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FLASH TO TOKYO

TELEGRAM NUMBER

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FOLLOWING ~~FROM PS~~ FOR PS/SECRETARY OF STATE

OPEC MEETING IN GENEVA

1. OPEC Ministers are expected to issue official communique about midday today, which is likely to confirm in detail the price compromise apparently reached but not finalised late last night. The compromise is reported in the press, involving Saudi Arabia increasing the price of Arabian light to 18 dollars a barrel (from 14.55 dollars a barrel). All other OPEC members would price their crudes in a 20-23.50 dollars price range, with the high quality African crudes (Libian, Algerian, Nigerian) which are comparable to North Sea crudes at the top end. Until we know precisely how individual OPEC countries will adjust their prices within this price band, it is not possible accurately to give the average percentage represented by the latest increase. But the rise in the average OPEC price since December 1978 based

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on the above prices will lie somewhere between 40-50 percent.

2. If agreed, these increases will take effect from 1 July. But the new price structure will be reviewed probably at a further Ministerial meeting in September.

3. The agreement to allow members to fix their own prices within an agreed range appears to reflect the inability of OPEC Ministers to restore order to their differential structure, and is clearly the only solution acceptable to the majority which does not involve a formal price split in OPEC. But whatever is maintained in public it cannot possibly be regarded as an effectively unified price structure.

4. OPEC sources claim that the new price structure will eliminate price leap-frogging; but much depends on the price at which Iran pegs Iranian light crude. If pegged at the 22 dollar mark, as has been suggested, producers of higher quality crudes may well try to re-impose quality surcharges, and thus break through the upper end of the range.

5. There has been no confirmation yet from Saudi Arabia but she is reported to be ready now to increase production by up to 1 million barrels per day to cushion effects of new prices on world economy (and presumably to render less likely and practicable a resumption of price leap-frogging.)

CARRINGTON

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