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ZZ TOKYO

OO ROME

OO JEDDA

GRS 483

CONFIDENTIAL

FM FCO 281445Z JUNE 79

TO FLASH TO TOKYO

TELEGRAM NUMBER 328 OF 28 JUNE 1979

REPEATED INFO IMMEDIATE TO WASHINGTON, ROME, PARIS, BONN,

OTTAWA, UKDEL OECD, UKREP BRUSSELS, UKMIS GENEVA, JEDDA.

FOLLOWING FOR PRIVATE SECRETARY TO SECRETARY OF STATE

OPEC MEETING IN GENEVA: FCO TEL 328

1. THE COMMUNIQUE IS BEING SENT TO YOU FROM GENEVA BY FLASH TELEGRAM.

2. WORLD EFFECTS OF PRICE RISE:

ON BASIS OF PRICE INCREASES REPORTED IN OUR TUR WHICH ARE BROADLY CONFIRMED BY COMMUNIQUE NOW ISSUED, PRELIMINARY CALCULATIONS INDICATE THAT THEY WILL

(A) ADD ABOUT 20 BILLION DOLLARS TO OECD OIL IMPORT BILL: AND OVER 5 BILLION DOLLARS TO NON-OECD OIL IMPORT BILL.

(B) INCREASE INFLATION IN OECD COUNTRIES BY 0.75 PER CENT AFTER ONE YEAR.

(C) REDUCE GROWTH IN INDUSTRIAL WORLD BY 0.5-0.75 PER CENT AFTER ONE YEAR.

(D) INCREASE OECD CURRENT ACCOUNT DEFICIT BY OVER 10 BILLION OVER A FULL YEAR (OF WHICH 5 BILLION DOLLARS MIGHT FALL TO US).

(E) ADD OVER 20 BILLION DOLLARS TO OPEC REVENUES.

3. THESE FIGURES TAKE ACCOUNT OF:

(I) INCREASED OECD EXPORTS TO OPEC COUNTRIES

(II) SOME POLICY REACTION BY WESTERN GOVERNMENTS

(III) SOME 'CONFIDENCE EFFECT' ON WESTERN SAVINGS AND INVESTMENTS.

4. THE ABOVE ARE THE ESTIMATED EFFECTS OF THE PRICE RISES TAKEN IN ISOLATION. WE HAD HOWEVER, ALREADY ALLOWED IN OUR ECONOMIC AND BUDGET FORECASTS FOR SOME INCREASE IN OIL PRICES.

THUS, ASSUMING THE OPEC PRICES IN OUR TUR AND ASSUMING PRICES REMAIN STABLE DURING THE REST OF 1979 AND INTO 1980

(PERHAPS AN OPTIMISTIC ASSUMPTION) THE PRICE OUTTURN IS LIKELY TO BE SOME 10 HIGHER THAN EARLIER WHITEHALL FORECASTS (WHICH ASSUMED PRICES RISING TO AN OPEC AVERAGE 18 DOLLARS A BARREL BY Q1 1980).

WORLD ECONOMIC ACTIVITY BY THE MIDDLE OF 1980 THEREFORE MIGHT BE EXPECTED TO BE ABOUT 0.5 PER CENT LOWER THAN WE

THOUGHT LIKELY AND OPEC SURPLUSES (PREVIOUSLY ESTIMATED AT 20 BILLION DOLLARS IN 1979 AND 25 BILLION IN 1980) SOME 10-15 BILLION DOLLARS HIGHER IN BOTH 1979 AND 1980.

5. EFFECT ON UK.

EFFECT OF INCREASES ON UK ECONOMY WILL BE COMPLICATED BY FACT THAT POUND HAS BEEN AND MAY WELL CONTINUE APPRECIATING BECAUSE THE UK

WILL BE THOUGHT TO BE RELATIVELY WELL PLACED COMPARED WITH OTHER

INDUSTRIALISED COUNTRIES. BUT COMBINED EFFECT OF CUT IN WORLD

GROWTH, LOSS OF EXPORT COMPETITIVENESS DUE TO STRONGER POUND WILL

BE TO REDUCE UK GROWTH (GNP) - WE THINK BY AT LEAST AS MUCH AS

WORLD AVERAGE (PARA 2(C) ABOVE). ON OTHER HAND EFFECT ON

CONSUMER PRICES IN UK OF HIGHER OIL PRICES WILL TO SOME EXTENT

BE OFFSET BY APPRECIATION OF POUND. DIRECT EFFECT ON UK BALANCE

OF PAYMENTS WILL BE CUSHIONED BY NORTH SEA OIL PRODUCTION (AT

PRESENT 85 PER CENT OF UK CONSUMPTION) BUT WILL BE INDIRECTLY

AFFECTED THROUGH EFFECTS ON STERLING, WORLD ECONOMY AND WORLD TRADE.

ALTHOUGH DIRECT EFFECT ASSUMING THE OPEC INCREASE IS SPREAD

EVENLY ACROSS THE BOARD WOULD ADD ABOUT 8P TO A GALLON OF PETROL,

THE ACTUAL INCREASE MIGHT BE SOMEWHAT LESS IF THE POUND

APPRECIATES.

CARRINGTON

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