10 DOWNING STREET

Prime Minister

There are no new papers for this meeting. Mr Walker is meeting Yamani this evening and will come to the meeting tomorrow morning straight from the plane.

The Foreign Secretary and Chancellor will also be present.

Although the Chancellor is less keen now to see immediate action, it remains important to pin Mr Walker down on what he thinks ought to be done. Does the Statoil move make it easier for BNOC to adopt market pricing for those contracts it can't get out of?

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Norway set to move on oil prices

BY IAN HARGREAVES AND DOMINIC LAWSON

NORWAY IS on the point of agreeing spot market related prices for its December and January North Sea oil sales. Such a move could leave Britain alone in trying to delay pricing decisions until after the January 28 meeting planned by ministers of the Organisation of Petroleum Exporting Countries.

A Reuters report that Statoil, the Norwegian state oil company, had decided on spot-related prices had a big impact on sterling yesterday, but Statoil denied it had taken any decision.

Meanwhile, spot North Sea oil prices continued the rising trend of the past week, pushed mainly by cold weather. February deliveries of Brent, the North Sea reference crude, were traded at $27 a barrel, up about 20 cents on the day. In one transaction Arab Light, Opec's reference crude, was sold at $28.60 compared with its official selling rate of $29. The New York market opened firmer.

Statoil is expected to complete negotiations with its customers on its December and January prices in the next week, but certainly before the Opec meeting.

The company does not intend to reveal the outcome of the negotiations, but the average price of the company's crude is expected to be about $28 a barrel for December deals and about $27.25 a barrel for January deals. For technical reasons Norwegian prices are slightly higher than those for UK North Sea crudes.

The December price would represent a cut of about 75 cents a barrel on November levels when Statoil was still operating a monthly official price system.

Norway's decision not to fix official prices for December and January, but to rely on negotiations with individual oil companies based on spot market prices, mirrors a similar move by the British National Oil Corporation.

BNOC, however, having agreed spot-related prices with its customers for January deals, has been told by the Government to delay agreeing the price it will pay to suppliers.

This move is designed to avoid annoying Opec, which believes the switch to spot-related prices in the North Sea is a major factor undermining world oil prices. The Government also hopes that the combination of cold weather and the tighter controls of Opec production agreed over Christmas will help prices recover before BNOC makes its move.

Indications from major oil companies suggest that Opec production is now running at between 15.5m and 16m barrels a day compared with an intended production ceiling of 16m b/d.

Saudi production is thought to have been cut to 3.5m b/d, partly in response to sharply reduced January liftings by the members of the Aramco partnership.

● BNOC has realised an average price of about $27.35 a barrel for its sales of North Sea crude for delivery this month, according to Mr John Thompson, oil analyst at brokers Fielding Newson Smith.

Mr Thompson argues that BNOC is now mainly selling March crude, having disposed of most of its February North Sea production at an average price of about $27.00 a barrel.

● Shell is to follow Texaco by implementing price increases of up to 3½ per cent on the price it charges industrial and commercial customers for petroleum products. The company blamed the strength of the dollar, the currency in which oil products are traded.

● **Our foreign staff write:** Iran is offering a discount of $2 a barrel off official prices, which were realigned with Opec's structure last week, to compensate buyers for war risk insurance premiums and higher freight rates resulting from its conflict with Iraq.

There is a general understanding within Opec that it should be allowed to give such relief to customers.

The adjusted rate offered by the National Iranian Oil Company puts Iranian Light at $27.11 and Iranian Heavy at $25.55 against $26.30 and $26.40 respectively in December.

Initial indications were that Iran's important Japanese customers found the increased incentive for Iranian Heavy attractive but that for Iranian Light inadequate.