

cc Mr Hoskyns Energy 2

DC
to see

PRIME MINISTER

\$2 a barrel

on BNOc prices

MJS

27/4

SECRETARY OF STATE FOR ENERGY
THOMES HOUSE SOUTH
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The Rt Hon Sir Ian Gilmour Bt MP
Lord Privy Seal
Foreign and Commonwealth Office
Downing Street
London SW1

23 May 1980

Dear Ian

MJS

BNOc OIL PRICES

I am writing to let you know of an impending adjustment in UKCS oil prices.

As you will be aware the decision by Saudi Arabia to increase its official selling price by \$2 per barrel has quickly been followed by practically all the other OPEC producers, including Libya, Algeria and Nigeria, the principal African producers. The Libyans and Nigerians have raised their prices by \$2, while the Algerians, whose effective prices are already ahead of the other African producers because of an exploration surcharge of \$3, have increased their selling prices by a further \$1.

BNOc advise me that they now have no alternative but to agree similar increases in the prices they pay their suppliers, and are accordingly proposing to advise companies on Tuesday of next week of a \$2 increase in their buying and selling prices. As you know, our officials have been in close touch about these developments.

I am, of course, very conscious of the need to avoid any appearance of our bringing UKCS prices into line with undue haste, but the inevitability of the BNOc move is now widely accepted following today's announcement by the Nigerians, and the fact that BNOc are proposing to hold their hand until early next week will help in demonstrating that they are doing no more than following the market in circumstances where new price levels have been clearly established.

As you suggested in your letter of 18 April our officials have been discussing together the general issue of the way in which current price determination works. I understand they are making progress and I will write to you separately about this.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Exchequer and to the Secretary to the Cabinet.

Yours
David

D A R Howell