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10 DOWNING STREET

From the Private Secretary

7 January 1985

Dear Peter,

PRIME MINISTER'S MEETING WITH PRINCE BANDAR IBN SULTAN

The Prime Minister met Prince Bandar Ibn Sultan this evening. Mr. Blyth and Mr. Egerton were also present. The meeting lasted some 40 minutes. Much of it was concerned with the sale of Tornado to Saudi Arabia and I am recording this separately. This letter deals with the other matters which were touched upon.

Prince Bandar said that King Fahd had very much welcomed the Prime Minister's visit to Washington and discussion with President Reagan about the Middle East and had been grateful for the Prime Minister's message about it. The Americans had subsequently told the Saudi Arabians how effectively the Prime Minister had performed on the Middle East. King Fahd would himself be visiting Washington on 11 February to take matters forward.

The Prime Minister said that she thought her talks with President Reagan had gone well and that progress had been made both on the Strategic Defence Initiative (SDI) and on the Middle East. It was important to keep the President's mind focussed on the Middle East. She would be returning to Washington for further discussions with the President following King Fahd's visit in February. She would very much welcome it if King Fahd would be able to visit London on his way to or from Washington. Prince Bandar agreed that this would be useful. He would put the suggestion to King Fahd and let us know his response.

Prince Bandar said that King Fahd had also asked him to suggest consultation between Britain and Saudi Arabia on developments in the oil market. Britain's position was well understood by his Government. But the King believed that closer co-ordination could be of benefit for the oil market in the long term. Saudi Arabia wanted to avoid a situation in which the oil price fell uncontrollably. Once that started to happen there would be no means of re-asserting control. Contacts between Oil Ministers could analyse the

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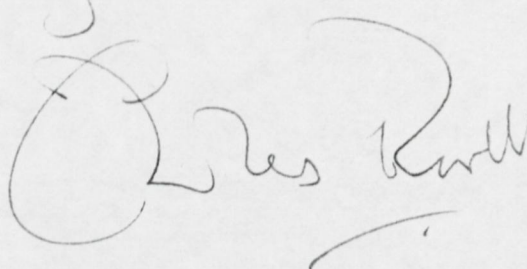
situation and possible developments, prepare the ground for emergency action if things got really bad (for instance if the oil price fell below \$22 a barrel), and lead to a better understanding by the press and public opinion of the consequences of an unrestricted fall in prices.

The Prime Minister said that Britain wanted to stabilise oil prices. But we produced only 2.4 million barrels a day and no action by us would in itself achieve that. The main impetus for lower prices was coming from the United States. There was a risk that a further fall would put countries such as Mexico, Venezuela and Nigeria, many of whom were deeply in debt to the United States, into great difficulties. Britain was already losing a million pounds a day because of the current level of oil prices. The factors mentioned by Prince Bandar were much in our minds and we shared the Saudi desire for stability. BNOB would shortly be making proposals for new prices to run from the period from 1 January. She was sure that Mr. Walker would be ready to see Shaikh Yamani if he wished to come to London. Indeed, she might see him herself though a certain amount of discretion was necessary to avoid giving the appearance of crisis talks.

Prince Bandar said that such a meeting would be an opportunity for Britain and Saudi Arabia to consult before BNOB took its decision. The Prime Minister said that it had to be recognised that stability could not be found at present prices which simply were not holding. It was not possible to go against the market. Of course, each Government had to take its own decisions but she agreed that it was useful to hold consultations. She recognised how much Saudi Arabia had done to restrain its own production. Prince Bandar said that currently Saudi Arabia was producing only 3.8 million barrels a day although its entitlement was 4.5 million barrels. For a short period it had even gone as low as 1.8 million in order to help the market. Saudi Arabia was in the fortunate position of being able to draw on its financial reserves and investments. He wished to emphasise that his Government was not looking for binding agreements as a result of consultations, only a better understanding. Saudi Arabia's aim was to get a fixed price for a fixed period. This would help other countries plan their economic recovery. The Prime Minister said that the main aim should be to avoid sharp changes in oil prices. She would speak to Mr. Walker and ask him to contact Shaikh Yamani to arrange a further meeting. Prince Bandar said that it was important that this should be before BNOB took its decision. The Prime Minister said she must repeat that each Government must make its own decisions. Prince Bandar confirmed that he understood this. Saudi Arabia's interest lay in avoiding sudden price changes.

The Prime Minister would be grateful if Mr. Walker could contact Shaikh Yamani to arrange a meeting on the lines suggested. She intends to refer to this in a message to King Fahd.

I am copying this letter to Michael Reidy (Department of Energy) David Peretz (H.M. Treasury) and to Denis Brennan (Ministry of Defence).

Yours sincerely,


C.D. POWELL

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.