



FCS/84/327

CHANCELLOR OF THE EXCHEQUER

BNOC Oil Prices with AT?

1. I have seen your letter of 11 December to Peter Walker about BNOC pricing.
2. In principle I see advantage in moving to a flexible market related pricing system. This should in the long term enable us to avoid both the commercial and the political disadvantages of the present pricing system.
3. Nevertheless, we face a timing problem in the short term. Any change in the status quo which effectively reduces BNOC prices will be presented as a factor destabilising an already weak market and could cause us serious difficulties with other oil producing countries, in many of which substantial UK commercial and political interests are at stake. We cannot hide behind changes by others, as we could in October, and claims would be made that we were leading prices down.
4. Any action will therefore require very careful presentation to OPEC, particularly to Saudi Arabia and Nigeria. I would regard it as essential to inform the Oil Minister of OPEC member countries and others (Mexico, Oman) of our actions and explain the rationale shortly in advance of, or at least not later than, an announcement. In some cases, for example Shaikh Yamani, a personal message from Peter Walker would also be appropriate.
5. Priority should be given to considering how best to present a decision to the other producers. In practice I think we should do best to act after the OPEC meeting on 19 December, and adapt the presentation of our decision to

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take account of the measures decided by OPEC at it.

6. I am copying this minute to the Prime Minister and to Peter Walker.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office
14 December 1984

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