

SUBJECT

Energy
cc Marla
opi

CONFIDENTIAL

7992 - 1

OO JEDDA DESKBY 121245Z
OO RIYADH DESKBY 121245Z

GRS 619
CONFIDENTIAL
DESKBY JEDDA AND RIYADH 121245Z
FM FCO 121145Z MARCH 83
TO IMMEDIATE JEDDA
TELEGRAM NUMBER 123 OF 12 MARCH
INFO IMMEDIATE RIYADH
MIPT : MESSAGE TO KING FAHD

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T29/83

1. FOLLOWING IS TEXT OF MESSAGE: BEGINS: I WRITE TO THANK YOUR MAJESTY FOR YOUR PERSONAL MESSAGE ABOUT THE PRESENT OIL PRICE SITUATION. I MUCH APPRECIATED THE WAY IN WHICH SHEIKH YAMANI BRIEFED THE SECRETARY OF STATE FOR ENERGY, MR LAWSON, WITH SUCH FRANKNESS AND CLARITY ABOUT DEVELOPMENTS AT THE OPEC MEETING IN LONDON.
2. IT IS CERTAINLY NO PART OF THE POLICY OF THE UNITED KINGDOM GOVERNMENT TO TAKE ACTION WHICH MIGHT DESTABILISE THE WORLD OIL MARKET. IN THE INTERESTS OF THE HEALTH OF THE ECONOMY OF THE FREE WORLD WE HAVE WELCOMED A REDUCTION IN INTERNATIONAL OIL PRICES BELOW THE DOLLARS 34 LEVEL, ESPECIALLY AT A TIME WHEN THE US DOLLAR REMAINED STRONG. I BELIEVE THAT THE VIEWS OF THE KINGDOM OF SAUDI ARABIA AND THE UNITED KINGDOM ON THIS HAVE BEEN VERY SIMILAR. WE ALSO SHARE YOUR INTEREST IN AVOIDING A FURTHER SHARP FALL IN PRICES. WE JUDGE THAT THAT WOULD BE CONTRARY TO THE INTERESTS OF THE FREE WORLD, AS WELL AS TO THE INTERESTS OF OUR TWO COUNTRIES. SO I SEE MUCH IDENTITY OF VIEW AND INTEREST BETWEEN US.
3. AFTER THE GENEVA OPEC MEETING THE BRITISH NATIONAL OIL CORPORATION DELAYED ANY IMMEDIATE REDUCTION IN ITS PRICES. SUBSEQUENTLY, ALTHOUGH ITS ROOM FOR MANOEUVRE IS VERY LIMITED, BNOB RESTRICTED THE PRICE REDUCTION IT PROPOSED TO A LEVEL CONSISTENT WITH THE RE-ESTABLISHMENT OF THE ARAB LIGHT MARKER AT DOLLARS 30 A BARREL.
4. HOWEVER, AS MR LAWSON HAS EXPLAINED TO SHEIKH YAMANI, THE

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BRITISH GOVERNMENT DOES NOT CONTROL THE LEVEL OF PRODUCTION OF OIL IN THE UNITED KINGDOM, OR THE PRICE AT WHICH IT IS SOLD, ANY MORE THAN THE US GOVERNMENT CONTROLS THESE MATTERS IN THE UNITED STATES. THE BRITISH NATIONAL OIL CORPORATION HAS UNDER THE LAW ONLY A LIMITED ROLE AS A TRADER IN OIL AND THEREFORE HAS TO NEGOTIATE A PRICE FOR ITS OIL WHICH IS ACCEPTABLE TO BOTH ITS SUPPLIERS AND ITS CUSTOMERS.

5. IF IT WERE TO TRY TO DISREGARD THE POSITION IN THE MARKET - WHICH REFLECTS DEVELOPMENTS IN THE UNITED STATES AND THE BEHAVIOUR OF THE SOVIET UNION, AS WELL AS THE DECISIONS TAKEN BY OPEC - AND SEEK TO IMPOSE A HIGHER PRICE THAN THE MARKET WILL BEAR, THE ONLY EFFECT WOULD BE LOSS OF ITS CUSTOMERS AND A REQUIREMENT TO DISPOSE OF INCREASING VOLUMES OF OIL IN THE SPOT MARKET. THAT IN ITS TURN WOULD PUT FURTHER DOWNWARD PRESSURE ON WORLD PRICES, AND UNDERMINE THE EFFORT TO RE-ESTABLISH STABLE CONDITIONS.

6. NEVERTHELESS I RECOGNISE THE VERY GREAT EFFORTS THE OPEC MEMBER COUNTRIES HAVE MADE TO REACH AN AGREEMENT WHICH WILL STEADY THE MARKET. THE BRITISH GOVERNMENT WILL SAY NOTHING TO CAST DOUBT ON THAT AGREEMENT. SHEIKH YAMANI HAS BEEN IN TOUCH WITH MR LAWSON WHO HAS EXPLAINED THAT WE WILL DO WHAT WE CAN TO HELP. THE BNOC WILL REFRAIN FROM MAKING ANY IMMEDIATE MOVE FOLLOWING AN EARLY ANNOUNCEMENT OF AN OPEC AGREEMENT. IT WILL PERMIT ITS CUSTOMERS TO MAKE REPRESENTATIONS, IF THEY SO DECIDE, ON ITS EARLIER PROPOSAL OF DOLLARS 30.50 A BARREL AND WILL CONSIDER THOSE REPRESENTATIONS BEFORE MAKING ANY FURTHER MOVE. IT WILL THEN SEEK TO NEGOTIATE THE HIGHEST POSSIBLE PRICE FOR ITS OIL, AGAINST THE BACKGROUND OF THE IMPACT ON THE MARKET OF THE OPEC DECISIONS.

7. I HOPE THAT OUR TWO COUNTRIES WILL CONTINUE TO KEEP IN TOUCH ON THIS AND THE MANY OTHER IMPORTANT ECONOMIC AND POLITICAL QUESTIONS THAT CURRENTLY AFFECT THE INTERESTS OF OUR TWO COUNTRIES AND INDEED OF THE WHOLE WORLD. IN THIS CONNEXION, I AM LOOKING FORWARD TO SEEING HIS ROYAL HIGHNESS PRINCE SAUD AL FAISAL AS PART OF THE ARAB LEAGUE DELEGATION WHICH IS TO VISIT LONDON ON 18 MARCH. ENDS.

PYM

[OIL]

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OO JEDDA DESKBY 121245Z

OO RIYADH DESKBY 121245Z

GRS 124

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DESKBY 121245Z JEDDA RIYADH

FM FCO 121130Z MARCH 83

TO IMMEDIATE JEDDA,

TELEGRAM NUMBER 122 OF 12 MARCH 1983,

INFO IMMEDIATE RIYADH.

MESSAGE TO KING FAHD

1. MIFT CONTAINS THE TEXT OF THE PRIME MINISTER'S REPLY TO KING FAHD. PLEASE DELIVER THIS TO KING FAHD AS SOON AS POSSIBLE.
2. IT HAS BEEN DRAFTED AS A WRITTEN MESSAGE FROM THE PRIME MINISTER TO THE KING AND THE TEXT HAS BEEN CAREFULLY DRAFTED IN WHITEHALL FOLLOWING MINISTERIAL DISCUSSION. IT IS IMPORTANT THAT THE SUBSTANCE BE DELIVERED AS DRAFTED. HOWEVER, GIVEN THE WAY IN WHICH KING FAHD'S MESSAGE TO THE PRIME MINISTER WAS DELIVERED, YOU HAVE DISCRETION TO DELIVER HER REPLY ORALLY IF YOU THINK IT MORE APPROPRIATE. BUT IN THAT CASE YOU SHOULD LEAVE A WRITTEN TRANSLATION OF THE TEXT.

PYM

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A.S.C. $\frac{14}{3}$

k.a.

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PRIME MINISTER

OPEC: Message to King Fahd

I attach a message to King Fahd which has been cleared with all concerned.

If you agree with it, I think it would be a good idea to despatch it on Saturday. The Duty Clerk will do this. The FCO tell me that King Fahd's message was delivered orally to Sir James Craig by the King's Chief of Protocol. Unless you object the FCO will give James Craig discretion to deliver your message orally as well if he feels that is the way the King would prefer it.

I also attach a note of Mr. Lawson's conversations with Sheikh Yamani on 10 March.

A.J.C.

11 March 1983

MESSAGE TO KING FAHD

I write to thank Your Majesty for your personal message about the present oil price situation. I much appreciated the way in which Sheikh Yamani briefed the Secretary of State for Energy, Mr. Lawson, with such frankness and clarity about developments at the OPEC meeting in London.

It is certainly no part of the policy of the United Kingdom Government to take action which might destabilise the world oil market. In the interests of the health of the economy of the free world we have welcomed a reduction in international oil prices below the \$34 level, especially at a time when the US dollar remained strong. I believe that the views of the Kingdom of Saudi Arabia and the United Kingdom on this have been very similar. We also share your interest in avoiding a further sharp fall in prices. We judge that that would be contrary to the interests of the free world, as well as to the interests of our two countries. So I see much identity of view and interest between us.

After the Geneva OPEC meeting the British National Oil Corporation delayed any immediate reduction in its prices. Subsequently, although its room for manoeuvre is very limited, BNOC restricted the price reduction it proposed to a level consistent with the re-establishment of the Arab light marker at \$30 a barrel.

However, as Mr. Lawson has explained to Sheikh Yamani, the British Government does not control the level of production of oil in the United Kingdom, or the price at which it is sold, any more than the US Government controls these matters in the United States. The British National Oil Corporation has under the law only a limited role as a trader in oil and therefore has to negotiate a price for its oil which is acceptable to both its suppliers and its customers.

If it were to try to disregard the position in the market - which reflects developments in the United States and the behaviour of the Soviet Union, as well as the decisions taken by OPEC -

/ and

and seek to impose a higher price than the market will bear, the only effect would be loss of its customers and a requirement to dispose of increasing volumes of oil in the spot market. That in its turn would put further downward pressure on world prices, and undermine the effort to re-establish stable conditions.

Nevertheless I recognise the very great efforts the OPEC member countries have made to reach an agreement which will steady the market. The British Government will say nothing to cast doubt on that agreement. Sheikh Yamani has been in touch with Mr. Lawson who has explained that we will do what we can to help. The BNOC will refrain from making any immediate move following an early announcement of an OPEC agreement. It will permit its customers to make representations, if they so decide, on its earlier proposal of \$30.50 a barrel and will consider those representations before making any further move. It will then seek to negotiate the highest possible price for its oil, against the background of the impact on the market of the OPEC decisions.

I hope that our two countries will continue to keep in touch on this and the many other important economic and political questions that currently affect the interests of our two countries and indeed of the whole world. In this connection, I am looking forward to seeing His Royal Highness Prince Saud Al Faisal as part of the Arab League Delegation which is to visit London on 18 March.



10 DOWNING STREET

Mr. Walter

We spoke. I hope if you would
return this with any comments as
soon as possible.

For reasons I explained, it
would be helpful if you did not
discuss the message with people
outside No. 10!

A. J. C. $\frac{11}{3}$.

The Coles

Only a few words
— nothing of substance
A



DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SWIP 4QJ

01-211 4391

SIR KENNETH COUZENS KCB
PERMANENT UNDER-SECRETARY OF STATE

11th March 1983

Dear John

DRAFT REPLY TO KING FAHD

As arranged, I attach a redraft in the form in which I have sent it to Peter Middleton and Richard Evans. I will do my best to let you have the final version (or telephone amendments to this one) by 4.30 p.m.

Yours ever

Ken

A.J. Coles, Esq.
Private Secretary
No. 10 Downing Street

DRAFT MESSAGE TO KING FAHD

write to thank You Majesty
I would like to ~~send my thanks to you~~ for your personal message about the present oil price situation. I ~~have also~~ much appreciated the way in which Sheikh Yamani ~~has~~ briefed ^{the} my Secretary of State for Energy ^{Mr. Lawson,} with such frankness and clarity about developments at the OPEC meeting in London.

It is certainly no part of the policy of the United Kingdom Government to take action which might destabilise the world oil market. In the interests of the health of the world economy ^{the} ~~and of lower inflation~~ ^{of the free world} we have welcomed a reduction in international oil prices below the \$34

level, especially at a time when the U.S. dollar remained strong. ^{that} I believe the views of ^{the Kingdom of Saudi Arabia} your country and ^{of the United Kingdom} mine on this have been very similar. ^h But ^{& you} we also share ~~your~~ interest in avoiding a further ~~sudden and~~ sharp fall in prices. We judge that that would be contrary to the interests of the ^{free} world economy, as well as to the interests of ^{our two countries} your country and mine. So I ^{see} perceive much identity of view and interest between us.

After the Geneva OPEC meeting the British National Oil Corporation, ~~despite very strong market pressure,~~ delayed any immediate reduction in its prices. Subsequently, although its room for manoeuvre is very limited, BNOC restricted the price reduction it proposed to a level ~~which would have been~~ consistent with the re-establishment of the Arab light marker at \$30 a barrel.

^{Mr. Lawson} However, as my ~~Secretary of State for Energy~~ has explained to Sheikh Yamani, the British Government does not control the

^{level}
~~rate~~ of production of oil in the United Kingdom, or the price at which it is sold, any more than the US Government controls these matters in the United States. The British National Oil Corporation has under the law only a limited role as a trader in oil, ^{and charge it has to} ~~and has, if it is to discharge that role, to~~ ^{It must simply} negotiate a price for its oil which is acceptable to both its suppliers and its customers.

If it were to try to disregard ^{the price in} ~~the position in~~ the market - which reflects developments in the United States and the behaviour of the Soviet Union, as well as ^{the conclusion decision} ~~the conclusions~~ ^{taken by} ~~reached by~~ OPEC - and seek to impose a higher price than the market will bear, the only effect would be loss of its customers and a requirement to dispose of increasing volumes of oil in the spot market. That in its turn would put further downward pressure on world prices, and undermine the effort to re-establish stable conditions.

Nevertheless I recognise the very great efforts the OPEC member countries have made to reach an agreement which will steady the market. The British Government will say nothing to cast doubt on that agreement. Sheikh Yamani has been in touch with Mr. ^{who} ~~Nigel~~ Lawson and Mr. Lawson has explained that we will do what we can to help. The BNOG will refrain from making any immediate move following an early announcement of an OPEC agreement. It will permit^s its customers to make representations, if they so decide, on its earlier proposal of \$30.50 a barrel and will consider those representations before making any further move. It will then seek to negotiate the highest possible price for its oil, against the background of the impact on the market of the OPEC decisions.

PS

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PS/MR RIFKIND
PS/FUS
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MR WRIGHT
MR ADAMS
MR THOMAS
MR EGERTON

* MR PRIDDLE
** MR MORPHET
MR WIGGINS
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MR JF SLATER
MR R LAVELLES
MR N WICKS

HM TREASURY

MR R MARTIN RM 115
MISS LACKEY WEG
MR D FORD OT5

DOT
1 Victoria St.

RESIDENT CLERK

MR GRAHAM HARRISON) ODA

* until 14 Mar 83
** from 14 Mar 83

GR380
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DESKBY 091530Z
FM JEDDAH 091405Z MAR 83
TO IMMEDIATE FCO
TELNO 131 OF 9TH MARCH

IMMEDIATE

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INFO IMMEDIATE WASHINGTON, PRIORITY BAGHDAD, KUWAIT, ABU DHABI,
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LAGOS, TRIPOLI, ALGIERS.

OIL PRICES

1. I HAVE JUST HAD FROM THE HEAD OF ROYAL PROTOCOL BY TELEPHONE
A MESSAGE FROM KING FAHD TO MRS THATCHER. THERE IS NO/NO TEXT
AND OF COURSE THE HEAD OF PROTOCOL IS NOT AN OIL EXPERT: HE WAS
SIMPLY PARAPHRASING AN INSTRUCTION FROM THE KING WHICH I DO NOT
SUPPOSE WAS VERY PRECISE IN THE FIRST PLACE.

2. AHMED ABDUL WAHHAB SAID THE KING WAS MOST ANXIOUS TO STRESS TO THE PRIME MINISTER THAT THE BREAK-UP OF OPEC WOULD DO GRAVE DAMAGE TO THE WHOLE WORLD. IT WOULD RESULT IN A PRICE WAR WHICH WOULD BE TO EVERYONE'S DETRIMENT, INCLUDING BRITAIN'S.

3. I ASKED WHAT SPECIFICALLY HMG WERE BEING ASKED TO DO. AHMED SAID THAT OPEC MINISTERS MEETING IN LONDON WERE TRYING TO REACH AN AGREEMENT ON PRICES. THE KING UNDERSTOOD THAT AT THIS MOMENT BRITISH MINISTERS WERE ALSO CONSIDERING NORTH SEA OIL PRICES. ANY LOWERING OF THOSE PRICES WOULD PREVENT OR UNDERMINE AN OPEC AGREEMENT. I EXPLAINED AS BEST I COULD, COLD ON THE TELEPHONE IN ARABIC TO A COMPLETE LAYMAN, THAT, AS YAMANI FOR EXAMPLE FULLY UNDERSTOOD. HMG DID NOT CONTROL OIL PRICES AS SAUDI ARABIA DID HERS. AHMAD SAID HE UNDERSTOOD THAT SEMI COLON BUT THE KING WAS URGING THAT THE PRIME MINISTER IN ANY ADVICE, GUIDANCE OR ENCOURAGEMENT WHICH SHE ISSUED TO THE BRITISH ENERGY INSTITUTIONS SHOULD BEAR IN MIND HIS EARNEST VIEW THAT A BREAK-UP OF OPEC AND A OIL PRICE WAR MUST BE AVOIDED IN EVERYONE'S INTEREST.

4. THE IMPLICATION OF THIS MESSAGE IS THAT THE KING, PRESUMABLY THROUGH YAMANI, HAS NEWS OF SOME DEVELOPMENTS IN LONDON OF WHICH I HAVE NOT HEARD. THIS IS THE FIRST TIME IN THE PRESENT CRISIS THAT THE SAUDIS HAVE APPROACHED US DIRECT ABOUT OIL (THOUGH WE KNOW THAT YAMANI HAS HAD SUCH AN APPROACH IN MIND FOR SOME TIME AND THERE WAS A SLIGHT HINT FROM AHMED THAT YAMANI MIGHT ALREADY HAVE HAD A MEETING WITH MR LAWSON). A SECOND CAUSE OF FRICTION WITH FAHD, COMING ON TOP OF THE EXISTING PROBLEM OF THE PLO, COULD BE VERY DAMAGING TO OUR INTERESTS HERE. I CAN ONLY RECOMMEND THAT IF WE CANNOT SATISFY HIM ON THE SUBSTANCE OF HIS REQUEST, THE MANNER OF OUR RESPONSE SHOULD

DEMONSTRATE THAT HIS MESSAGE HAS BEEN CONSIDERED WITH THE UTMOST SERIOUSNESS AND SYMPATHY: I.E. A PERSONAL MESSAGE FROM THE PRIME MINISTER WITH A CLEAR AND NON-TECHNICAL EXPLANATION OF OUR VIEWS AND THE LIMITATIONS ON OUR POWER.

CRAIG

NNNN