



CONFIDENTIAL

Prime Minister.

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PRIME MINISTER

VISIT TO SAUDI ARABIA

On my first overseas visit as Secretary of State for Trade and Industry, I visited Saudi Arabia from 2 to 5 December, as the guest of the Saudi Minister of Commerce. As well as discussing a range of Anglo-Saudi and world trade issues with Saudi Ministers, I had an audience with King Fahad, to whom I presented your letter of good wishes.

2 The Ministers with whom I held discussions showed an impressive grasp of both Saudi affairs and of developments in the UK - indeed, of international affairs in general. They were keen to press two points on me. First, the Saudi determination to move their future economic progress more firmly from the public to the private sector: I was repeatedly told that, whereas Government had necessarily taken the lead in building the infrastructure which has been Saudi's predominant concern until now, the phase of industrial consolidation which Saudi was now entering required the development of high technology and consumer product industries better suited to the entrepreneurial skills which the private sector could offer (often in joint ventures with foreign companies). In part, this may reflect the constraining effect of lower oil revenues on what the Government





can afford to do. But it also marks a positive commitment to the development of the private sector matching our own (as the Saudis repeatedly acknowledged), which should be helpful to Anglo-Saudi relations.

3 Second, the Saudis left me in no doubt of their determination to find overseas markets for the downstream petrochemicals which their massive investment programme has produced. The West European market will be a particular target, despite the existing over-supply of such products there. The Saudis argued forcefully that their cheap and plentiful oil gave them a strong comparative advantage; certainly they could all too easily disrupt the sensitive European market. I explained some of the difficulties and urged consultations with BP and others about marketing arrangements. Nevertheless I foresee squalls ahead for relations with the Saudis and perhaps within the EC where some partners are unlikely to be willing to allow the Saudis to buy their way in with subsidised products. These are sensitive issues which I shall be discussing further with the Foreign Secretary and the Secretary of State for Energy.

4 For my part, I took the opportunity of stressing to Saudi Ministers the improvement in British productivity and competitiveness which our economic policies are bringing about. I was struck by the fact that at no stage in my discussions - which did not include any with Sheik Yamani - was the question of UK oil production raised. I was pleased to note that the Saudis





knew and approved of our recent decision to extend £250m trade credit to Iraq; and that in general Saudi criticism of our Middle Eastern policy was muted on the rare occasions when it was raised.

5 The present stage of development of the Saudi economy gives British companies opportunities different from large infrastructure projects which have predominated hitherto - and where we have had limited success. Now a much wider range of ventures, of varied size, are in the offing in areas of manufacturing and services in which the Saudis themselves suggested we had much to contribute. In the past our record has been mixed: we have largely failed, for example, to grasp the opportunity of the expanding medical market in Saudi Arabia. It is important that British industry responds positively to the new opportunities as the downstream activities develop - for example security systems, food processing, agricultural systems. I intend to follow my visit by bringing to the attention of senior industrialists the opportunities that do exist; and to promote a small group, including some running smaller and more entrepreneurial companies as well as the obvious large firms, to seek them out. Our trade with Saudi has increased markedly this year (13% up in the first nine months on the year before), but we still have a lower market share in Saudi than our average for the Middle East as a whole. But the range of opportunities now open, and the growing emphasis on the private sector, I see as a good chance of changing this.



Recovering the 2% market share lost since the late 70s would mean additional exports worth £500 million - and the jobs which go with them.

6 I am copying this to Geoffrey Howe, Norman Fowler, Peter Walker and Michael Jopling and to Sir Robert Armstrong.

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6 December 1983

Department of Trade & Industry





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*From the Private Secretary*

7 December 1983

VISIT TO SAUDI ARABIA

The Prime Minister has asked me to thank the Secretary of State for Trade and Industry for the interesting report on his visit to Saudi Arabia contained in his minute of 6 December.

A. J. COLES

Callum McCarthy, Esq.,  
Department of Trade and Industry.

JR