Prime Minister (4)

AT 2/12

MR TURNBULL

2 December 1983

MS

THE OIL MARKET GENERALLY

UKCS spot crude prices are currently about $1.25-1.50 / barrel below term prices. This reflects a general weakness in the market although the recent Shell refinery strike has probably helped to depress UKCS prices. This strike ends on Monday but was forcing Shell to dump quantities of Brent crude on to the spot market.

Setting aside possible developments in the Gulf, the general prospects in the oil market are fragile but do not give immediate cause for concern.

OPEC were at over 1 mbd above the agreed production ceiling of 17.5 mbd during the third quarter. However, they have recently been edging back towards the production ceiling and the effects have yet to be fully reflected in the spot price. The OPEC meeting in Geneva on 7 December is expected to reinforce the current term prices and quotas, despite the misgivings of some members.

With reasonable luck, BNOC term prices should not come under serious pressure during the remainder of this year despite continued weakness in the market.

The prospects for next year depend upon the extent of the world recovery. Although the position will remain fragile, average OPEC demand is unlikely to fall below 17.5 mbd. There is a reasonable chance, therefore, that a major destabilising crisis can be avoided.

In these circumstances, the UK should continue to resist any OPEC proposals for co-ordination on production levels, particularly as UKCS production levels are now probably past their peak.

DLP.

DAVID PASCALL