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cc MASTER SET

10 DOWNING STREET

From the Principal Private Secretary

26 March 1985

Dear Michael,

At the end of a meeting on another subject this morning, the Prime Minister had a word with the Chancellor of the Exchequer and your Secretary of State about Mr. Walker's minute of 25 March on Shaikh Yamani's ideas about the current oil situation. Your Secretary of State said that if a cut of North Sea oil production by, say, 20% were to be effective in stabilising oil prices, he would be inclined to favour it. But it would be strongly criticised by both the American Government and European Governments which wanted cheaper oil. In any case, it was difficult to achieve any effective way of restraining North Sea oil production, and the suggestion put forward by Shell that the Government should forego its royalty oil would have serious financial consequences for the Government without damaging the oil companies.

In discussion it was suggested that there would be advantages in the Government moving to an arrangement by which it took its royalties in cash so that it did not have to sell oil directly itself, provided that this change could be made at a time when it was least financially disadvantageous. Your Secretary of State suggested that an assessment should also be made of the scope for the OPEC countries to damage British interests if they came to believe that our failure to restrict North Sea oil production was causing a fall in the oil price.

Summing up the discussion, the Prime Minister said that there was agreement about the difficulties in restraining North Sea oil production. However, she would be grateful if your Secretary of State, in consultation with the Chancellor of the Exchequer, could consider methods and timing of a move to take North Sea royalties in cash rather than in oil. She would ask the Foreign and Commonwealth Secretary to have an assessment prepared of the likelihood and possible scope of OPEC retaliation against British interests on the lines proposed by the Secretary of State.

I am copying this letter to Rachel Lomax (HM Treasury), and to Len Appleyard (Foreign and Commonwealth Office) with the request that he should arrange for an assessment on the lines indicated in the latter part of the Prime Minister's summing up.

Yours ever,

Robin Butler

Michael Reidy, Esq.,
Department of Energy.