

UNCLASSIFIED

FROM JEDDA 000000Z MAY 85

TO ROUTINE FCO

TEL NO 321 OF 30TH MAY 1985

AND TO SAVING DEPT OF ENERGY, OSLO, KUWAIT, BAHRAIN, ABU DHABI, DUBAI, DOHA, JAKARTA, LAGOS, BAGHDAD, WASHINGTON AND CAPACAS.

INTERVIEW WITH YAMANI : OIL

1. IN AN EXCLUSIVE INTERVIEW WITH 'SHARQ AL AWSAT' AND ITS ENGLISH LANGUAGE SISTER NEWSPAPER 'ARAB NEWS' WHICH APPEARED ON 28 MAY, THE SAUDI PETROLEUM MINISTER GAVE AN ASSESSMENT OF THE CURRENT STATE OF THE OIL MARKET AND MADE SOME PREDICTIONS ABOUT ITS FUTURE.

2. YAMANI'S MAIN POINT WAS THAT THE 1990S WOULD BE 'GOLDEN YEARS' FOR THE GULF PRODUCERS: BY THEN DEMAND WOULD HAVE INCREASED AND THE OPEC PRODUCERS WOULD HAVE A MONOPOLY OF SUPPLY, NON-OPEC PRODUCERS' RESERVES HAVING BEEN EXHAUSTED. LINKING THIS TO PRESENT POLICIES, YAMANI SAID 'THAT IS WHY THE KINGDOM WILL DO ITS UTMOST TO PRESERVE MARKET AND PRICE STABILITY. WE WILL NOT EXPLOIT OUR LARGE RESERVES AND PRODUCTION CAPACITY TO PRODUCE AND SELL MORE, FOR THAT MAY HAVE WIDE-RANGING EFFECTS, LEADING TO AN INTERNATIONAL RECESSION AND HARMING US ALL.'

3. YAMANI'S MORE SPECIFIC POINTS WERE AS FOLLOWS:

(A) PRODUCTION AND PRICES. IN RESPONSE TO A SUGGESTION THAT SAUDI ARABIA MIGHT INCREASE ITS PRODUCTION TO 6-7 MBD AND CUT PRICES TO US DOLLARS 20/22 PB, YAMANI SAID THAT ALTHOUGH THIS WOULD INCREASE SAUDI ARABIA'S REVENUE, IT WOULD ALSO RISK INTERNATIONAL FINANCIAL CATASTROPHE, BECAUSE OF THE EXPOSURE OF FINANCIAL INSTITUTIONS IN COUNTRIES WHOSE REVENUES WOULD FALL SHARPLY IF PRICES FELL. HE THOUGHT THE PRICE FOR ARABIAN LIGHT WOULD REMAIN UNCHANGED AS THE DEMAND FOR IT WAS FIRM. ON THE QUESTION OF MONITORING OPEC MEMBERS' PRODUCTION LEVELS AGAINST QUOTAS, YAMANI SAID THAT THERE HAD BEEN INITIAL DIFFICULTIES AS SOME COUNTRIES THOUGHT SCRUTINY A DEPOGATION FROM THEIR SOVEREIGNTY AND AN INTERFERENCE IN THEIR INTERNAL AFFAIRS. ALL MEMBERS HAD NOW, HOWEVER, AGREED TO PRODUCE THE NECESSARY INFORMATION.

(B) STOCKPILING. YAMANI SUGGESTED THAT THE BUILDING UP OF LARGE STOCKPILES BY INDUSTRIAL CONSUMING COUNTRIES HAD MISLED OPEC IN PREDICTING FUTURE DEMAND AND SUPPLY LEVELS. THE LOW LEVEL OF THOSE COUNTRIES' PRESENT STOCKS WOULD CAUSE PROBLEMS FOR SUCH COUNTRIES IN THE FUTURE.

(C) ALTERNATIVE FUEL. YAMANI SAID CAS AND COAL WOULD NOT SERIOUSLY COMPETE WITH OIL BECAUSE OF THEIR HIGH PRODUCTION AND TRANSPORT COSTS, AND BECAUSE SUPPLIES COULD BE DISRUPTED (A MENTION OF THE MINERS' STRIKE HERE WAS HIS ONLY REFERENCE TO BRITAIN). HE ENVISAGED SIMILAR DIFFICULTIES FOR NUCLEAR ENERGY, INCLUDING QUESTIONS OF SAFETY. 'I DO NOT SEE IT BECOMING AN IMPORTANT SOURCE OF ENERGY IN THE COMING YEARS.'

(10)

(D) PETROCHEMICALS. YAMAMI SAID THAT SAUDI ARABIA HAD THE MOST ADVANCED AND EFFICIENT REFINERIES IN THE WORLD AND THAT MANY OF THOSE IN THE US AND EUROPE WERE OUTDATED AND INEFFICIENT. 'THESE REFINERIES SHOULD BE TAKEN OF PRODUCTION.'

4. COPY OF FULL TEXT FOLLOWS BY BAG.

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