

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 NEA-10 ISO-00 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-02 COME-00 DODE-00 EB-11 FEA-02 FPC-01

H-03 INR-10 INT-08 L-03 NSAE-00 NSC-10 OMB-01 PM-07

RSC-01 SAM-01 SCI-06 SPC-03 SS-20 STR-08 TRSE-00 PA-04

PRS-01 USIA-15 DRC-01 /201 W

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R 250908Z FEB 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 192

INFO AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY THE HAGUE

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

USMISSION OECD PARIS

EC BRUSSELS 1183

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BEIRUT PASS USINT BAGHDAD

STATE ALSO FOR T/IEP

E.O. 11652: N/A

TAGS: ENRG, JA, IZ

SUBJECT: JAPANESE NEGOTIATIONS WITH IRAQ ON BILATERAL OIL DEAL

REF: A) TOKYO 1129 B) TOKYO 2280

1. DURING RECENT VISIT TO BAGHDAD, MITI MINISTER NAKASONE
INITIALLED AGREEMENT ON JAPAN-IRAQ BILATERAL OIL AGREEMENT

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CALLING FOR PURCHASE OF 160 MILLION TONS EQUIVALENT OF

OIL OVER NEXT 10 YEARS (SEE REFTEL A). AGREEMENT, HOWEVER, ONLY PROVIDES THAT IRAQ WILL "PROMOTE" CONCLUSION OF PRIVATE CONTRACTS, BUT DOES NOT SPECIFY WHAT TERMS AND CONDITIONS OF CONTRACTS WILL BE. JAPANESE PRIVATE MISSION WILL LEAVE FOR BAGHDAD SHORTLY (PROBABLY ABOUT MARCH 1) TO DISCUSS CONCLUSION OF THESE CONTRACTS, AND IN PARTICULAR TO TRY TO WORK OUT PRICE. FOUR COMPANIES WILL BE REPRESENTED: MITSUBISHI CORP. AND C. ITOH (TRADING COMPANIES); AND KYODO AND IDEMITSU (REFINERS).

2. ACCORDING MITSUBISHI SOURCE, DELEGATION IS LIKELY TO FACE SOME DIFFICULTY IN THESE INITIAL TALKS. SOURCE REFERRED TO RECENT KUWAIT DD OIL SALE (REF B) AT WHICH JAPAN HAD BID WELL BELOW POSTED PRICE. SITUATION HAD NOT CHANGED, SOURCE ADDED, AND JAPANESE FIRMS WOULD BE UNWILLING TO PAY OVER POSTED PRICE FOR IRAQI OIL. ASKED IF THIS WERE DUE TO MITI ADMINISTRATIVE GUIDANCE, SOURCE SAID IT WAS PRIMARILY BECAUSE MITI NOT EXPECTED TO ALLOW REFINERS TO RAISE PRODUCT PRICES BY AS MUCH AS THEY WOULD LIKE. IF, AS EXPECTED, MITI ALLOWED AVERAGE PRODUCT PRICE (WHOLESALE) TO RISE BY ONLY \$28-29 PER KILOLITER, REFINERS CALCULATED THAT THEY COULD NOT AFFORD TO PAY OVER \$8.30 PER BARREL FOR CRUDE SINCE IRAQIS MOST UNLIKELY TO BE SATISFIED WITH THIS, SOURCE EXPECTED INCONCLUSIVE RESULT IN INITIAL NEGOTIATIONS.

3. DEPUTY HEAD OF MITI'S PETROLEUM DEVELOPMENT DIV., OTSUKA, ADDED THAT GOJ WOULD NOT BE REPRESENTED AT UPCOMING PRIVATE NEGOTIATIONS WITH IRAQ. ALTHOUGH DISPATCH OF GOVERNMENTAL MISSION WAS WITHIN REALM OF POSSIBILITY, OTSUKA SAID THERE WERE NO PLANS TO SEND SUCH A MISSION IN NEAR FUTURE. OTSUKA ALSO SAID THAT HE EXPECTED PRICE NEGOTIATIONS TO BE VERY DIFFICULT. SHOESMITH

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