICY OF THE UNITED KINGDOM GOVERNMENT TO TAKE ACTION WHICH MIGHT DESTABILISE THE WORLD OIL MARKET. IN THE INTERESTS OF THE HEALTH OF THE ECONOMY OF THE FREE WORLD WE HAVE WELCOMED A REDUCTION IN INTERNATIONAL OIL PRICES BELOW THE DOLLARS 34 LEVEL, ESPECIALLY AT A TIME WHEN THE US DOLLAR REMAINED STRONG. I BELIEVE THAT THE VIEWS OF THE KINGDOM OF SAUDI ARABIA AND THE UNITED KINGDOM ON THIS HAVE BEEN VERY SIMILAR. WE ALSO SHARE YOUR INTEREST IN AVOIDING A FURTHER SHARP FALL IN PRICES. WE JUDGE THAT THAT WOULD BE CONTRARY TO THE INTERESTS OF THE FREE WORLD, AS WELL AS TO THE INTERESTS OF OUR TWO COUNTRIES. SO I SEE MUCH IDENTITY OF VIEW AND INTEREST BETWEEN US.
3. AFTER THE GENEVA OPEC MEETING THE BRITISH NATIONAL OIL CORPORATION DELAYED ANY IMMEDIATE REDUCTION IN ITS PRICES. SUBSEQUENTLY, ALTHOUGH ITS ROOM FOR MANOEUVRE IS VERY LIMITED, BNOB RESTRICTED THE PRICE REDUCTION IT PROPOSED TO A LEVEL CONSISTENT WITH THE RE-ESTABLISHMENT OF THE ARAB LIGHT MARKER AT DOLLARS 30 A BARREL.
4. HOWEVER, AS MR LAWSON HAS EXPLAINED TO SHEIKH YAMANI, THE

BRITISH GOVERNMENT DOES NOT CONTROL THE LEVEL OF PRODUCTION OF OIL IN THE UNITED KINGDOM, OR THE PRICE AT WHICH IT IS SOLD, ANY MORE THAN THE US GOVERNMENT CONTROLS THESE MATTERS IN THE UNITED STATES. THE BRITISH NATIONAL OIL CORPORATION HAS UNDER THE LAW ONLY A LIMITED ROLE AS A TRADER IN OIL AND THEREFORE HAS TO NEGOTIATE A PRICE FOR ITS OIL WHICH IS ACCEPTABLE TO BOTH ITS SUPPLIERS AND ITS CUSTOMERS.

5. IF IT WERE TO TRY TO DISREGARD THE POSITION IN THE MARKET - WHICH REFLECTS DEVELOPMENTS IN THE UNITED STATES AND THE BEHAVIOUR OF THE SOVIET UNION, AS WELL AS THE DECISIONS TAKEN BY OPEC - AND SEEK TO IMPOSE A HIGHER PRICE THAN THE MARKET WILL BEAR, THE ONLY EFFECT WOULD BE LOSS OF ITS CUSTOMERS AND A REQUIREMENT TO DISPOSE OF INCREASING VOLUMES OF OIL IN THE SPOT MARKET. THAT IN ITS TURN WOULD PUT FURTHER DOWNWARD PRESSURE ON WORLD PRICES, AND UNDERMINE THE EFFORT TO RE-ESTABLISH STABLE CONDITIONS.

6. NEVERTHELESS I RECOGNISE THE VERY GREAT EFFORTS THE OPEC MEMBER COUNTRIES HAVE MADE TO REACH AN AGREEMENT WHICH WILL STEADY THE MARKET. THE BRITISH GOVERNMENT WILL SAY NOTHING TO CAST DOUBT ON THAT AGREEMENT. SHEIKH YAMANI HAS BEEN IN TOUCH WITH MR LAWSON WHO HAS EXPLAINED THAT WE WILL DO WHAT WE CAN TO HELP. THE BNOG WILL REFRAIN FROM MAKING ANY IMMEDIATE MOVE FOLLOWING AN EARLY ANNOUNCEMENT OF AN OPEC AGREEMENT. IT WILL PERMIT ITS CUSTOMERS TO MAKE REPRESENTATIONS, IF THEY SO DECIDE, ON ITS EARLIER PROPOSAL OF DOLLARS 30.50 A BARREL AND WILL CONSIDER THOSE REPRESENTATIONS BEFORE MAKING ANY FURTHER MOVE. IT WILL THEN SEEK TO NEGOTIATE THE HIGHEST POSSIBLE PRICE FOR ITS OIL, AGAINST THE BACKGROUND OF THE IMPACT ON THE MARKET OF THE OPEC DECISIONS.

7. I HOPE THAT OUR TWO COUNTRIES WILL CONTINUE TO KEEP IN TOUCH ON THIS AND THE MANY OTHER IMPORTANT ECONOMIC AND POLITICAL QUESTIONS THAT CURRENTLY AFFECT THE INTERESTS OF OUR TWO COUNTRIES AND INDEED OF THE WHOLE WORLD. IN THIS CONNEXION, I AM LOOKING FORWARD TO SEEING HIS ROYAL HIGHNESS PRINCE SAUD AL FAISAL AS PART OF THE ARAB LEAGUE DELEGATION WHICH IS TO VISIT LONDON ON 18 MARCH. ENDS.

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