

OIL

PS
PS/MR EGGAR
PS/PUS
MR BRAITHWAITE
MR GOODALL
MR O'NEILL
MR DAVID THOMAS
SIR D. MILES.

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

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
ENERGYTHAMES HOUSE
SOUTH

MISS P LEAHY HM TREASURY

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

CONFIDENTIAL

FM RIYADH

TO IMMEDIATE FCO

TELNO 81

OF 271030Z JANUARY 86

INFO PRIORITY ABU DHABI, ALGIERS, BAGHDAD, CARACAS, DOHA, JAKARTA
INFO PRIORITY LAGOS, LIBREVILLE, QUITO, TEHRAN, TRIPOLI, KUWAIT
INFO PRIORITY DUBAI, MUSCAT, BAHRAIN, WASHINGTON, TOKYO, OSLO
INFO PRIORITY MEXICO CITY

ADVANCE COPY

IMMEDIATE

MY TELNO 75: OIL PRICES.

1. WHEN I SAW YAMANI ON 26 JANUARY FOR THE SIGNATURE OF THE TORNADO OIL AGREEMENT, HE REMARKED THAT OPEC WAS NOW PRODUCING MORE THAN 17 MBD. IF THIS CONTINUED, HE EXPECTED THAT BY THE END OF MARCH THERE WOULD BE A 2.5 MBD SURPLUS OF SUPPLY OVER DEMAND, EXERTING FURTHER STRONG DOWNWARD PRESSURE ON THE MARKET. (HE REFERRED SPECIFICALLY TO A VERY RECENT IRANIAN AGREEMENT TO SUPPLY ADDITIONAL QUANTITIES TO JAPAN, BUT NONE OF US HAD AT THAT POINT SEEN REPORTS OF AN ALLEGED 50% CUT IN IRANIAN PRODUCTION.) HE BELIEVED THE OIL PRICE WOULD GO DOWN TO BELOW DOLLARS 15 PER BARREL.

2. ACCORDING TO THE US EMBASSY, YAMANI TOLD DEPUTY ASSISTANT SECRETARY OF STATE WENDT LAST WEEK THAT THE OIL PRICE WOULD HAVE TO GO DOWN FURTHER BEFORE OTHER PRODUCERS WOULD CO-OPERATE WITH SAUDI ARABIA AND CONTROL PRODUCTION IN SUPPORT OF THE PRICE. IN SPITE OF SAUDI PUBLIC STATEMENTS, HOWEVER, YAMANI SEEMED TO THE AMERICANS TO BE MORE CRITICAL OF OTHER OPEC COUNTRIES THAN OF BRITAIN OR OTHER NON-OPEC PRODUCERS. THIS IS IN LINE WITH THE ATTITUDE THE SAUDI DEPUTY MINISTER FOR OIL TOOK IN CONVERSATION WITH MY HEAD OF CHANCERY ON 20 JANUARY, WHEN HE IMPLIED THAT FRUSTRATION WITH OPEC HAD BEEN THE MAIN FACTOR BEHIND LAST AUTUMN'S CHANGE IN SAUDI OIL POLICY TOWARDS THE CONCLUSION OF NETBACK AGREEMENTS (GREEN'S MINUTE OF 20 JANUARY, COPIED TO FCO, DEPARTMENT OF ENERGY AND CHANCERIES BAGHDAD AND KUWAIT).

3. WE CAN NEVERTHELESS EXPECT SAUDI PUBLIC STATEMENTS TO CONTINUE TO CONCENTRATE ON THE SUPPOSED INIQUITIES OF NON-OPEC PRODUCERS, PARTICULARLY BRITAIN. YAMANI'S PRIVATE POSITION, AS I UNDERSTAND IT, CONTINUES TO BE THAT HE NEEDS SOME DEGREE OF CO-OPERATION FROM NON-OPEC PRODUCERS AS A LEVER TO USE WITH OPEC PARTNERS (MY TELNO 200 OF 6 NOVEMBER, PARA 4, REFERS). IN THE MEANTIME, THE SAUDIS SEEM LIKELY TO ACCEPT A CONTINUES EROSION OF THE OIL PRICE. THEY HAVE NO DOUBT CALCULATED THAT THE KINGDOM WOULD BE NO WORSE OFF EXPORTING OIL AT ITS CURRENT RATE OF ABOUT 4 MBD BELOW DOLLARS 15 PER BARREL THAN IT WOULD BE IF IT

WOULD BE NO WORSE OFF EXPORTING OIL AT ITS CURRENT RATE OF ABOUT 4 MBD BELOW DOLLARS 15 PER BARREL THAN IT WOULD BE IF IT EXPORTED 1 MBD (AS IT DID LAST SUMMER) AT LAST SUMMER'S PRICE

4. WE HAVE HAD INDICATIONS THAT THE KING HAS NOT BEEN HAPPY WITH SOME OF YAMANI'S RECENT PUBLIC STATEMENTS, BECAUSE OF THE VULNERABILITY OF THE SAUDI ECONOMY TO LOSS OF OIL REVENUE IN A MARKET WHICH YAMANI HAS BEEN TALKING DOWN. ONE OR TWO SAUDI CONTACTS HAVE SUGGESTED THAT YAMANI HAS HAD SUCH A DIFFICULT TIME WITH HIS SENIORS OVER THE PAST TWO YEARS THAT HE NO LONGER WORRIES HIM THAT HE MIGHT TALK HIMSELF OUT OF HIS JOB. IF TRUE, AND IT IS NOT IMPLAUSIBLE, IT ADDS A FURTHER ELEMENT OF VOLATILITY TO THE PRESENT SITUATION. HE CERTAINLY LOOKED DEPRESSED AND UNWELL WHEN I SAW HIM ON 26 JANUARY.

WRIGHT

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REHPAN 0621

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(Repetition to
referred for departmental decision.
expedited as requested to other posts)

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