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FM KUWAIT 270500Z MAR 83

TO IMMEDIATE FCO

TEL NO 82 OF 27 MARCH

RPTD FOR INFO TO PRIORITY LAGOS, WASHINGTON AND JEDDA.

PS/PRIME MINISTER

NO.10. DOWNING STREET.

OIL.

1. MR HURD SAW THE KUWAITI OIL MINISTER THIS MORNING. ALI KHALIFA SPOKE OF THE IMPORTANCE OF THE UK FOR THE STABILITY OF THE PRESENT OPEC PRICING AGREEMENT. MR HURD REPLIED ALONG STANDARD LINES. ALI KHALIFA WENT ON TO DESCRIBE NIGERIA AS THE WEAKEST LINK IN THE OPEC CHAIN. HE URGED THAT OUR DISCUSSIONS WITH THE NIGERIANS SHOULD BE AT THE POLITICAL RATHER THAN TECHNICAL LEVEL. HE WAS IN CONSTANT TOUCH WITH THEM. THE NIGERIANS WERE NOW SERIOUSLY FRIGHTENED AT THEIR CURRENT AND PROSPECTIVE LOSS OF EARNINGS. ALI KHALIFA SAID THAT HE UNDERSTOOD THE TECHNICAL CASE FOR LOWERING BIOC PRICES. BUT WHEREAS BRITAIN WAS A RELIABLE PARTICIPANT IN THESE AFFAIRS THE NIGERIANS WERE NOT. THIS MADE A DIFFERENCE TO THE EQUATION. IF HE WERE AN IMPORTER HE WOULD RATHER PAY MORE FOR UK CS OIL AND OBTAIN IT AT THE TIME CONTRACTED FOR, THAN PAY SLIGHTLY LESS FOR NIGERIAN OIL BUT DEAL WITH A HOPELESSLY INEFFICIENT NIGERIAN BUREAUCRACY. AS AN EXAMPLE HE SAID THAT THE NIGERIAN OIL COMPANY'S TELEX HAD NOW NOT WORKED FOR TWO WEEKS. THE NIGERIANS' IDEAS WERE CONFUSED AND CONTRADICTORY. THEY HAD TOLD KUWAIT THAT IF THE UK DROPPED ITS PRICE BY 50 CENTS THEY WOULD DO NOTHING; BUT IF UK OIL DROPPED BY 75 CENTS THE NIGERIANS WOULD LOWER THEIR PRICES BY THE SAME AMOUNT. ALI KHALIFA SAID THAT THE OPEC AGREEMENT WAS NOT AT RISK FROM OTHER OPEC PRODUCERS: EVEN THE LIBYANS AND THE IRANIANS WERE PLAYING THEIR PART.

2. ALI KHALIFA ACKNOWLEDGED THAT THE SOVIET UNION WAS THE MAJOR FORCE UNDERMINING OPEC. BUT THERE WAS NOTHING THAT COULD BE DONE ABOUT THIS. MR HURD ASKED WHETHER THE US WAS NOT ALSO CAUSING PROBLEMS BY SELLING ITS OWN OIL INTERNALLY WELL BELOW THE OPEC PRICE. ALI KHALIFA SAID THAT IN HIS VIEW THIS DID NOT AFFECT THE INTERNATIONAL MARKET: THE AMERICANS WOULD PRODUCE THE SAME QUANTITIES DOMESTICALLY WHATEVER THE STATE OF THE WORLD MARKET, AND THIS HAD NO EFFECT ON THE PRICE THEY WERE PREPARED TO PAY FOR IMPORTED OIL.

MELHUSH

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