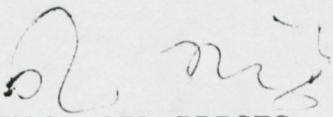


SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

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The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG

17. October 1984


BNOC: OIL PRICES

Since I wrote to you on 21 September, there have been three significant developments in the world oil market. I judge that the time is now right for BNOC to reduce its prices.

The Saudis have changed the composition of the export mix - in effect undercutting BNOC by a further 50¢/bbl. The further strengthening in the market we had earlier hoped for is therefore now unlikely to take place. The threats by the UAE to reduce prices unilaterally are further unsettling the market. Most important, the Norwegians are reported to have cut their price, some grades of which are also sold by BNOC, by \$1.35 - 1.50/bbl. This has caused a further fall in North Sea spot prices and increased the pressure on BNOC. But it has also presented us with a natural opportunity for a change in BNOC's prices without BNOC leading prices down.

We can now either make a straight price cut or, more radically, move to a flexible market-related price whose level could be determined by a formula based on spot prices. There is merit in the latter, but it is not a natural market development. It would clearly and correctly signal that the UK saw no prospect for the time being of playing a direct role in price-setting in the interests of market stability. A price cut by BNOC is not free of risk; but equally pricing by a formula could add to the weakness and uncertainty in the market.

I believe, and the Corporation agrees, that a straight price cut matching the Norwegian cut is now the best way of restoring the BNOC price to a competitive level. That would not rule out later resort to a formula approach should such a straight price cut fail to stabilise the market. I have asked BNOC and officials, therefore, to continue their work on such an approach.

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Because the Norwegians have cut their prices BNOC should now move as quickly as possible. If it does not, market speculation will build up, and it will become more difficult for the Corporation to act without destabilising the market. Spot prices have already fallen by \$0.70/bbl since the news of the Norwegians price cut became known. Moreover the sooner BNOC moves, the more surely we can transfer the odium to Norway. I should therefore be grateful for your agreement to the Corporation proposing to its customers and suppliers a price cut matching the Norwegians. The Corporation should make its proposals today. I should therefore be grateful if you could let me have your views by 3pm.

I am copying this letter to the Prime Minister, Foreign Secretary and Secretary of State for Trade and Industry.

Agreed *W*

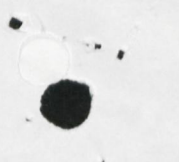
W
PETER WALKER

Please review
now B.N.O.C.'s

Could exist. It seems

To put us in an
embarrassing position because
we have to decide on oil prices.
not

17 OCT 1987



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Treasury Chambers, Parliament Street. SW1P 3AG
01-233 3000

17 October 1984

Michael Reidy Esq
Private Secretary to the
Secretary of State for Energy
Thames House South
Millbank
LONDON SW1

Dear Michael,

This is to confirm, as I told you over the telephone, that the Chancellor is content with the proposals in your Secretary of State's letter of 17 October. In particular he is sure it is right to make the move today.

He also believes there is a strong case for moving to a formula based approach in due course, and is glad, therefore, that officials will be continuing work on this.

I am copying this letter to Andrew Turnbull (No 10), Peter Ricketts (FCO), and Callum McCarthy (DTI).

Yours sincerely,

Philip Wyn Owen.

ff. D L C PERETZ
Principal Private Secretary

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Foreign and Commonwealth Office

London SW1A 2AH

17 October 1984

Dear Michael,

BNOC: Oil Prices

As I have told you on the telephone, the Foreign Secretary has no objection to the proposal in Mr Walker's letter of 17 October to Mr Lawson that BNOC should propose to its customers and suppliers a price cut matching the Norwegians'.

The Foreign Secretary considers that it is essential that our Missions abroad should be in a position to give the news to the major oil exporting countries in advance of BNOC's communication of its new price to their companies. I understand that Mr Walker already has it in mind to send a message to Sheikh Yamani. The Foreign Secretary believes that messages to Nigeria, Mexico and Venezuela in particular would also be essential. Our officials are in touch about the mechanics of this.

The Foreign Secretary also believes that officials should be asked to examine urgently the best way of dealing with the question of changed differentials, to which Mr Walker referred in his letter of 21 September to Mr Lawson. This problem is pressing because the effect of BNOC's reduction may be further reductions by other producers which will leave the problem of differential prices unchanged.

I am copying this letter to Charles Powell (No 10), David Peretz (HM Treasury) and Callum McCarthy (DTI),

Yours ever,

(P F Ricketts)
Private Secretary

Peter Ricketts

Michael Reidy Esq
PS/Secretary of State
Department of Energy

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File



10 DOWNING STREET

From the Private Secretary

17 October 1984

Dear Michael,

BNOC: OIL PRICES

The Prime Minister has seen your Secretary of State's letter to the Chancellor of 17 October proposing that BNOC should cut the price of its crudes by \$1.35-1.50 per barrel (you indicated subsequently that the proposed cut would be at the bottom end of this range). The Prime Minister is content with this.

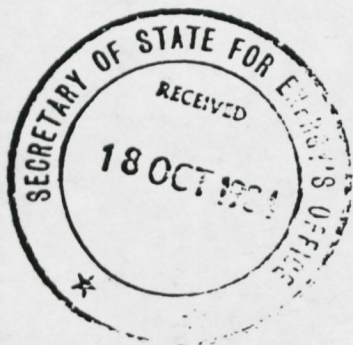
She has commented, however, that the continued existence of BNOC has, on a number of occasions recently, put the spotlight on the Government and forced it into the position of having to take difficult decisions on oil prices. It was agreed in correspondence last June that the future of BNOC should be reviewed in about two years's time. The Prime Minister considers that, in the light of recent developments, this question should be re-opened now to see whether the the difficulties for the Government generated by BNOC's existence are outweighed by the benefits it brings.

I am copying this letter to David Peretz (HM Treasury), Peter Ricketts (Foreign and Commonwealth Office) and Callum McCarthy (Department of Trade and Industry).

Yours sincerely

Andrew Turnbull

ANDREW TURNBULL



Michael Reidy, Esq.,
Department of Energy.