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Prime Minister
CDP 29/i

SECRETARY OF STATE FOR ENERGY
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Len Appleyard Esq
Private Secretary to
The Foreign & Commonwealth Secretary
Whitehall
LONDON SW1

29 January 1986

Dear Len,

My Secretary of State had a brief meeting with Dr Al-Otaiba, the United Arab Emirates' Oil Minister on the afternoon of 28 January. The Minister of State, Mr Guinness and two UAE officials were also present.

The discussion followed predictable lines. Dr Otaiba said that he was passing through London on the way to Vienna for Monday's OPEC meeting, and was glad of the opportunity to exchange views with Mr Walker. He was not here to negotiate with the UK on OPEC's behalf. Mr Walker said that he was always prepared to meet other energy Ministers, and found such contacts helpful.

Dr Otaiba said that the current oil market situation was worrying. The market was volatile and difficult to control or predict. It was in no-one's interest for the oil price to collapse; all producers were either "friends or brothers" and should co-operate to stabilise production. Egypt had decided to cut production by 200,000 bpd. Russian production was falling. Iran had offered to cut its production, and among the non-OPEC producers Norway and Oman had indicated willingness to join in collective action. If no action were taken, he feared a continuing downward price spiral as producers stepped up output to maintain their revenues.

Mr Walker said that the Norwegians had made it clear that their position and policies remained unchanged. The UK was in favour of reasonable price stability, and wished to maintain our close and friendly ties with the UAE and other OPEC nations. But our perspective was bound to be different from OPEC's; oil accounted for only 6% of our national income and there were very substantial compensations for us in lower oil prices. UK production was probably now at or about its peak. Our best estimate was that 1986 production would be similar to 1984 and 1985 at about 2.5 to 2.6 mbd, although it was impossible to be precise about the outcome of decisions by a large number of individual producers. Thereafter our production, and our influence - which had been greatly exaggerated - would be sharply reduced. The main factor influencing the market was not the UK's policies but increased production by Saudi Arabia.

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Mr Walker went on to explain that the heavy front-end loading of North Sea investment meant that it was economic for production to continue even at very low levels. The UK Government had consistently made it clear that it could not and would not impose production cuts on the oil companies. Nor did it put pressure on the companies to maximise production; the level of production was entirely a matter for their individual commercial judgements. Any attempt to interfere with the companies' commercial freedom would be likely to impact badly on the UK's reputation as a major trading nation and thus on future investment, and might cause difficulties with our international trading partners, particularly in the EC.

In reply to a question from Dr Otaiba, Mr Walker said that it was impossible to predict the likely oil price path. There was no mechanism which could guarantee a stable price of X or Y dollars. Dr Otaiba said that he believed the US would not wish to see the price fall below about $20, in view of the vulnerability of the banking system.

The Secretary of State asked Dr Otaiba about the likely outcome of the Vienna meeting. Dr Otaiba said that it was difficult to predict. Saudi views would be crucial, but his guess was that a more relaxed production ceiling of 18 mbpd would be agreed. He would telephone Mr Walker after the meeting to let him know what had been decided. Mr Walker could also expect to hear from the Omanis, who were now convinced of the need for all producers to co-operate.

I am copying this letter to David Norgrove (No 10), Rachel Lomax (Treasury) and John Mogg (DTI).

Yours,

Geoff

G S DART
Private Secretary

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