1) Mr Lankester · MS 2
2) Prime Minister.

MS

WEEKLY OIL REPORT

IRAN/IRAQ

1. Fighting continues between Iran and Iraq; a prolonged stalemate seems certain. Iraqi refinery capacity may now be down to 60,000 bd; Iraqi oil export facilities in the Gulf have reportedly all been damaged as well as the pumping facilities for the export pipeline through Turkey. There is no indication of the Syrians being prepared to allow Iraqi use of the export pipeline through Syria. The Iranians probably still have 140,000 bd refinery capacity. The main Iranian export terminal at Kharg Island has been damaged although offshore facilities lower down the Gulf are apparently still exporting 200,000 bd. Both sides appear to have adequate supplies of fuel to continue fighting. How long damaged facilities will take to repair once fighting stops is hard to estimate; much will depend on which key and hard to replace items have been affected. According to the Middle East Economic Survey (MEES) the Iraqi loading facilities on the Gulf could take several months to repair.

OPEC

2. There have been numerous reports about production increases by Gulf producers, led by Saudi Arabia. The Kuwaiti, Qatari, UAE and Saudi Oil Ministers met in Saudi Arabia on 10 October after Yamani had visited those countries and Bahrain earlier in the week. Their communiqué said that the Ministers had decided "to take certain measures to rectify the situation and alleviate the problems, particularly of the developing countries".

3. The extent to which Kuwait, Qatar and UAE commited themselves to any increase in planned production is obscure. It looks as if Kuwait where liftings were already planned to rise to 1.7 or 1.8 mbd for seasonal reasons agreed in principle to do more to help developing countries going short. Qatar and UAE may have offered relatively small increases. What appears to be an authoratative statement of the Saudi position in MEES says that ARAMCO's allowable production will be raised from 9. mbd to between a minimum of 10 mbd and a

maximum of 11 mbd. Decisions on production level will be taken monthly (other press reports suggest that the chosen level is at present 10.4 mbd). The incremental production is designed to help governmental and company customers hard hit by loss of Iranian and Iraqi supplies. ARAMCO is apparently to act as the export channel for the oil. It is not clear whether Saudi Arabia will take on new customers and decisions on disposal have apparently not yet been made.

4. The Saudi initiative appears to have been decided on when spot market prices started to rise and designed primarily to forestall a surge in prices which would, inter alia, have destroyed groundwork laid for the introduction of the Long Term Strategy. It may also have been motivated by a wish to assist the Iraqis (who earlier requested increases from other Gulf producers) and third world countries particularly hard hit.

5. The OPEC preparatory meeting due to have been held in London on 14/15 October to discuss the long term strategy has been called off; plans for the Summit in Baghdad on 4 November have apparently now been shelved.

6. Until the precise levels of Saudi, UAE and Kuwaiti production become clearer it is difficult to estimate exactly the current, balance between oil supply and demand. But companies continue to report high stocks and, trading on the spot market is very thin. ~~It~~ The shortfall may be as little as 1.5 mbd which can at present be met easily from stocks. Spot crude prices have not risen above the levels they reached before the Saudi action: Arab light $4 up on mid September levels at $36, top quality African crudes at $37. Prices for heavy fuel oil rich crude are still firming, however, reflecting in part the loss of fuel oil production from Abadan.

GREECE

7. Under a Memorandum of Understanding signed with the Greek Government last November, British firms were to have been favoured in a number of projects, including the supply by GEC of a 2 x 350 MW coal-fired power station and the associated supply by NCB and Shell of the coal; in return, Greece would be sold some North Sea oil. However, some members of the Greek Government now want the contracts put out to international tender, thereby shelving the understanding with the UK. This prevented the signature of the contracts during the Prime Minister's visit to Greece last month. The Secretary of State for Trade pursued the matter when he visited Athens on 12-14 October.

Our Ambassador in Athens believes that Britain still has a chance of gaining the contracts with Greece.

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15 October 1980

WEEKLY ENERGY REPORT

PS/Prime Minister
PS/Secretary of State
PS/Minister of State
PS/Mr Moore
PS/Mr Lamont
PS/PUS
Mr D le B Jones
Mr Beasley
Mr T P Jones
Mr Custis
Mr Herzig
Mr Priddle
Mr Spain
Mr Morphet
Mr Monger
Mr Manley
Mr Guiness
Mr Kelly
Mr Price
Mr Hampton
Mr Scarr
Dr Palmer
CIP PRINCIPALS
Mr Portillo
Miss Moxey
Mr Carr
Miss Brown FCO
Mr Tatham FCO
Mr Fall FCO
Mr McIntyre Treasury
Mr Turnbull Treasury
Mr Jones Washington
Mr Smith UK DEL OECD Paris
Mr Bone UK Rep Brussels
Mr Thomas BE Tokyo
Mr Westmacott BE Paris
Mr Longworth BE Bonn
Ms Probyn BE Oslo
Mr Sullivan BE The Hague
Mr Bache BE Vienna

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