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CONFIDENTIAL FILING

Visit by Saudi Member of  
Planning Shakh Hisham  
Nayer

SAUDI  
ARABIA

JANUARY 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>RTA</del> 5-2-82							
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10 DOWNING STREET

From the Private Secretary

cc FO  
cc Master  
Saudi Arabia  
BM  
2 March 1982

The Saudi Minister of Planning, Sheikh Hisham Nazer, called on the Prime Minister at 0945 hours this morning. He was accompanied by the Saudi Ambassador, the Director-General of Planning, Mr. Karim, and the Assistant Director-General of the Royal Commission for Jubail and Yanbu, Mr. Mubarak.

Sheikh Hisham said that the third development plan was going well. The previous plan had improved the country's basic infrastructure; the ports were no longer congested and construction of the road network was well advanced. The real problem was now the scarcity of trained manpower. Improvements in training and education were however long term objectives. Meanwhile, the development of basic industries at Jubail and Yanbu was well under way. The steel mill and fertiliser plant would both be operational next year. The next decade's output from the fertiliser plant had already been sold.

The discussion then turned to the state of the oil market. Sheikh Hisham said that Saudi production was now running at 8.5 million barrels per day, having fallen from the level of 10.5 mbd at the height of the Iran/Iraq war. The market had behaved very unpredictably over the last few years. It had moved from severe shortage to severe glut, with consequent swings in prices. Sheikh Hisham said that he thought that the high levels of demand in 1979/80 had not been solely for consumption. There had been a great deal of stockpiling. This stockpiled oil was now coming on to the market, partly because of the very high interest rates prevailing in world financial markets. The severe recession also reduced demand, and high oil prices had encouraged economy. He felt it was now important to balance supply and demand, and so to stabilise prices. In the long term, however, he felt that there would always be "an energy crisis". The present levels of unemployment prevailing in Western economies showed how much latent demand for energy there was. Demand from the third world could also be expected to grow. He did not feel that alternative sources of energy, or conservation, would supplant the fossil fuels, even in the medium term. New technologies could increase recovery from oil fields from 30% to 70%, and there were still good long term prospects for oil producers.

/ Sheikh Hisham

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Sheikh Hisham then asked about the state of the UK economy. In reply, the Prime Minister said that the Government's policies were designed to improve the competitiveness of British industry. This was a long-standing problem, but she felt there were signs of success. Productivity in British industry was now at record levels and the increase in unit labour costs last year had been among the lowest in all the Western economies. The first effect of tackling such problems was always to increase unemployment as waste and inefficiency was eliminated. The main burden of reducing unemployment fell on industry, and the Government had a programme to help small businesses start up; but because of the recession this had not been as immediately successful as had been hoped. The Prime Minister said she did not like to criticise the policies of the US Administration in public, but the key to ending the recession was largely in the hands of the Americans. She recognised that reducing inflation must be President Reagan's top priority, but she was concerned about the size of the US deficit. President Reagan would have to take a decision on whether to finance this deficit through borrowing at higher interest rates or by increasing taxes, and for electoral reasons he would have to take this decision by June. The Prime Minister acknowledged that President Reagan was strongly opposed to any increase in taxes, especially in the run up to the mid-term elections in November; but high interest rates would be just as damaging, both domestically and world-wide. She added that there were now few oil surpluses to help finance the US deficit; some OPEC countries were already net borrowers on the financial markets.

Finally, the Prime Minister asked Sheikh Hisham to give her best wishes to King Khalid; and for his part, Sheikh Hisham said that he was glad there were such good bilateral and trading relations between the UK and Saudi Arabia. The meeting ended at 1015 hours.

I am sending a copy of this letter to Francis Richards (Foreign and Commonwealth Office).

W. F. S. RICKETT

John Rhodes, Esq  
Department of Trade

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*From the Secretary of State*

John Coles Esq  
Private Secretary  
10 Downing Street  
London, SW1

26 February 1982

*Dear John,*

VISIT BY SAUDI MINISTER OF PLANNING

... As requested in your letter of 12 January, I enclose briefing for the call which the Prime Minister will take on 2 March. The brief includes contributions from the FCO and the Department of Energy.

I am copying this letter and enclosure to Francis Richards (FCO).

*Yours sincerely,*

JOHN RHODES  
Private Secretary



CALL ON THE PRIME MINISTER BY SHAIKH HISHAM NAZER, SAUDI MINISTER OF PLANNING:

2 MARCH

POINTS TO MAKE

Third Development Plan

1 Recall meeting in Riyadh last April and Shaikh Hisham's helpful description of Third Plan.

2 How is it progressing? Will it be as successful as Second Plan in meeting objectives?

Oil

3 Price freeze until end of year is helpful. How is the market seen for the rest of this year; what about 1983?

4 What effect is present situation having in Saudi Arabia, and on OPEC as a whole?

Gulf Co-operation Council

5 Impressed by increasing pace of co-operation. What now seem the most realistic priorities? Common market, free movement of goods and services? How real are problems over free movement of people?



6 Do you see contradiction between Saudi industrial policy (encouraging local industries), and more open-door approach of lower Gulf (allowing easy access to imports)?

Political

7 Is GCC increasingly reaching common political position on, eg Palestine?  
And relations with Egypt?

British Economy

8 More competitive and export oriented than ever. Well focussed on Saudi Arabia.



CALL ON THE PRIME MINISTER BY SHAIKH HISHAM NAZER, SAUDI MINISTER OF PLANNING: 2 MARCH 1982

ESSENTIAL FACTS

Third Development Plan (1980-85)

1 Emphasis of previous Plan was on building basic infrastructure; main objectives were achieved. The present US \$235 billion Third Plan aims to:-

- a) diversify economy into manufacturing, agriculture and mining;
- b) increase training and education of Saudi manpower;
- c) maximise value of crude oil production through development basic industries, particularly at the massive new industrial cities of Jubeil (pronounced "Dew-bail") and Yanbu.

2 Planning Ministry apparently getting little feedback from spending Ministries on Plan performance. Fourth Plan being prepared in a vacuum.

Oil

3 World crude market remains soft, supply exceeding demand by several million barrels per day (mbd) and downward pressure on prices. Little likelihood of change in near future. Following December OPEC meeting at which price re-unification was achieved and prices frozen until the end of 1982, some OPEC producers continue to experience problems in marketing crudes. Also evidence of discounts, some hidden, particularly where differentials have applied, eg Kuwait, Libya, Nigeria.

4 Saudi Arabia maintains position as "swing producer" able to determine balance of the market. Sheikh Yamani believes no prospect of a rise in real oil prices until "well into the decade". Department of Energy's analysis suggests a real oil price increase before the late 1980s is unlikely. Yamani has said Saudi Arabia will endeavour to defend the \$34 pbl market price for Saudi Light crude, by increasing or reducing production. Current production may well be below 8 mbd aainst 10.5 mbd at height of Iran/Iraq war.

Gulf Co-operation Council (GCC)

5 Tempo of Gulf co-operation has recently quickened, notably in defence. There is evidence of preparing joint positions on political issues. Since formation of blocs within the Arab world runs counter to spirit of the Arab League, Gulf ministers were careful not to present their support of the Fahd Plan as a GCC block vote.



6 In recent weeks there have been meetings of all major GCC ministers. Energy ministers are to set up a ministerial committee to co-ordinate oil policy, aiming to meet twice a year. Finance ministers agreed to unify tariff barriers as an early priority, with the setting up of a common market, free movement of goods and services. Free movement of people seems likely to be a later priority. Also agreed on a joint Gulf investment fund, which will provide alternative outlet for some member states' surpluses. A single currency was also contemplated, but not at an early stage.

7 Little immediate prospect of harmonisation of industrial or planning policies. There are differences of approach. Saudis are inclined to encourage the development of local industries; but others, eg the UAE, at present operate a far more liberal regime, freely importing goods they need.

#### Trade

8 Our most important Middle East market taking about 25% of total exports to Arab World. We hold third place in market (behind United States of America and Japan) with annual exports running at over £1 billion. Despite North Sea, we continue to require heavy Saudi crudes and trade balance is heavily in Saudi's favour.

#### Personality Note

9 Aged 50. Degrees from Universities of Alexandria and Southern California. Minister of State since 1971; sometimes acts as Minister of Petroleum during Yamani's absence. Close to Crown Prince Fahd, very competent and has increased authority of his largely non-spending Ministry. Has progressive ideas on role of women in Saudi Arabian society.

10 During brief visit will call on Secretary of State for Trade, Governor of the Bank of England, Minister of State at FCO (Mr Hurd), will meet Committee for Middle East Trade and will speak at the European Planning Federation's annual conference.

Department of Trade  
24 February 1982





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*From the Secretary of State*

*Caroline to see O.V.  
es. 8/2  
A.S.C. 6/2*

John Coles Esq  
Private Secretary  
10 Downing Street  
London  
SW1

5HL February 1982

*Dear John,*

VISIT BY SAUDI MINISTER OF PLANNING

Thank you for your letter of 12 January. I can now confirm that the call by Shaikh Hisham Nazer on the Prime Minister at 09.45 on 2 March is firm. As requested, we will supply a brief by 26 February.

I am sending a copy of this letter to Francis Richards (FCO).

*Yours Sincerely,  
Jonathan Rees*

J N REES  
Private Secretary



JR  
cc70

10 DOWNING STREET

*From the Private Secretary*

12 January 1982

B/K 26/2

VISIT BY SAUDI MINISTER OF PLANNING

Thank you for your letter of 8 January. The Prime Minister could receive Shaikh Hisham Nazer for forty-five minutes at 0945 on 2 March. Could you please confirm in due course that this appointment can be regarded as firm. I should be grateful for a brief by 26 February.

I am sending a copy of this letter to Francis Richards (FCO).

A. J. COLES

Jonathan Rees, Esq.,  
Department of Trade.

JR



From the Secretary of State

John Coles Esq  
Private Secretary  
10 Downing Street  
London, SW1

Prime Minister

Agree to receive him for  
30 minutes at 9.45 on 2 Nov?

Yes - it  
will need to be  
a little longer A.C. #1  
It is every  
Wednesday  
Norton and  
9.45 2 Nov  
re-referred as  
30 minutes  
out

8th January 1982

Dear John,

VISIT BY SAUDI MINISTER OF PLANNING

Shaikh Hisham Nazer, the Saudi Planning Minister, has accepted a long-standing invitation to visit Britain from 1 March for about four days. He has expressed a wish to call on the Prime Minister, and I am writing to ask if this would be possible.

Shaikh Hisham gave a presentation to the Prime Minister on the Saudi economy during her visit last year; as he also did in 1979 for Her Majesty The Queen. As one of the most prominent and liberal-minded, non-Royal Ministers, with a major voice in Saudi development, Shaikh Hisham is an important figure. My Secretary of State agrees with the Ambassador that a short courtesy call is desirable, if possible.

I am copying this to Francis Richards in Lord Carrington's office.

Yours Sincerely,

Jonathan Rees

J N REES  
Private Secretary



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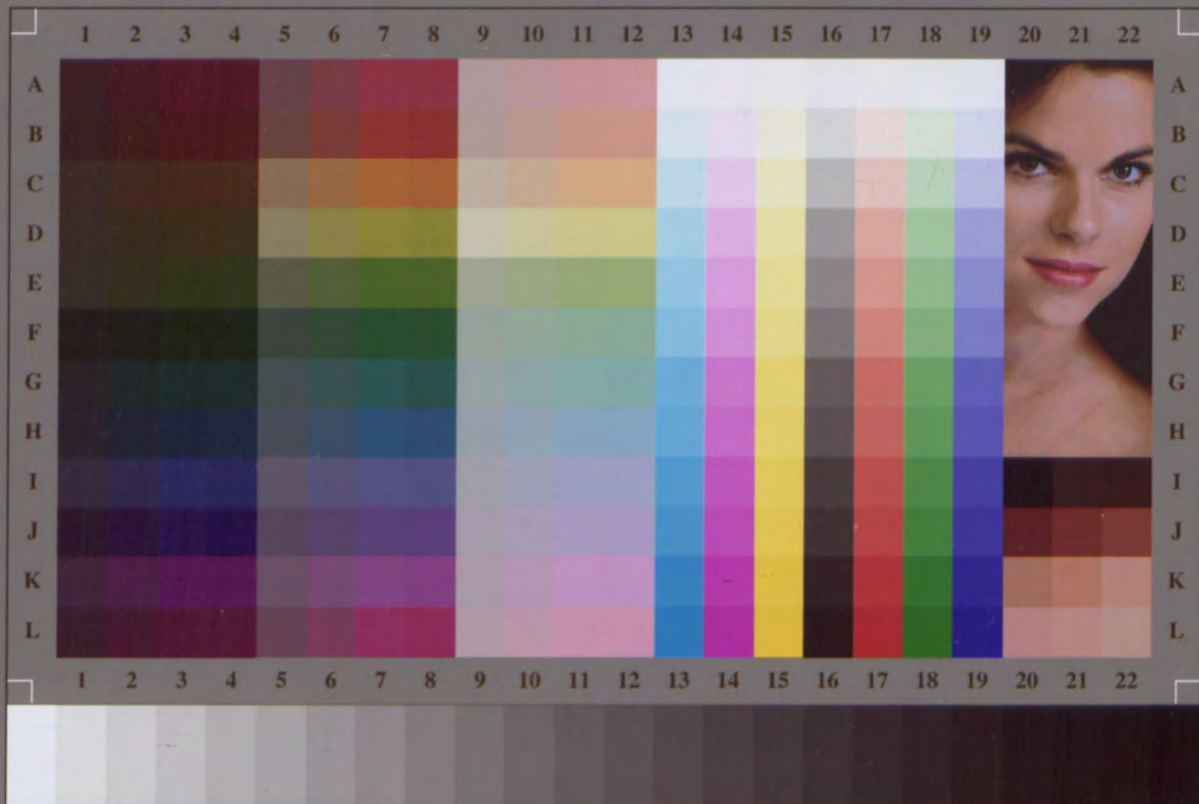
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