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SECRETARY OF STATE FOR ENERGY

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M Alexander Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

*Top Copy on: Energy,
Pt2,
Policy*

[Handwritten signature]
30 October 1979

Dear Mike,

NORTH SEA OIL PRICING

Since the Energy brief for the Prime Minister's meeting tomorrow with Chancellor Schmidt was prepared, we have learned that the Algerians have raised their crude prices by £2.77 per barrel as from 24 October, following the Libyan increase on 15 October. Both these African producers now sell their highest quality crudes at £26.27 per barrel as compared with the OPEC ceiling of £23.50 per barrel. The other major African producer, Nigeria, has not yet increased its prices, but is expected to do so very shortly.

These moves have increased the pressure on UK producers, including BNOC, to increase their own prices, in line with those of comparable African crudes, and the oil companies now see an early rise in North Sea prices as inevitable. We have been endeavouring, so far successfully, by means of informal pressure to persuade UK producers to delay any increase until the Nigerians have increased their prices and to defer action until it is clear what the Nigerians are going to do.

However, because action must come soon and because of the risk that any advance notice of the possibility of a price increase will be misrepresented in the press as an immediate increase it is accordingly suggested that the Prime Minister might wish to inform Chancellor Schmidt about the situation. In doing so it would be useful to emphasise that the action of British oil producers, including BNOC, is intended to be consistent with our general objective of ensuring that North Sea prices follow rather than lead the market.

I am sending copies of this letter to Tony Battishill in the Treasury, Paul Lever in the FCO and Martin Vile in the Cabinet Office.

Yours ever,

Denis

Denis Walker
Private Secretary