

OIL

PS
PS/MR EGGAR
PS/PUS
MR BRAITHWAITE
MR GOODALL
MR O'NEILL
MR DAVID THOMAS
MR EGERTON

PS/NO 10 DOWNING STREET

MR C E HENDERSON,
(Hd. OIL Div. Room 1445)
MR ARNOTT
MR RICKETT
MR FREMANTEL
PS/ S of S FOR ENERGY

DEPT OF
ENERGY
THAMES HOUSE
SOUTH

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

MISS P LEAHY HM TREASURY

MR R MARTIN, Rm 116 }
MISS LACKEY WEG } DTI (Victoria St)
MR D FORD CT5 }

RESIDENT CLERK

17.12.85

GRS 170

CONFIDENTIAL

FM RIYADH

TO IMMEDIATE FCO

TELNO 038

OF 150200Z JANUARY 86

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FROM PRIVATE SECRETARY

SECRETARY OF STATE'S TALKS WITH PRINCE SAUD : OIL MATTERS

1. AS EXPECTED PRINCE SAUD EXPRESSED CONCERN TO THE SECRETARY OF STATE TODAY ABOUT THE PROSPECTS FOR THE OIL MARKET. THERE WAS A CLEAR POSSIBILITY OF A SHARP DECLINE IN PRICE WHICH WOULD BE DAMAGING TO THE WORLD ECONOMY AND PARTICULARLY TO MARGINAL PRODUCERS. OPEC ALONE COULD NOT PREVENT THIS. THE SAUDIS WOULD LIKE TO OPEN A CHANNEL FOR CONSULTATIONS WITH BRITAIN WHOSE ROLE COULD BE A KEY ONE.

2. THE SECRETARY OF STATE REPLIED THAT WE SHARED SOME OF THE SAUDIS ANXIETIES. THE ENTIRELY FREE PLAY OF MARKET FORCES COULD CREATE DIFFICULTIES BUT SO COULD ANY ATTEMPT TO WORK AGAINST THEM. SINCE BOTH COUNTRIES WERE PRODUCERS AS WELL AS CONSUMERS, THERE WAS VALUE IN AN EXCHANGE OF VIEWS WITHOUT NECESSARILY REACHING CONCLUSIONS. OIL PRODUCTION IN BRITAIN WAS A MATTER FOR THE COMPANIES AND THE MARKET PLACE. IT WOULD BE VERY DIFFICULT TO INFLUENCE PRODUCTION LEVELS WITHOUT AFFECTING VUTURE INVESTMENT.

3. PRINCE SAUD REPEATED THAT HE WISHED TO TAKE THE OPPORTUNITY OF THIS VISIT TO ESTABLISH A LINE OF COMMUNICATION WHICH WOULD BE IN OUR MUTUAL INTEREST. HE HOPED HE COULD ADVISE SHAIKH YAMANI TO BE IN TOUCH WITH THE DEPARTMENT OF ENERGY. THE SECRETARY OF STATE REPLIED THAT HE KNEW THAT THE SECRETARY OF STATE FOR ENERGY ATTACHED IMPORTANCE TO HIS CONTACTS WITH YAMANI AND WAS SURE THAT THEY WOULD CONTINUE TO BE HANDLED DISCREETLY.

WRIGHT