

CONFIDENTIAL



1 Mr Butler

2 Mr Cole ✓ A.S.C. 30/3

To see

Prime Minister 2

SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

Mus 30/3

01-211-6402

Mus 28/3

M C Scholar Esq
10 Downing Street
London SW1

28 March 1983

Dear Michael,

My Secretary of State met Lord Croham and Ian Goskirk of ENOC this evening to discuss North Sea oil prices for February and March, both of which remain unresolved, and their thinking for April. It was agreed that for February enough customers had accepted ENOC's proposed price of \$30.50 a barrel for them to insist on it. For March they believe that they can settle on the basis of \$30 a barrel for the Brent blend (the most widely traded North Sea crude); this would enable them, consistently with the pattern of market value, to increase the gap between Brent+other crudes (including Forties) by 25 cents a barrel. It would mean that the main North Sea crude, which would effectively set the North Sea "marker" price, did not undercut the main Nigerian crude.

For April ENOC will propose that the March price should continue to apply provisionally, but they will at the same time suggest a further review of prices in the light of developing market circumstances.

ENOC will send telexes to its customers and suppliers on these lines on Wednesday afternoon, 30 March. Mr Lawson intends to telephone Sheikh Yamani tomorrow evening to give him advance warning. Since this course of action meets pretty well all Yamani's representations, Mr Lawson will seek his help in presenting these proposals as a helpful step towards stabilising the market.

The Chancellor concurs with this course of action.

Mr Lawson believes that this move by ENOC should have a helpful impact. It is not possible to remove all uncertainty about the North Sea price for April and later, but the proposed announcement gives a signal in the right direction. It also gives more time for events in the markets to help us. And it would be very difficult for Nigeria or any other OPEC members to use it as a pretext for a price war.

I am sending copies of this letter to John Kerr and Brian Fall.

Yours ever,

JULIAN WEST
Private Secretary

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Foreign and Commonwealth Office

London SW1A 2AH

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Prime Minister

29 March 1983

Mus 29/3

Dear Subian,

Mr Pym has seen a copy of your letter of 28 March to Michael Scholar about BNOC's price proposals for February, March and April. Mr Pym accepts that what is proposed is a reasonable response to the demands of the market and the conflicting pressures from OPEC. BNOC have done well to hold off so long; and we would expect Yamani to recognise this even though he talked of holding off until April. It is less easy to predict other OPEC and, in particular, Nigerian reaction but we shall of course send detailed advance guidance to posts enabling them to present the move as cautious and reasonable.

As you know, Mr Pym plans to visit Saudi Arabia and the UAE from 8 - 12 April. Oil is bound to be among the subjects discussed but the primary purpose of the visit is to set the seal on restored Anglo/Saudi relations following the successful Arab League visit to London. Mr Pym therefore hopes that by moving now, BNOC will have done enough to avoid a further move in the near future. If BNOC were to move again before Mr Pym's visit, this would be bound to overshadow the broader aspects of the visit and could possibly set back relations once again.

I am copying this letter to John Kerr (Treasury) and Michael Scholar (No 10).

Trans. eve
John Holmes
 (J E Holmes)
 Private Secretary

J D West Esq
 Private Secretary
 Department of Energy
 Thames House South
 Millbank SW1

bc: PS/Mr Rifkind
 PS/PUS
 Sir J Bullard
 Mr Evans
 Mr Adams
 Mr Egerton
 ESSD
 MED