



8

10 DOWNING STREET

10 January, 1985

*From the Private Secretary*BNOC and Oil Prices

The Prime Minister held a meeting today to discuss BNOC and oil prices. Present were your Secretary of State and the Chancellor of the Exchequer. Your Secretary of State said he had now arranged to meet Sheikh Yamani next Tuesday. He expected Yamani to argue that OPEC, and Saudi Arabia in particular, had borne the brunt of supporting the oil price. While benefiting from this, the UK had not only increased production but had regularly exceeded the Government's forecasts. OPEC argued that any major change in policy by BNOC could de-stabilize the market as it would be interpreted as a sign that HMG itself expected oil prices to fall. This could trigger a major slide in oil prices which would benefit neither Britain nor OPEC.

Your Secretary of State said that when he saw Yamani he would explain HMG's position and take him through the options. He would emphasise that HMG was strongly opposed to cuts in production. These would represent a major reversal of policy and would damage the prospects for the development of the UKCS. (They would also bring the UK into conflict with the US.) In discussion, it was argued that the Saudi position was misconceived. BNOC was already selling most of its oil at spot prices. It was not its selling but its buying prices which were out of line; if anything, this was harming OPEC by encouraging higher production.

It was further argued that the best course for the Government was for BNOC to adopt a market-related formula for its buying prices and at the same time for it to seek, by negotiation, to reduce its involvement in participation agreements, thereby reducing its exposure to losses.

Summing up the discussion, the Prime Minister said the Secretary of State for Energy should set out for Sheikh Yamani the problems and options facing the Government. He should emphasise that there should be no question of cuts in production and that BNOC was no longer having a major influence on oil prices. A further meeting should be arranged for Wednesday of next week to discuss the outcome of that discussion.

I am copying this letter to David Peretz (Treasury) and Len Appleyard (Foreign and Commonwealth Office). I should be grateful if they could ensure that the contents of this letter are revealed only to those who strictly need to know.

ANDREW TURNBULL

Michael Reidy, Esq.,
Department of Energy