

GRS 670

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FM MUSCAT

TO IMMEDIATE FCO DESKBY 270900Z

TELNO 53

OF 270720Z JAN 86

AND INFO DESKBY 270900Z DEPARTMENT OF ENERGY

INFO PRIORITY ABU DHABI, BAHRAIN, DUBAI, DOHA, RIYADH, KUWAIT

OMAN : OIL PRICE

SUMMARY

1. THE RECENT FALL IN THE OIL PRICE CAUSES OMAN SERIOUS PROBLEMS. DEVALUATION OF THE RIAL ONLY A PARTIAL SOLUTION : CUTS IN GOVERNMENT EXPENDITURE WILL ALSO BE NECESSARY. THE MINISTER FOR PETROLEUM HAS BEEN INSTRUCTED BY THE SULTAN TO GO TO LONDON FOR EMERGENCY TALKS WITH THE BRITISH GOVERNMENT. I HAVE TOLD HIM THAT THERE IS NO PROSPECT OF A CHANGE IN HMG'S POLICIES. BUT I HOPE THAT HE MAY BE GIVEN A SYMPATHETIC HEARING.

DETAIL

2. AS EXPLAINED IN MY TELEPHONE CALL OVER THE WEEKEND TO SIR D MIERS, THE OMAN MINISTER FOR PETROLEUM, SAID BIN AHMAD AL SHANFARI, HAS BEEN INSTRUCTED BY THE SULTAN TO GO TO LONDON TO TALK TO THE BRITISH GOVERNMENT ABOUT MEASURES TO STABILISE THE OIL PRICE. I UNDERSTAND THAT MR WALKER HAS KINDLY AGREED TO RECEIVE HIM EARLY THIS WEEK. SHANFARI IS ANXIOUS THAT HIS VISIT SHOULD BE KEPT COMPLETELY CONFIDENTIAL.

3. THE RECENT FALL IN THE OIL PRICE HAS CONFRONTED THE GOVERNMENT OF OMAN WITH A DIFFICULT SITUATION. THE THIRD FIVE YEAR PLAN, WHICH WAS PUBLISHED ONLY THREE WEEKS AGO, WAS BASED ON AN OIL PRICE OF BETWEEN 22 DOLLARS AND 23 DOLLARS PER BARREL : ALL THIS HAS NOW BEEN THROWN INTO DISARRAY. THE GOVERNMENT YESTERDAY DEVALUED THE OMANI RIAL FROM 2.86 DOLLARS TO 2.60 DOLLARS (A REDUCTION OF SOME 11%). IN PARALLEL, AND TO SOFTEN THE IMPACT OF INCREASED IMPORT PRICES ON THE PRIVATE SECTOR, THE MAXIMUM RATE OF INTEREST TO BE CHARGED FOR OVERDRAFTS HAS BEEN BROUGHT DOWN ONE PERCENTAGE POINT TO 10 1/2 %.

CONFIDENTIAL

14

4. THE EFFECT OF THE DEVALUATION WILL BE TO INCREASE THE RIAL VALUE OF OMAN'S OIL EXPORTS AND TO IMPROVE THE BALANCE OF PAYMENTS BY DISCOURAGING IMPORTS AND OVERSEAS REMITTANCES. IT WILL ALSO HAVE THE EFFECT OF PUTTING UP THE COST OF LIVING. BUT EVEN AFTER THE DEVALUATION, THE BOOKS DO NOT BALANCE. WE ESTIMATE THAT IF THE AVERAGE PRICE OF OIL IN 1986 IS 18 DOLLARS PER BARREL AND IF OMAN INCREASES HER OIL PRODUCTION TO AN AVERAGE 575,000 BARRELS PER DAY, THERE WILL BE A BUDGETARY DEFICIT OVER THE YEAR OF SOME OMANI RIALS 100M. TO ADD TO THE ALREADY PLANNED DEFICIT OF OR 175M. THIS COULD BE MET BY DRAWING ON RESERVES : BUT OBVIOUSLY THIS PROCESS CANNOT CONTINUE FOR LONG. THE BUDGETS OF ALL THE MINISTRIES ARE CURRENTLY UNDER EMERGENCY REVIEW AND ECONOMIES ARE BEING SOUGHT. IF THE OIL PRICE FALLS BELOW 18 DOLLARS, FURTHER MAJOR CUTS WILL BE NECESSARY. SOME PLANNED PROJECTS WOULD HAVE TO BE POSTPONED. THE CANCELLATION OF SOME CONTRACTS, INCLUDING DEFENCE CONTRACTS, CANNOT BE RULED OUT. THE CRISIS IS THUS LIKELY TO HAVE ADVERSE EFFECTS ON BRITISH EXPORTS TO OMAN.

5. LIKE OTHERS, OMAN WOULD LIKE TO SEE OPEC RESTORE PRODUCTION DISCIPLINE. IN AN INTERVIEW ACCOMPANYING THE ANNOUNCEMENT OF THE DEVALUATION, THE UNDER-SECRETARY AT THE MINISTRY OF PETROLEUM AND MINERALS ATTRIBUTED THE FALL IN PRICES TO OVER - PRODUCTION BY COUNTRIES WHICH HAVE QUOTAS. THE ANNOUNCEMENT ITSELF PREDICTED FURTHER FALLS IN PRICE UNLESS THERE WERE BETTER COORDINATION OF PRODUCTION POLICIES, PARTICULARLY WITHIN OPEC.

6. THE OMANIS HAVE SHOWN NO DISPOSITION TO CRITICISE THE UK (THEY SCARCELY COULD SINCE, AS NON-MEMBERS OF OPEC, THEY HAVE THEMSELVES BEEN MAXIMISING PRODUCTION). BUT IN PRIVATE BOTH THE MINISTER FOR PETROLEUM AND THE UNDER-SECRETARY FOR FINANCE HAVE MADE CLEAR TO US THEIR HOPE THAT BRITAIN WILL COME TO AN ARRANGEMENT WITH OPEC TO TAKE SURPLUS PRODUCTION OUT OF THE MARKET.

7. THE MINISTER'S VISIT TO LONDON IS A FURTHER EXAMPLE OF THE OMANI GOVERNMENT'S INSTINCT TO TURN TO BRITAIN IN TIMES OF DIFFICULTY. I HAVE MADE CLEAR TO THE MINISTER THAT THE BRITISH GOVERNMENT'S POLICY REMAINS THAT PRICES AND PRODUCTION ARE A MATTER FOR THE MARKET AND THAT THERE IS NO PROSPECT THAT HMG WILL INTERVENE TO RESTRICT NORTH SEA PRODUCTION. I, NEVERTHELESS, HOPE THAT WHEN HE SEES MR WALKER HE WILL BE GIVEN A SYMPATHETIC HEARING.

SLATER

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