

IMMEDIATE

PS
PS/MR HURD
PS/MR HIRKIND
PS/FUS
~~MR STANG~~ *Mr Swan*
MR WRIGHT
MR ADAMS
~~MR [unclear]~~
MR DGERTON

ED/EDSSD
ED/JAD
ED/ERD
ED/ESID
ED/MED
ED/SEAD
ED/NENAD
RESIDENT CLERK

PS No. 10 DOWNING ST.

MR MORPHET
MR WIGGINS
DR J WRIGHT
MR FREEMANTLE
MISS PENNY BOYS
MS CAMERON
PS/ S of S for ENERGY

DEPT OF ENERGY
THAMES HSE SOUTH

MR S UNWIN

MR R LAVELLE
MR N WICKS
MISS ME CUND

HM TREASURY

MR R MARTIN RM 116
MISS LACEY WEG
MR D POED OT5

DOT
1 Victoria St.

MR GRAHAM HARRISON) ODA

650CONFIDENTIAL

FM LAGOS 051403Z

TO IMMEDIATE FCO

TELEGRAM NUMBER 262 OF 5 APR 83

AND TO IMMEDIATE JEDDA AND RIYADH

PRIORITY TO WASHINGTON, OSLO, KUWAIT, DOHA, ABU DHABI, MUSCAT, BAGHDAD, BAHRAIN, AND BIR TEHRAN

SAVING TO BEIRUT, JAKARTA, CARACAS, MEXICO CITY, TRIPOLI AND ALGIERS.

MIPT. OIL PRICES.

1. FOLLOWING IS TEXT OF DIKKO'S REPLY.

QUOTE

DEAR MR. LAWSON,

THANK YOU VERY MUCH FOR YOUR MESSAGE WHICH WAS ILLUMINATING ON MANY ASPECTS OF BRITISH GOVERNMENT OIL POLICY. I READ YOUR LETTER

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VERY CAREFULLY INDEED AND BELIEVE THAT IT WOULD BE HELPFUL IF I MADE SOME ADDITIONAL COMMENTS ON THE PRESENT AND FUTURE OIL SITUATION IN ADDITION TO THE PRESS STATEMENT THAT OUR GOVERNMENT HAS ISSUED.

2. WE ARE HAPPY TO NOTE THAT THERE IS AN INCREASING SENSE AMONGST ALL PRODUCERS THAT THE PROBLEM OF THE OIL MARKETS ARE NOT TO BE LEFT TO OPEC ALONE. THIS APPEARS TO BE A SENTIMENT THAT BOTH OF US HAVE SHARED AND EXPRESSED ON SEVERAL OCCASIONS. WE THEREFORE REGARD YOUR RECENT PRICE ACTIONS AS AN ATTEMPT TO RECOGNISE THE INEVITABLE RELATIONSHIP BETWEEN OPEC AND NON-OPEC PRICES.

3. WE DO NOTE THAT BRENT AND FORTIES ARE NOT THE ONLY CRUDES PRODUCED BY THE NORTH SEA FIELDS AND WHEN ALL CRUDES ARE CONSIDERED, TWO-THIRDS OF BRITISH OUTPUT HAS DROPPED BY 75C AND ONE-THIRD OR LESS BY 50C. IN OUR VIEW, WHILE THERE IS PARITY BETWEEN BRENT AND SOME NIGERIAN CRUDES, WE REALLY FIND IT HARD TO JUSTIFY PRICES AS FORTIES AND NINIAN FOR EXAMPLE. WE HAVE NEVERTHELESS ACCEPTED THE SITUATION FOR THE PRESENT IN THE INTEREST OF STABILITY. AS I AM SURE YOU ARE AWARE WHILE WE ARE QUITE NATURALLY INTERESTED IN PROMOTING STABILITY, WE ARE EQUALLY CONCERNED WITH THE NATURE AND BASIS OF SUCH STABILITY.

4. WE NOTE THE POINT THAT YOUR PRICES ARE ONLY GOOD FOR MARCH. IT WOULD BE MOST UNFORTUNATE FOR US ALL IF OUR FLEXIBILITY REGARDING OUR PRESENT ACTIONS LED TO ANY MISUNDERSTANDING AS TO HOW WE WOULD REACT TO ANY PRICE CUTS IN APRIL OR THEREAFTER.

5. WE ALSO NOTE YOUR VIEWS AS TO THE IMPORTANCE OF PRODUCTION LEVELS IN THE OIL MARKETS. IN THIS SPIRIT YOU HAVE INFORMED US THAT YOUR PRODUCTION LEVELS IN 1983 WILL NOT EXCEED THOSE OF 1982, AND THAT YOU BELIEVE THAT THERE SHOULD BE ENOUGH SPACE IN THE MARKET FOR BOTH NIGERIAN AND BRITISH CRUDES. WE SHARE YOUR VIEWS ON PRODUCTION

LEVELS. IT IS FOR THIS REASON THAT WE TOOK A DECISION TO ACCEPT VOLUNTARY PRODUCTION CUTBACKS BELIEVING THAT THIS WOULD HELP ELIMINATE THE GLUT IN THE MARKET AND THAT THIS WOULD BE BETTER THAN AN IMPOSED CUTBACK EFFECTED VIA A DAMAGING PRICE WAR. WE BELIEVE IT IS A BASIC BUSINESS REALITY THAT IN A SITUATION OF WIDESPREAD EXCESS CAPACITY, IT IS SIMPLY NOT EQUITABLE FOR ONE OR TWO PRODUCERS TO BE PRODUCING AT FULL CAPACITY WHILE OTHERS ARE PRODUCING AT HALF CAPACITY WHEN BOTH PARTIES HAVE COMMON INTEREST IN MAINTAINING AN AGREED PRICE LEVEL.

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IN MAINTAINING AN AGREED PRICE LEVEL.

6. WE ARE AWARE OF YOUR OWN OIL ARRANGEMENTS AS CONTAINED IN
THE "PETROLEUM AND SUBMARINE PIPELINES ACT 1975" AND OF THE
NATURE OF THE ASSURANCES GIVEN BY SUCCESSIVE BRITISH MINISTER.
WE ARE SATISFIED THAT YOU HAVE SUFFICIENT POWERS TO PROTECT
OUR COMMON INTERESTS WHICH LIE IN AVOIDING A PRICE WAR.

7. WE ARE ALSO CONCERNED LIKE YOU ABOUT STABILITY. WE WILL
THEREFORE BE WATCHING THE SPOT MARKET. YOU WILL NOT DOUBT
RECOGNISE THAT THE GREATEST CAUSE OF A DETERIORATION IN THE
SPOT MARKET LIES IN INCREASED SPOT SALES. NIGERIA WILL NOT
DISPOSE OF ITS CRUDE OIL IN THIS MANNER BECAUSE IT IS
DESTABILISING. WE ARE CONFIDENT THAT YOU HAVE A SIMILAR
INTEREST AND WILL NOT BE DUMPING CRUDE AND THEREBY SETTING
THE STAGE FOR ANOTHER ROUND OF PRICE CUTS.

8. I WOULD LIKE TO END BY THANKING YOU FOR YOUR LETTER. I
HOPE AND TRUST THAT THE SPIRIT OF PRIOR NOTIFICATION WHICH HAS
DEVELOPED OVER THE PAST FEW MONTHS WILL CONTINUE, FLOURISH AND
HOPEFULLY DEVELOP INTO PRIOR CONSULTATIONS.

THANK YOU.

YOURS SINCERELY,

(Y.A. DIKKO, O.F.R.)
SPECIAL ADVISER TO THE PRESIDENT
ON PETROLEUM AND ENGERY

FCO PLEASE PASS SAVING ADDRESSEES

BROWN

NNNN