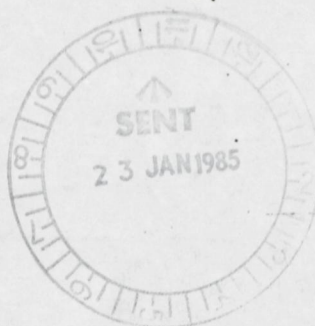


## OIL

PS (2)  
 PS/MR RENTON  
 PS/PUS  
 MR BRAITHWAITE  
 MR GOODALL  
 MR O'NEILL  
 MR J THOMAS  
 MR DC THOMAS  
 MR EGERTON

HD/EnSSD  
 HD/WAD  
 HD/ERD  
 HD/ECONOMIC ADVISERS  
 HD/MCAD  
 HD/MED  
 HD/SEAD  
 HD/NENAD



## ADVANCE COPY

PS/NO 10 DOWNING STREET

MR CE HENDERSON

MR HIGSON

MR FREEMANTEL

MISS PENNY BOYS

PS/ S of S FOR ENERGY

MR B URWIN

MR R LAVELLE

MR S ROBSON

MISS M E CUND

MS P LEAHY

MR R MARTIN, Rm 116

MISS LACKEY (WEG)

MR D FORD (CT5)

DEPT OF  
ENERGYTHAMES HOUSE  
SOUTH

HM TREASURY

DTI

(Victoria St)

CONFIDENTIAL

FM ALGIERS 240916Z JAN 85

TO FLASH FCO

TELNO 15 OF 24 JANUARY

INFO IMMEDIATE JEDDA, RIYADH

INFO PRIORITY KUWAIT, ABU DHABI, LAGOS, DOHA

YOUR TELNO 5 TO RIYADH : OPEC PRICING

1. I WAS ABLE TO HAVE A BRIEF WORD WITH ENERGY MINISTER AT OFFICIAL DINNER GIVEN FOR SAUDI CROWN PRINCE LAST NIGHT. I ASKED ABOUT RIYADH PRESS REPORT OF DOLLAR 2.50 PRICE CUT IN MARKER CRUDE.
2. NABI (WHO DID NOT ATTEND RIYADH MEETING HIMSELF) AVOIDED A DIRECT REPLY ON WHETHER THERE HAD BEEN DISCUSSION OF MARKER PRICE, BUT SAID WITH SOME BITTERNESS THAT A CUT OF THIS ORDER BY OPEC NOW LOOKED IRRELEVANT. WE COULD IN PRACTICE EXPECT PRICES TO FALL BY UP TO DOLLARS 5 TO DOLLARS 6 OVER COMING WEEKS. THERE WAS NO SOLIDARITY LEFT WITHIN OPEC: NORTH SEA PRICES COULD NO LONGER BE SUSTAINED AT TERM PRICE LEVELS AND A SPIRAL OF PRICE CUTTING WAS NOW IN PROSPECT.
3. ON DIFFERENTIALS, NABI SAID ALGERIA HAD PRESSED UNSUCCESSFULLY AT RIYADH MEETING FOR THESE TO BE NARROWED TO A PRICE MARGIN OF DOLLARS 1.50 AROUND DOLLARS 29 MARKER PRICE BETWEEN EXTRA LIGHT AND HEAVY GRADES. BUT SAUDIS HAD REFUSED AGREEMENT. DISCUSSION WOULD BE CARRIED FORWARD TO NEXT WEEK'S OPEC MEETING, BUT THE UPSHOT WAS LIKELY TO SERVE THE INTERESTS OF THE HEAVY PRODUCERS RATHER THAN THOSE IN NORTH AFRICA OR THE NORTH SEA. NABI DID NOT CONCEAL HIS CONCERN AT CONSEQUENCES OF A PRICE FALL ON THIS SCALE FOR ALGERIA'S HYDROCARBON REVENUES, GIVEN THE LINKAGE

SCALE FOR ALGERIA'S HYDROCARBON REVENUES, GIVEN THE LINKAGE BETWEEN HER CONTRACTED GAS EXPORT PRICES AND THAT OF A BASKET OF LIGHTER CRUDES.

4. I ASKED HOW HE SAW OPEC'S FUTURE GIVEN THESE DIVISIONS. NABI TOOK LINE THAT OPEC COULD NO LONGER PRESENT UNITED FRONT. AS RIYADH MEETING HAD SHOWN THERE WERE NOW TWO DISTINCT CAMPS. HE LAID BLAME ON SAUDIS. HE THREW OUT IDEA THAT IN THIS NEW SITUATION IT MADE SENSE FOR LIGHTER CRUDE PRODUCERS, BOTH WITHIN AND OUTSIDE OPEC TO COORDINATE THEIR POSITION MORE CLOSELY.

5. COMMENT. GIVEN CRUCIAL LINKAGE WITH GAS PRICES, ALGERIANS HAVE PERHAPS AS MUCH TO LOSE AS ANY OPEC MEMBER FROM A PRICE REDUCTION OF THIS ORDER COMPOUNDED BY CURRENT DIFFERENTIALS. NABI GAVE IMPRESSION THAT HE SEES SOME REDUCTION IN OPEC MARKER PRICE AS INEVITABLE, LEADING TO FURTHER UNDER CUTTING. IN THIS MOOD, ALGERIANS COULD ATTEMPT TO MUSTER A BREAKAWAY GROUP WITH LIGHTER CRUDE INTERESTS, AND WE COULD HEAR MORE ABOUT CONSULTATION WITH NORTH SEA PRODUCERS. IT SHOULD BE BORNE IN MIND HOWEVER THAT NABI MAY BE PLAYING HIS OWN GAME, SEEING HIS POLITICAL SURVIVAL AT STAKE AS THE ARCHITECT OF THE FORMULA LINKING ALGERIA'S GAS PRICES TO LIGHT CRUDES.

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