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Sir A. Parsons (4)

cc Mr. Walters

MR. COLES ✓

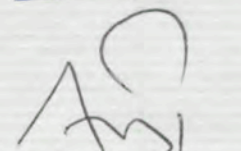
Prime Goals

OIL

I see from Paris Tel No 175 that the French are playing around again with the idea of a consumer/producer dialogue. I have no reason for believing that anyone in Whitehall would be attracted by such an idea. But it is worth keeping in mind the appalling trouble which the French have created in the past by indulging in such activities "for political reasons".

To start with, it was the French who brought four Arab Foreign Ministers to the Copenhagen Summit in December 1973 at the time of the oil crisis arising out of the Yom Kippur war. This move led to the Euro-Arab dialogue which has been a thorn in our flesh ever since. The French then initiated the CIEC meeting in Paris in 1974 as a kind of consumer/producer dialogue. It was an embarrassing failure which led directly to a Special Session of the General Assembly of the United Nations. This event gave a stimulus to the North/South dialogue and led eventually to the mess we have been in over the past three years or so over Global Negotiations. Meanwhile, French opposition took a lot of the steam out of the IEA, Kissinger's idea put forward in 1974.

I am deeply suspicious of dialogues of the kind which the French seem to like. History shows that they are only attractive to the weaker side. The Shah of Iran was the first to favour a dialogue in 1973. However, in 1974 when OPEC was riding high after the major oil price rise of December 1973, our tentative probing of OPEC about a dialogue fell on deaf ears. In the summer of 1979, I was briefed to sound the Saudis and other Gulf States about the possibility of a dialogue in the wake of another major oil price rise following the Iranian Revolution. The Saudis were implacably opposed to any such exercise. I cannot see any reason why we should now be flexible just because OPEC themselves are in trouble. What we shall have to watch is that the French do not sell the pass and drag other Western countries into another embarrassing and unproductive exercise with the OPEC producers. This may come up at the forthcoming European Council.

  
A.D. PARSONS  
8 March 1983

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GRS 394  
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FM PARIS 041545Z MAR 83  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 175 OF 04 MARCH 1983  
AND ROUTINE JEDDA, TRIPOLI, LAGOS, MEXICO CITY, CARACAS, JAKARTA,  
TEHRAN, WASHINGTON, UKREP BRUSSELS, KUWAIT, BAGHDAD, ABU DHABI,  
MUSCAT, DOHA, OSLO  
INFO SSVING UKDEL OECD , ATHENS, BONN, BRUSSELS, COPENHAGEN, DUBLIN  
THE HAGUE. LUXEMBOURG, ROME.

YOUR TELNO 99 TO JEDDA: MEETING OF OIL MINISTERS IN LONDON

1. THE IDEA OF ESTABLISHING A NEW FORM OF CONSUMER-PRODUCER DIALOGUE HAS BEEN IN FRENCH MINDS FOR SOME TIME. EVER SINCE THEY REFUSED TO JOIN THE IEA, THE FRENCH HAVE SEEN THEMSELVES IN THE ROLE OF BRIDGE-BUILDERS BETWEEN CONSUMERS AND PRODUCERS OF OIL.

2. WE SOUGHT COMMENT FROM THE QUAI AND THE MINISTRY OF INDUSTRY ON THE SUGGESTION THAT FRANCE WAS PLAYING A ROLE IN SEEKING THE ESTABLISHMENT OF A NEW DIALOGUE. THE QUAI WOULD ONLY CONFIRM THAT THE IDEA HAD SOME APPEAL FOR THE GOVERNMENT. DESPITE THE ADVANTAGES OF A LOWER OIL PRICE FOR THE EXTERNAL TRADE BALANCE, IT WAS NECESSARY TO AVOID THE COST OF OIL PRODUCTS TO THE FRENCH CONSUMER FALLING TOO FAR. BUT ANY ATTEMPT TO STABILISE THE PRICE OF OIL PRODUCTS BY FISCAL MEANS WOULD BE SEEN BY OIL PRODUCERS AS A CONFISCATION OF THE ECONOMIC RENT OF THEIR OIL RESOURCES. HENCE ?  
THE NEED FOR A DIALOGUE. ?

3. THE MINISTRY OF INDUSTRY WERE MORE FORTHCOMING. THE CHEF DE SERVICE RESPONSIBLE FOR INTERNATIONAL QUESTIONS SAID THAT CALDERON BERTI HAD RAISED THE IDEA WITH HERVE AND CHEYSSON ON 2 MARCH. THE VENEZUELAN MINISTER HAD APPEARED TO BE KEEN ON THE IDEA OF A DIALOGUE HIMSELF (C.F. PARAGRAPH 2 OF MY TEL 161), HAD REGRETTED THAT PREVIOUS ATTEMPTS TO ESTABLISH A DIALOGUE HAD BEEN STILLBORN, AND WAS NOW WONDERING WHETHER SOME KIND OF ARRANGEMENT COULD BE ESTABLISHED BETWEEN OPEC AND THE OECD. AT OFFICIAL LEVEL, ACCORDING TO THE MINISTRY OF INDUSTRY, THE FRENCH GOVERNMENT TAKES A SCEPTICAL VIEW OF THE POSSIBILITIES FOR ESTABLISHING A NEW DIALOGUE OF THE KIND ENVISAGED BY CALDERON BERTI. FOR POLITICAL REASONS, HOWEVER, BOTH HERVE AND CHEYSSON /HAD

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HAD SHOWN A POSITIVE INTEREST IN HIS IDEAS. AWARE OF THE PRACTICAL DIFFICULTIES IN TALKING TO OPEC IN ITS PRESENT FRAGMENTED STATE, CHEYSSON HAD SUGGESTED THE CONSTITUTION OF A SMALL GROUP OF WISE MEN AS A POSSIBLE WAY FORWARD, WITH THE STIPULATION THAT OPEC MEMBERS SHOULD FIRST AGREE AMONG THEMSELVES THAT THIS WAS WHAT THEY WANTED. CALDERON BERTI HAD APPARENTLY SHOWN SOME INTEREST IN CHEYSSON'S IDEAS, BUT THE DISCUSSION HAD NOT PROGRESSED BEYOND THE LEVEL OF GENERALITIES. THERE HAD NOT, FOR EXAMPLE, BEEN ANY AGREEMENT ON WHAT THE WISE MEN SHOULD DISCUSS.  
FCO PLEASE PASS ALL SAVINGS EXCEPT OECD.  
FRETWELL

[REPEATED AS REQUESTED]

[OIL]

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FM FCO 041815Z MARCH 83

TO IMMEDIATE JEDDA

TELEGRAM NUMBER 102 OF 4 MARCH

AND TO IMMEDIATE RIYADH, OSLO, KUWAIT, DOHA, ABU DHABI, DUBAI, MUSCAT, JAKARTA, LAGOS, BIS TEHRAN, CARACAS, BAGHDAD, TRIPOLI, ALGIERS, QUITO, MEXICO CITY, BAHRAIN, WASHINGTON

INFO PRIORITY PARIS, UKDEL OECD PARIS, UKREP BRUSSELS, BONN ROME, LUXEMBOURG, ATHENS, OTTAWA, CAIRO, DUBLIN, COPENHAGEN, THE HAGUE, TOKYO, BRUSSELS, BERNE, UKMIS GENEVA

THE OIL SITUATION

1. POSTS MAY FIND IT HELPFUL TO HAVE THE FOLLOWING ROUND-UP OF CURRENT DEVELOPMENTS.

MEETING OF OIL MINISTERS IN LONDON

2. THE MEETING OF THE 8 OPEC OIL MINISTERS WHO WE BELIEVE TO BE IN LONDON HAS BEEN CONTINUING TODAY, 4 MARCH. OUR MAIN SOURCE OF INFORMATION SO FAR COMES FROM WHAT OTAIBA OF THE UAE SAID WHEN HE CALLED ON MR LAWSON LATE ON 3 MARCH. HE SAID THAT THEY WERE TRYING TO REACH AGREEMENT ON THE BASIS OF AN OPEC PRICE OF THIRTY DOLLARS PER BARREL, AND A PRODUCTION CEILING OF 17.5 MBD, WITH A NIGERIAN PRICE OF THIRTY-ONE DOLLARS AND FIFTY CENTS PER BARREL. THE MAIN OBSTACLE TO AGREEMENT HAD BEEN THE NIGERIAN REFUSAL TO MOVE THEIR PRICES UPWARDS UNLESS NORTH SEA PRICES WERE TO MOVE IN PARALLEL, AND INDEED THERE HAD BEEN A THREAT FROM NIGERIA TO LEAVE OPEC. GULF STATES, ON THE OTHER HAND, HAD APPARENTLY THREATENED A PRICE WAR IF NO AGREEMENT ON SUCH A BASIS WERE REACHED BY THE END OF THE MEETING IN LONDON.

3. IT SEEMS LIKELY THAT A FORMAL MEETING OF OPEC IS BEING PROVISIONALLY PLANNED IN SWITZERLAND OVER THE WEEKEND OR EARLY NEXT WEEK, BUT IT ALSO SEEMS LIKELY THAT THIS WILL NOT BE HELD UNLESS PRIOR AGREEMENT IS REACHED IN LONDON. IT SEEMS THAT SOME OF THE OIL MINISTERS NOT HERE AT THE START OF THE DISCUSSIONS ARE NOW ALSO COMING HERE.

4. OTAIBA ASKED MR LAWSON IF BNOB COULD HOLD ITS PRESENT

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PRICE ON THE BASIS OF AN OPEC PRODUCTION CEILING OF 17.5 MBD AND AN OPEC PRICE OF THIRTY DOLLARS PER BARREL, TO WHICH MR LAWSON SAID THAT HE DOUBTED IT BUT WOULD CHECK WITH BNOC, EMPHASISING THAT THIS WAS A MATTER FOR BNOC AND NOT THE GOVERNMENT.

5. THIS ACCOUNT OF OTAIBA'S MEETING WITH MR LAWSON IS STRICTLY FOR BACKGROUND INFORMATION ONLY. THE DEPARTMENT OF ENERGY HAVE CONFIRMED THAT THE MEETING TOOK PLACE, BUT HAVE NOT RELEASED DETAILS.

PRODUCTION CUTS

6. AN IMPORTANT WRITTEN ANSWER WAS GIVEN BY MR HAMISH GRAY ON 3 MARCH IN RESPONSE TO TWO PQS ASKING IF THE SECRETARY OF STATE FOR ENERGY WOULD CUT NORTH SEA PRODUCTION. MR GRAY'S REPLY READS:

QUOTE AS I MADE CLEAR IN MY REPLY TO MY HON FRIEND THE MEMBER FOR HASTINGS (MR WARREN) (VOL 25, C.6) I SHALL NOT IMPOSE PRODUCTION CUTS AT LEAST UNTIL THE END OF 1984. UNQUOTE.

US CONCERNS ABOUT RUMOURS OF UK PRODUCTION CUTS AND LINKS WITH OPEC

7. US EMBASSY OFFICIALS CALLED AT THE DEPARTMENT OF ENERGY ON 4 MARCH SAYING THAT THEY HAD BEEN INSTRUCTED TO MAKE REPRESENTATIONS AT THE HIGHEST LEVEL ABOUT PRESS REPORTS SUGGESTING THAT HMG MAY BE CONSIDERING CONTROLS OVER PRODUCTION, AND THAT THERE MIGHT BE SOME QUESTION OF THE UK COORDINATING ITS PRICES WITH OPEC. THEY SAID THAT WASHINGTON WOULD BE VERY CONCERNED IF ANYTHING OTHER THAN MARKET FORCES WERE THE CONTROLLING FACTOR IN OUR PRICING AND PRODUCTION POLICIES, AND SOUGHT CONFIRMATION THAT WE SHARED THE US VIEW THAT OUR OWN AND OTHER ECONOMIES WOULD BEFIT FROM LOWER OIL PRICES.

8. IN RESPONSE, THEY WERE TOLD BY GUINNESS (DUS) THAT SO FAR AS GOVERNMENT CONTROLS ON PRODUCTION WERE CONCERNED, THE ANSWER LAY IN MR GRAY'S RESPOE TO THE PQS OF 3 MARCH (PARA 6 ABOVE): THAT <sup>NO</sup> PROPOSAL TO IMPOSE PRODUCTION CUTS IS BEING CONSIDERED BY THE GOVERNMENT, ALTHOUGH OF COURSE THE EFFECT OF THE GOVERNMENT'S FISCAL DECISIONS COULD LEAD TO A FLAT PRODUCTION PROFILE. ON PRICES, GUINSS SAID THAT THE POSITION WAS CLEAR - THAT OUR POLICY WAS TO FOLLOW THE MARKET . IF AND

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WHEN OPEC PRODUCES A NEW AGREED PRICE, AND IF PRICES HELD AT THAT LEVEL, THEN IT WOULD BE FOR BNOC TO DECIDE, IN THE LIGHT OF THOSE NEW LEVELS, ON WHAT THEIR CORRECT PRICE SHOULD BE. HE SAID THAT IT WAS TRUE THAT INDIVIDUAL COUNTRIES HAD BEEN TO TALK TO US, BUT THAT WE HAD TOLD THEM WHAT WE WERE TELLING THE AMERICANS, AND WHAT FOR THAT MATTER WE WERE SAYING PUBLICLY, NAMELY THAT OUR PRICING POLICIY WAS TO FOLLOW THE MARKET, AND THAT WE WERE NOT CUTTING PRODUCTION.  
CALL BY MEXICANS

9. THE MEXICAN DEPUTY MINISTER OF ENERGY ALSO CALLED ON OFFICIALS AT THE DEPARTMENT OF ENERGY ON 4 MARCH. IT APPEARS THAT HE IS IN LONDON TO FOLLOW EVENTS ARISING FROM THE MEETING OF THE OPEC OIL MINISTERS, BUT HAD LITTLE NEW TO SAY AND WAS GIVEN THE STANDARD ACCOUNT OF UK POSITIONS.

PS

10. WE HAVE DENIED ON THE RECORD PRESS SUGGESTIONS THAT AN FCO OBSERVER HAS BEEN PRESENT AT THE MEETING OF OPEC OIL MINISTERS.

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[OIL]

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DESKBY 040600Z TEHRAN, KUWAIT, DOHA, ABU DHABI, MUSCAT

DESKBY 040700Z BAGHDAD, BAHRAIN, JEDDA

DESKBY 040800Z LAGOS

DESKBY 041000Z ALGIERS

FM FCO 031830Z MAR 83

TO IMMEDIATE JEDDA

TELEGRAM NUMBER 99 OF 3 MARCH

AND TO OSLO, KUWAIT, DOHA, ABU DHABI, DUBAI, MUSCAT, JAKARTA,  
LAGOS, BIS TEHRAN, CARACAS, BAGHDAD, TRIPOLI, ALGIERS, QUITO,  
MEXICO CITY, BAHRAIN, RIYADH, PARIS, UKDEL OECD, WASHINGTON,  
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CAIRO, DUBLIN, COPENHAGEN, THE HAGUE, TOKYO.

FCO TELNO 95 TO JEDDA (NOT TO ALL): MEETING OF OIL MINISTERS  
IN LONDON

1. IT IS CLEAR THAT OIL MINISTERS FROM MANY OPEC COUNTRIES,  
INCLUDING SAUDI ARABIA, LIBYA, NIGERIA, VENEZUELA AND INDONESIA,  
PLUS OMAN, AE MEETING IN LONDON TODAY, 3 MARCH. ALTHOUGH WE  
HAVE NO DEFINITE INFORMATION ABOUT THEIR MEETING, WE ASSUME  
THEY ARE LOOKING FOR ADVANCE AGREEMENT ON THE SCENARIO FOR A  
FORMAL OPEC MEETING IN GENEVA OR VIENNA IN A FEW DAYS TIME.  
THE VENEZUELAN MINISTER, CALDERON BERTI, SAW MR LAWSON THIS  
MORNING, AND THE UAE MINISTER OTAIBA WILL SEE HIM THIS  
AFTERNOON. NO OTHER MINISTERS HAVE SO FAR REQUESTED MEETINGS.
2. CALDERON BERTI TOLD MR LAWSON TODAY THAT OPEC WAS STILL  
AIMING FOR A THIRTY DOLLAR PER BARREL NEW MARKER PRICE, IF

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C O N F I D E N T I A L - DESKBY'S TO ALL

THEY

THEY COULD PERSUADE THE NIGERIANS TO MOVE THEIR PRICE UPWARDS. IF THEY COULD NOT SECURE A NIGERIAN MOVE AT THIS NEW LEVEL, THEY MIGHT BE PREPARED TO DROP TO TWENTY-NINE DOLLARS. MR LAWSON SAID THAT HE WISHED TO BE AS HELPFUL AS POSSIBLE, BUT IN THE WAKE OF THE NIGERIAN PRICE MOVE BNOC COULD ONLY HOLD PRICES FOR A SHORT TIME LONGER. THE VENEZUELAN MINISTER ALSO SAID THAT HE AND THE OTHER OIL MINISTERS GREATLY APPRECIATED WHAT BRITAIN HAD DONE TO RESOLVE THEIR CRISIS.

3. IN THE LONGER TERM, HOWEVER, CALDERON BERTI CLAIMED TO BE WORKING WITH MEXICO AND FRANCE FOR A DIALOGUE BETWEEN OPEC AND NON OPEC PRODUCERS AND CONSUMERS TO PLAN A FUTURE STRATEGY FOR THE MARKET. MR LAWSON, WHOLE EXPRESSING APPRECIATION FOR BEING TAKEN INTO CALDERON BERTI'S CONFIDENCE, DID NOT SEE ANY POSSIBILITY FOR LONG TERM AND STRUCTURED MARKET PLANNING OF THAT KIND.

4. ALL THE ABOVE IS OF COURSE FOR BACKGROUND INFORMATION ONLY.

5. THERE IS NO EVIDENCE SO FAR THAT CALDERON BERTI'S LONG TERM PLANS FOR A DIALOGUE HAVE GATHERED SUPPORT, BUT WE SHOULD BE GRATEFUL FOR ANY LIGHT HM EMBASSY PARIS COULD OFFER ON FRENCH INVOLVEMENT IN HIS LONG TERM PLANS FOR THE MARKET.

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