

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ARA-10 EUR-12 EA-10 NEA-10 IO-13
ISO-00 SOE-02 AID-05 CEA-01 CIAE-00 COME-00
DODE-00 DOE-11 H-01 INR-10 INT-05 L-03 NSAE-00
NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02 SS-15
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P R 071246Z MAR 78
FM AMEMBASSY ABU DHABI
TO SECSTATE WASHDC PRIORITY 7462
INFO AMEMBASSY ALGIERS

USINT BAGHDAD
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY CANBERRA
AMEMBASSY CARACAS
AMCONSUL DHAHRAN
AMEMBASSY DOHA
USMISSION GENEVA
AMEMBASSY JAKARTA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LIBREVILLE
AMEMBASSY LAGOS
AMEMBASSY LONDON
AMEMBASSY MANAMA
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY QUITO
AMEMBASSY TEHRAN
AMEMBASSY TOKYO
AMEMBASSY TRIPOLI
AMEMBASSY VIENNA
USMISSION USUN NEW YORK

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C O N F I D E N T I A L ABU DHABI 0630

E.O. 11652: GDS
TAGS: ENRG, EFIN, TC
SUBJECT: UTAYBA SUGGESTS CURRENCY BASKET FOR OIL PRICING

REF: ABU DHABI 461 (NOTAL)

SUMMARY: OIL MINISTER UTAYBA HAS PUBLICLY PROPOSED ADOPTION OF NEW BASIS FOR CALCULATING PRICE OF OIL BASED ON WEIGHTED AVERAGE CURRENCIES OF SEVERAL KEY INDUSTRIALIZED STATES, CURRENCIES OF OPEC COUNTRIES WITH LARGE BALANCE OF PAYMENTS SURPLUSES, AND PRICE OF GOLD. US DOLLAR WOULD CONTINUE TO BE CURRENCY IN WHICH OIL PAYMENTS ARE MADE. END SUMMARY.

1. IN AN INTERVIEW WITH LOCAL NEWSPAPER AL WAHDA OF MARCH 6, UAE OIL MINISTER MANA SAID AL UTAYBA HAS PROPOSED THE FORMATION OF A NEW BASKET OF CURRENCIES TO DETERMINE THE BASE PRICE FOR MARKER CRUDE AND THEREBY PROTECT THE PURCHASING POWER OF OIL REVENUES FOR OIL EXPORTING COUNTRIES WHOSE PRODUCTION EXCEEDS THEIR REVENUE REQUIREMENTS. WHILE STATING THAT IT WAS NECESSARY TO KEEP THE DOLLAR AS UNIT OF PAYMENT, UTAYBA SAID "WE MUST SEPARATE BETWEEN STANDARDIZATION OF OIL PRICES AND MAINTENANCE OF THE PURCHASING POWER OF RETURNS FROM OIL".

2. ON MARCH 7, I HAD AN OPPORTUNITY TO DISCUSS WITH UTAYBA HIS IDEA OF FOUNDING A NEW BASKET OF CURRENCIES FOR CALCULATING THE PRICE OF MARKER CRUDE. THE IDEA OF A BASKET, OF COURSE, IS NOT NEW AND HAS BEEN DISCUSSED WITHIN OPEC FOR A LONG PERIOD
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OF TIME. UTAYBA FELT, HOWEVER, THAT GIVEN THE CONTINUED SLIDE OF THE DOLLAR IN RELATION TO CERTAIN OTHER CURRENCIES, HIS PROPOSAL SHOULD BE ENTERTAINED.

3. BASICALLY WHAT UTAYBA HAS PROPOSED IS A COMPOSITE BASKET COMPOSED OF THREE PARTS. THE FIRST PART WOULD BE THE CURRENT VALUE OF CURRENCIES OF MAJOR INDUSTRIALIZED COUNTRIES. HE HAS SUGGESTED THAT THEY WOULD ACCOUNT FOR 70 PERCENT OF THE WEIGHT WITH US DOLLAR ACCOUNTING FOR 15 PER CENT, THE DEUTCHMARK 12 PER CENT, THE BRITISH POUND 10 PER CENT, SWISS FRANC 10 PER CENT, THE JAPANESE YEN 10 PERCENT, THE CANADIAN DOLLAR 7 PER CENT, AND THE AUSTRALIAN DOLLAR 6 PER CENT. THE SECOND PART WITH A WIGHT OF 20 PER CENT WOULD CONSIST OF THE CURRENT VALUE OF THE SAUDI RIYAL 10 PER CENT, THE KUWAITI DINAR 5 PER CENT, AND THE UAE DIRHAM 5 PER CENT. THE LAST 10 PER CENT WOULD BE CURRENT VALUE OF GOLD IN DOLLARS. UTAYBA SAID HE WAS NOT WEDDED TO THESE PERCENTAGES BUT HAD PROPOSED THEM FOR CONCEPTUAL PURPOSES. CALCULATIONS OF OIL PRICES BASED ON THESE WIGHTED AVERAGES WOULD BE DONE AT SPECIFIED PERIODS WITHIN CERTAIN RANGES

ESTABLISHED FOR EACH ELEMENT TO AVOID RECALCULATION
FOR MINOR FLUCTUATIONS.

4. UTAYBA SAID HIS PROPOSAL WAS NOW BEING STUDIED
BY UAE FOREIGN MINISTRY AND UAE CURRENCY BOARD SO
THAT IT WAS STILL NOT A FORMAL UAE POSITION. HE
INDICATED THAT HE WAS NOT SUGGESTING THAT OPEC
TAKE ANY PRECIPATE ACTION WHICH COULD HAVE HARMFUL
EFFECTS BUT HE THOUGHT HIS PROPOSAL MIGHT IN LONG
RUN TURN OUT TO BE A BETTER AND MORE REALISTIC
METHOD OF CALCULATING PRICE OF MARKER CRUDE AS
CURRENCIES THAT ARE NOW WEAK STRENGTHEN AND CURRENCIES
THAT ARE NOW STRONG WEAKEN.

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5. UTAYBA PROMISED TO GIVE ME A COPY OF HIS PROPOSAL
WHICH IS IN GREATER DETAIL WITHIN THE NEXT TWO WEEKS
AFTER IT HAS BEEN REVIEWED BY OTHER UAE OFFICIALS.
UTAYBA ALSO SAID HE DID NOT KNOW IF HIS PROPOSAL
WOULD BE DISCUSSED AT A PROPOSED OPEC CONSULTATIVE
MEETING END OF MARCH OR EARLY APRIL. HE INDICATED
THAT SEVERAL OPEC COUNTRIES (INCLUDING SAUDI ARABIA)
WERE COOL TO IDEA OF A CONSULTATIVE MEETING AMONG
OPEC MINISTERS AND MEETING THEREFORE MAY NOT TAKE
PLACE.
DICKMAN

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