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FM LAGOS 051400Z APR 83
TO IMMEDIATE FCO
TELNO 261 OF 5 APRIL
AND TO IMMEDIATE JEDDA, RIYADH
PRIORITY WASHINGTON, OSLO, KUWAIT, DOHA, ABU DHABI, MUSCAT,
BAGHDAD, BAHRAIN, BIS TEHRAN.

AND SAVING TO JAKARTA, CARACAS, MEXICO CITY, TRIPOLI, ALGIERS.

MY TELNO 258: OIL PRICES

SUMMARY

1. THE NIGERIAN GOVERNMENT, WHILE ACCEPTING BNOG PRICE CUTS, HAS RESERVATIONS ABOUT THE CHANGE IN THE MARKER CRUDE AND IS CONCERNED ABOUT THE LACK OF ANY INDICATION THAT NORTH SEA OIL PRODUCTION MIGHT BE CONTROLLED. BUT THEY ARE HOPEFUL THAT THE MARKET HAS NOW STABILISED AT LEAST FOR THE SHORT TERM.
2. I CALLED ON DIKKO AT MIDDAY TO RECEIVE HIS REPLY TO MR LAWSON'S MESSAGE (TEXT IN MIPT). DIKKO SAID THAT ALTHOUGH THE NIGERIANS HAD AGREED NOT TO REACT TO THE LATEST BNOG PRICE CUTS, THEY HAD RESERVATIONS ON TWO POINTS. FIRST, THE CHANGE IN THE MARKER CRUDE FROM FORTIES TO BRENT, WHICH MEANT IN PRACTICE THAT ONLY 1/3 OF BRITISH OIL WAS PRICED THE SAME AS THE NIGERIAN MARKER, WHILE 2/3 WAS 25 CENTS CHEAPER. (I EXPLAINED THAT BRENT WAS NOW THE MOST WIDELY TRADED CRUDE AND WAS PARTICULARLY IMPORTANT IN SALES TO USA.) WHILST THE DIFFERENTIAL IN TRANSPORTATION COSTS WAS MARGINAL IN USA, IT LEFT NIGERIA AT A DISADVANTAGE VIS A VIS BNOG IN EUROPE (I POINTED OUT THAT MOST NIGERIAN EXPORTS TO EUROPE WERE OF FORCADOS, WHICH WAS 75 CENTS CHEAPER THAN THE CHEAPEST BRITISH CRUDE). ALTHOUGH THEY HAD ACCEPTED THE PRESENT SITUATION HE WARNED THAT IF THERE WERE A FURTHER PRICE REDUCTION, THE NIGERIANS MIGHT ALIGN THEIR MARKER WITH THE CHEAPEST BRITISH GRADE RATHER THAN WITH BRENT.
3. SECONDLY, THE ASSURANCE THAT BRITISH NORTH SEA PRODUCTION WOULD NOT INCREASE IN 1983 OVER 1982 DID NOT GO FAR ENOUGH. IT STILL LEFT THE NORTH SEA PRODUCING AT FULL CAPACITY WHILE NIGERIA HAD HAD TO CUT BACK TO 2/3 CAPACITY. HE RECOGNISED THE PRESENT CONSTRAINTS ON THE BRITISH GOVERNMENT BUT STILL FELT THAT HMG HAD THE POWER TO ALTER THE SITUATION IF IT SO WISHED.
4. I ASKED HOW HE THOUGHT THE MARKET WAS RESPONDING TO THE BNOG CUT AND THE NIGERIAN RESPONSE. DIKKO SAID IT APPEARED TO BE FIRING UP, WITH REFINED PRICES NOW DOLLARS 1.50 OR EVEN

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DOLLARS 2 ABOVE THE OFFICIAL CRUDE PRICES. WE WOULD HAVE TO WAIT A WEEK OR SO AFTER THE RETURN FROM HOLIDAYS TO GET A CLEARER PICTURE. BUT HE THOUGHT THAT THE MARKET HAD GOT THE MESSAGE THAT THERE WAS NOW A UNDERSTANDING BETWEEN OPEC AND NON-OPEC PRODUCERS AND THAT THERE WAS NO LONGER ANY POINT IN HOLDING ON IN THE HOPE OF FURTHER PRICE CUTS.

5. I ASKED WHETHER HE THOUGHT ALL OPEC MEMBERS WOULD ABIDE BY THE RECENT AGREEMENT ON PRODUCTION QUOTAS. DIKKO SAID HE BELIEVED THEY WOULD. EVEN LIBYA AND IRAN HAD NOW COME TO UNDERSTAND THAT DISCOUNTING, BARTER AND SIMILAR DEVICES HAD THE EFFECT OF DRIVING PRICES DOWN TO EVERYONE'S DISADVANTAGE. HE UNDERSTOOD THAT LIBYA HAD NOW ABANDONED OFFSHORE REFINING AND BARTER DEALS, AND HE THOUGHT THAT EVEN IRAN WOULD NOW STAY IN LINE. THERE HAD BEEN A TREMENDOUS CHANGE IN THE LAST YEAR OR SO, AND NO SINGLE OIL PRODUCER WAS NOW INDISPENSIBLE. EVEN IF SAUDI ARABIA WERE TO SHUT DOWN COMPLETELY, THE AFRICAN PRODUCERS BETWEEN THEM COULD, IN THE PRESENT DEMAND SITUATION, EASILY FILL THE GAP. LARGE PRICE INCREASES SUCH AS THOSE CAUSED BY THE IRAN REVOLUTION AND IRAN-IRAQ WAR WERE THEREFORE A THING OF THE PAST. SHORT OF AN ALMOST UNIMAGINABLE MAJOR CONFLAGRATION INVOLVING SEVERAL GULF STATES, THE PROSPECT FOR THE FORESEEABLE FUTURE WAS AN EXCESS OF PRODUCTION CAPACITY WHICH WOULD REQUIRE RESTRAINT AND COOPERATION FROM ALL PRODUCERS.

6. DIKKO SAID HIS MAIN CONCERN WAS RATHER THE PROSPECT OF SPOT MARKET SALES BY BNOC BECAUSE OF ITS OBLIGATION TO BUY FROM PRODUCERS WHETHER OR NOT IT HAD ANY CUSTOMERS. HE THEREFORE CAME BACK TO THE NEED FOR THE BRITISH GOVERNMENT TO TAKE THE NECESSARY POWERS TO LIMIT PRODUCTION IN THE NORTH SEA AS NECESSARY IN ORDER TO MAINTAIN PRICE STABILITY.

7. IN CONCLUSION DIKKO SAID HE HAD BEEN VERY GLAD TO RECEIVE MR LAWSON'S MESSAGE. ANOTHER MAJOR CHANGE IN THE LAST YEAR HAD BEEN THE IMPROVED UNDERSTANDING BETWEEN NIGERIA AND BRITAIN AS A RESULT OF DIALOGUE BETWEEN THE OIL COMPANIES AND THE GOVERNMENTS. HE VERY MUCH HOPED THAT THIS DIALOGUE WOULD CONTINUE. I SAID THAT I WAS SURE THAT MR LAWSON SHARED THIS HOPE.

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/ 8. MR LAWSON

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8. MR LAWSON MAY THINK IT APPROPRIATE TO ACKNOWLEDGE DIKKO'S UNUSUALLY LENGTHY RESPONSE AND TO SAY SOMETHING IN RECOGNITION OF NIGERIA'S UNEXPECTEDLY FORTHCOMING UNDERSTANDING OF OUR POSITION. NIGERIA'S MODERATE AND WELCOME REACTION SEEMS NOT TO HAVE BEEN ANTICIPATED BY HER OPEC PARTNERS, AS RECENT TELEGRAMS INDICATE.

FCO PLEASE PASS SAVING ADDRESSEES.

BROWN

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