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Note of the Secretary of State's meeting with Sheikh Ahmed Zaki Yamani, Saudi Minister of Petroleum on 9 March 1983

Also present: Mr West

Sheikh Yamani began by regretting that the Secretary of State had not been sharing the OPEC Ministers' headaches. The Secretary of State replied that the UK had been trying to help. BNOC had come under great pressure to reduce its prices immediately after the failure of the OPEC meeting in Geneva, but had not done so for some time in order to allow OPEC to redeem the situation. When it had lower prices, it had made the minimum cut. - \$ 3-although its customers had been asking for much more. The Nigerians had immediately under-cut this price but BNOC had not made a further reduction, in spite of great pressure.

Sheikh Yamani said that he knew how the Secretary of State felt. However, the UK shared in OPEC's problem which could become a disaster. All possible pressure had been put on the Nigerians: King Fahd had spoken to President Shagari more than once and Dikko had been recalled to Lagos for consultation; on his return, his position had been more entrenched than before. The Nigerians had a political problem in that one of the issues in their forthcoming election was whether or not they should stay in OPEC. OPEC could not afford to lose them, and nor could the UK.

However, there was no point in keeping them in OPEC unless they could be prevented from lowering their prices. All the other OPEC members had told them that they had over-reacted to BNOC's \$ 3 cut,

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but everyone knew that in the past BNOB had taken their markets. They would not now admit that there was any differential between their crudes and BNOB's. The Secretary of State interjected that Sheikh Yamani knew that there was some differential and Sheikh Yamani agreed as concerns the US.

He went on to say that OPEC was hoping to settle on a marker of \$ 29 with Algeria and Libya at \$ 30.50 (to which they had agreed), and Nigeria at \$ 30. It was also hoped that the market would allow all these prices to be increased by two instalments of 50¢ each, at which level they would be frozen for two years. However, OPEC's fear was that the UK reaction would be an immediate price reduction which the Nigerians would immediately follow. In that case, the Gulf States would have no choice but to cut the marker to \$ 25 - 27 and wait for the market to react.

He said that Sheikh Ali Khalifa had told him that North Sea production in 1983 would be the same as in 1982, and he appreciated that. However, he hoped to make some highly confidential arrangements with the Secretary of State - and would rely on the Secretary of State's word - to keep the Nigerians in line during the transitional period immediately ahead. This was his Government's wish and King Fahd had sent a message to that effect to the Prime Minister. He was certain that demand for oil would shortly start to grow, and that the companies would respect an OPEC agreement which OPEC was determined to defend, and so reverse their destocking once that decision was reached. Therefore, the quota would be 17.5 mbpd on average for the year as a whole. It was only the Iranians who

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could not be guaranteed to respect their part in this, but their capacity was limited and they would do as much as they could. Even the Libyans would behave and not resume flooding the market with cheap oil.

The Secretary of State replied that in his judgement 17.5 mbpd would reduce rather than increase confidence in the market . Things might be different if OPEC made it clear that their output would be lower up to the Autumn. BNOC would certainly try to secure the highest price it could get for its oil, but it did have to follow the market as it was at the time. The last thing he wanted was a price war and, if OPEC were to reach agreement in the next few days, he hoped that BNOC could hold its present price in the meanwhile. Thereafter, its price would depend on two inter-related factors: the first was market sentiment and the second was the Nigerian price. He thought that BNOC could perhaps live with a smaller differential than in the past but the plain fact was that there had to be some differential. Sheikh Yamani asked whether this was so even in Europe and the Secretary of State replied in the affirmative, although he said that it could be smaller than in the US. He thought that the differential could perhaps be compressed to \$ 1 or even 50¢, if the market had confidence in OPEC's agreement, but could not guarantee that since he was in no position to do so. In his view, it was just possible that BNOC could fit in with Sheikh Yamani's package at \$ 29.50.

Sheikh Yamani said that such a response would provoke a price war because the Nigerians would react to it. What he was asking for was a repeat of the delay, with a promise of retrospection, that BNOC had exercised after Geneva. They should exercise their famous British

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patience until early or mid-April and then cut by only 50¢. The market would not respond positively to the OPEC agreement immediately but it would respond if only the UK gave it a chance. He would never ask the Secretary of State to do anything impossible or harmful but he was asking for this because he really did need the Secretary of State's help.

The Secretary of State replied that BNOC had been helpful even though it had been very difficult for them and their largest customer had walked away. Sheikh Yamani understood the UK's North Sea regime and what did he suggest BNOC should do with its oil if it could not find customers at \$ 30.50? If that oil went on to the spot market the consequences for OPEC would be worst of all. Sheikh Yamani said that there were a million things the UK could do - for example, whisper in the ears of the most difficult companies such as Shell. In any case, this situation would last only for a month or so and, to avoid a price collapse, the UK could afford to lose a few thousand barrels a day for that time. Saudi Arabia was making much larger sacrifices. The Secretary of State said that of course he talked to the British oil companies but that they were free agents. It was the Nigerians who were responsible for the danger of a price collapse. The UK did not wish to make difficulties but it really was the case that he did not control North Sea prices and output. BNOC could delay for a week or so, but no longer or it would lose all its term customers and then be unable to recover them. Sheikh Yamani said that, in the oil business, that could not happen overnight.

He said that he hoped that final details of the OPEC package would be worked out on 10 March and an announcement made that day. He would be carrying the main burden of explaining it to the press.

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He did not propose to fight a losing battle so his attitude would depend on the Secretary of State's response to his request. If it were positive, he would convince the market that the agreement would hold. However, if he thought that the UK, followed by the Nigerians, would start a price war his presentation would be weaker and the result would be a deep cut by the Gulf States. A great deal therefore depended on the Secretary of State's response.

The Secretary of State said that it was important that there should be no misunderstanding. He would be as helpful as possible, as he had been all along but he was not optimistic that BNOC could do what was being asked of them. It was not a question of their taking an initiative, but of how the market would react to OPEC's package. He would consult BNOC on 10 March and let Sheikh Yamani know the outcome. He would also keep this meeting entirely confidential. He understood the burden that Sheikh Yamani had to carry but Sheikh Yamani understood that the UK had a free market system (and was clear that it was in her interest to keep it) and that there should be a differential between Nigerian and North Sea crude. Sheikh Yamani said that he also knew North Sea crude to be an indigenous European crude which other European countries would dearly like to buy on long term contracts. He hoped to see a change in the UK's free market system. He sincerely hoped to have the Secretary of State's backing.

The Secretary of State said that he was always happy to meet Sheikh Yamani and that he hoped to see him in Saudi Arabia. However, there was a difficulty at present. Sheikh Yamani replied that the difficulty was temporary and that the Secretary of State should come in April. He looked forward to hearing from him on 10 March. The

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Secretary of State said that he and BNOOC would do their best to be helpful but the market realities were what they were.

J D. —————

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cc PS/MOS  
PS/PUS  
Mr Guinness  
Mr Wiggins  
Mr Fremantle  
Dr Wright  
PS/Foreign Secretary  
Mr Heap  
PS/Chancellor  
PS/Prime Minister

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