

SOS/R 52/83

Prime Minister

I think that Mr. Lawson is
a match for Sheikh Yamani!NOTE OF THE SECRETARY OF STATE'S TELEPHONE CONVERSATION WITH SHEIKH AHMED ^{FERR} 11.3.
AZKI YAMANI, SAUDI MINISTER FOR PETROLEUM ON 10 MARCH 1983

The Secretary of State said that, as he had undertaken on 9 March, he had seen BNOC and had spoken to the Prime Minister. He was now in a position to respond to the requests Sheikh Yamani had made.

The UK was anxious to do whatever it could to be helpful but he did not want to promise what could not be performed nor to allow room for any misunderstandings. The one thing BNOC was able to do was to hold its price of \$30.50 for 10 days or so - say, to 21 March. It might even be able to hold the price for a little longer, but at present only the 10 days were certain. However, in the meanwhile, he would talk to BP and to Shell.

When BNOC could wait no longer, it would make the smallest cut possible but that would be determined by the state of the market. It therefore depended on how the market reacted to what Sheikh Yamani and OPEC had to say in announcing their package. The more positive the announcement, the better BNOC's chance of continuing to hold \$30.50 or at least of minimising its cut.

Sheikh Yamani said that a delay of 10 days was too short. The least he had been hoping for was until the end of the month. The Secretary of State replied that all BNOC's customers had terminated their contracts and could therefore stop buying oil at once. The oil would then be forced onto the spot market. Even a 10 day delay was therefore difficult but, in response to Sheikh Yamani's plea and King Fahd's message to the Prime Minister (to which she would of course be replying), BNOC had agreed to achieve it.

Sheikh Yamani said that he would have to hope for the best. The main thing was that BNOC's cut should be only 50¢ since the Nigerians would match anything more and the whole agreement would collapse. The Secretary of State answered that it was possible, if market sentiment were sufficiently positive, that BNOC might achieve such a cut, although to do so they might also have to extend their credit terms from 30 to 90 days. Sheikh Yamani objected that this was equivalent to a further price cut to which the Secretary of State responded that the Nigerians made BNOC's task harder still by pricing their Forcados crude at \$1 below Bonny Light.

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Sheikh Yamani conceded that point and said he would have to hope that BNOG could hold out for longer than 10 days, and that the market had strengthened sufficiently to cope with their cut. OPEC's price package, which had already leaked, might now be announced although their agreement was still to be finalised on the quotas and was unlikely before 11 March. The only person he had told of his meeting with the Secretary of State was Dikko, who could be trusted to respect the confidence, but he had also hinted to the other Ministers that he had hopes of co-operation from the UK.

X The Secretary of State expressed the hope that the market would respond positively to Sheikh Yamani's efforts and that all would go well. He said that he would always be available for further conversations.

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cc PS/Minister of State
PS/PUS
Mr Guinness
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PS/Prime Minister
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Mr Heap

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