

Prime Minister - to see <sup>2</sup>PM/85/25PRIME MINISTER

This endorses the conclusions you reached with Mr. Walker and the Chancellor (a meeting which the Foreign Secretary did not attend).

TERB

3.4.

UK Continental Shelf: Production Controls

1. Peter Walker sent me a copy of his minute of 25 March about his discussions with Shaikh Yamani. I have also seen your Private Secretary's letter of 26 March.

2. It was to be expected that OPEC would respond to our decision to abolish BNOC by attempting to engage the UK in their efforts to prop up the oil market through production restraint. Yamani's comments expand on arguments which he and other OPEC Ministers have also made publicly.

Mr. Walker asked for this

3. I attach an assessment of our exposure to possible OPEC retaliation against UK interests. While the OPEC countries have considerable scope for acting against us, this does not in my view constitute in itself a reason to adopt any of the measures listed in the annex to Peter Walker's minute. For us to introduce controls now would inevitably be interpreted at home and abroad as a signal that we were prepared to collude with OPEC in keeping oil prices high. This would cause considerable problems in our relations with the US, the rest of the Community and in the International Energy Agency. I imagine it would also bring new criticism in Parliament. Moreover, once we had admitted our ability and readiness to use such powers, we would be under continual pressure from OPEC - and also from consuming countries - to use them.

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4. The political and economic arguments for introducing restraints would have to be very strong to outweigh this. As to the economic arguments, they were well summed up in Peter Walker's letter of 29 January 1984 to me; namely that to attempt to influence the balance of supply and demand through the control of UK output would be very costly, could damage confidence in North Sea investment and would work only if it appeared likely to clinch an OPEC pricing agreement. On the political front, the major decisions to abolish BNOC and to move to market prices have been accepted by OPEC with remarkably little criticism so far. Having extracted ourselves from the front line over pricing, we would need strong reasons to re-enter it over production. The likelihood of OPEC action against our interests is no such reason, at least at this point. Our policies on production are sensible and we should stick to them.

5. As to royalties, I would favour a move to take them in cash rather than in kind if the practical and revenue considerations so permit, since to do so would distance us even further from the market.

6. I am copying this minute to the Chancellor of the Exchequer and the Secretary of State for Energy.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
3 April 1985

DEPARTMENT/SERIES ..... <i>PREM 19</i> ..... PIECE/ITEM ..... <i>1737</i> ..... (one piece/item number)	Date and sign
Extract/Item details:  <i>Annex (paragraphs 1-10) of minute          from Howe to Prime Minister          dated 3 April 1985</i>	
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UK/OPEC TRADE RELATIONS\*

1984

Exports to OPEC £6.4 bn

Imports from OPEC £2.4 bn

\*(not including Gabon)

<u>Saudi Arabia</u>	<u>Visible Exports</u>	<u>Imports</u>	<u>Principal Business Sectors</u>	<u>British Subjects</u>
	1.3 bn	507 m	Defence sales. Telecomms. Power generation. Agriculture. Health care products.	35,000
<u>Iran</u>	703 m	368 m	Machinery and transport equipment. Chemicals. Health care. Raw materials (iron and steel)	70 <sup>6</sup>
<u>Iraq</u>	343 m	69 m	Machinery and transport equipment. Textile and metal goods. Health care products.	1,400
<u>Kuwait</u>	301 m	141 m	Electricity generation. Desalination and Sewage Construction. Health care.	5,800

<u>Qatar</u>	<u>Visible Exports</u>	<u>Imports</u>	<u>Principal Business Sectors</u>	<u>British Subjects</u>
	133 m	28m	Power generation. Electrical Health Care. Sewerage Constuction.	5,400
<u>UAE</u>	542 m	87 m	Construction. Power generation. Agriculture. Health Care.	7,100
<u>Nigeria</u>	614 m	253 m (Jan-Oct)	Defence sales. Agriculture. Health Care. Raw materials. Chemicals.	11,000
<u>Algeria</u>	287 m	274 m	Machinery and transport. Telecomms. Dairy products.	1,800
<u>Libya</u>	264 m	155 m	Construction. Capital plant. Health Care. Motor vehicles.	4 - 5,000
<u>Venezuela</u>	102 m	249 m (petroleum products 94% of total)	Whisky. Chemicals. Machinery. Dairy products.	2 - 4,000

<u>Ecuador</u>	<u>Visible Exports</u>	<u>Imports</u>	<u>Principal Business Sectors</u>	<u>British Subjects</u>
	34 m	13 m	Defence Sales. Power generating. Transport. Textiles.	550
<u>Indonesia</u>	186 m	181 m	Power generating. Machinery. Chemicals. Road Vehicles	5,000

ENERGY : OJ : Pt 2.

23 APR 1980

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