SUBJECT

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10 DOWNING STREET

From the Principal Private Secretary

24 March 1983

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Dear Julian,

THE OIL PRICE AND THE UNITED KINGDOM ECONOMY

The Prime Minister held a meeting with your Secretary of State and others this evening to discuss his minute of 16 March and the note attached to it. The meeting also had before it the Foreign and Commonwealth Secretary's minute of 18 March and Mr. Sparrow's minute of 23 March. The others present were the Chancellor of the Exchequer and Mr. Middleton; the Secretary of State for Industry and Mr. Gill; the Secretary of State for Trade and Mr. Roberts; the Minister of State, Foreign and Commonwealth Office (Mr. Hurd) and Mr. Evans; Sir Robert Armstrong, Sir Kenneth Couzens, Mr. Sparrow and Mr. Walters.

Your Secretary of State said that what had so far happened to the oil price was satisfactory; but a sharp further fall would be disruptive, especially since the price was likely to increase again later. However, the United Kingdom's ability to influence developments was limited. Ideas about consumer/producer dialogues were unlikely to achieve any practical purpose and, while there might be some price at which it would be worth considering whether steps should be taken to limit production of North Sea oil, such a move would be damaging at present. In the short term, the United Kingdom had to consider what line it could most usefully take in discussions with the oil companies and other producers, and try to get other governments to share our approach: in this connection, the approach to the Economic Summit at Williamsburg would be important.

In discussion, there was general agreement with the conclusions of your Secretary of State's paper. In particular, the following points were made:-

(i) It was agreed that the United Kingdom's objective for the time being should be to maintain the nominal prices which had emerged from the recent OPEC meeting, which would mean a slowly declining real price over the next two to three years.

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(ii) Although there would be theoretical advantages in limiting production of North Sea oil while prices were depressed, the scope for doing so was limited to royalty oil, and Government intervention in the levels of oil production might discourage companies from undertaking exploration and future development. There would also be substantial effects on Exchequer revenue. At present, therefore, no steps should be taken to limit North Sea output.

(iii) Nothing was to be gained by pursuing ideas of promoting a consumer/producer dialogue.

(iv) It would not be in the United Kingdom's overall interest to attempt to establish a more formal link with OPEC; but the good relations with the main OPEC producers, which had been informally established, should be maintained. The Foreign and Commonwealth Office were proposing that the Prime Minister should send messages, on the lines of the message previously sent to King Fahd, to the Rulers of the three Gulf States with which she had particularly close links. It was also agreed that the Saudi Arabians should be told privately in advance of any proposal by BNOC to change its term oil price, and that the Nigerians should be told simultaneously with the announcement.

(v) If there was a sharp fall in oil prices, the Chancellor of the Exchequer might have to consider fiscal action to restore the situation, as envisaged in his Budget speech. Such action might include the taxes on oil. But there was no strong argument for increases in these taxes on energy policy grounds in order to discourage oil consumption while the oil price was low.

(vi) While an EEC levy on imported oil could, in certain circumstances, result in a transfer of resources from other EEC countries to the United Kingdom, it was unlikely that such a proposal would be acceptable to other EEC countries and such a levy would have the disadvantage of increasing costs of certain sections of UK industry: the Prime Minister said that for this reason she was opposed to a levy.

(vii) The British Government could best pursue its objectives by persuading BNOC and the oil companies that any further fall in the BNOC term price should be as small as possible, while maintaining a low profile in relation to OPEC. It would be helpful in this respect if any further fall in the BNOC term price could be accompanied by a positive

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statement from influential people such as Sheikh Yamani, and if members of the American Administration could be persuaded not to encourage expectations of further reductions in the oil price. So far as possible, we should try to underpin the present level of prices by stressing publicly the prospects of higher demand for oil later in the year.

On the next steps, the Prime Minister asked the Minister of State, Foreign and Commonwealth Office, to clear with your Secretary of State the draft messages to the three Gulf Rulers; and asked your Secretary of State to keep in touch with the Chancellor of the Exchequer over discussions with BNOC about any concessions to customers which they were thinking of introducing with the aim of minimising further reductions in the term price. Efforts should be made to persuade Sheikh Yamani and other influential people in the oil industry to make helpful statements when BNOC announced proposals on its term price. She would arrange for Ministers to meet again if developments in the oil market looked like making it necessary to review the conclusions reached at this meeting.

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I am copying this letter to the offices of those who were present at the meeting.

Yours ever,

Robin Butler

Julian West, Esq.,
Department of Energy.