



Prime Minute <sup>②</sup>  
 To note AT 8/5

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Treasury Chambers, Parliament Street, SW1P 3AG  
 01-233 3000

PRIME MINISTER

**UK CONTINENTAL SHELF: PRODUCTION CONTROLS AND ROYALTIES**

*attached ←* Geoffrey Howe sent me a copy of his minute of 5 April. I have also seen the letter of 10 April from Peter Walker's office.

2. I entirely agree with Geoffrey's assessment. OPEC countries have considerable scope for acting against us but, for all the reasons Geoffrey gives, I share his view that this should not lead us to adopt the sort of measures set out in the Annex to Peter's minute of 25 March.

3. I accept Peter's point that moving to royalty in cash is dependent on our ability to accommodate the adverse impact on the PSBR. I will be considering this in June when I will have the next Treasury economic assessment. We should need to give notice of such a change by 30 June if it were to come into effect from 1 January 1986. In the meantime I have asked my officials to examine possible ways of mitigating the adverse PSBR effects.

4. I do not see that such a change should create any concerns about security of supply. In his Statement on 13 March on the abolition of BNOC, Alick Buchanan-Smith linked our security of supply to the power to take royalty oil and this power would be preserved in any move to royalty in cash.

5. I am copying this minute to Geoffrey Howe and Peter Walker.

N.L.

7 May 1985

Energy: Oil Prices Pt 2.



The following information is for your information only.

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I am sorry that I have not been able to provide you with the information you requested.

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PRIME MINISTER

To read

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AF 24/5

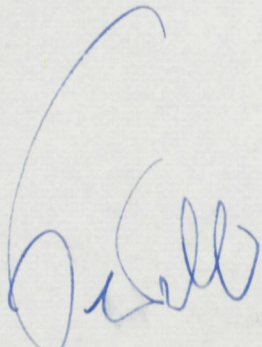
UK CONTINENTAL SHELF : PRODUCTION CONTROLS AND ROYALTIES

I have seen a copy of Nigel Lawson's minute of 7 May to you.

As was indicated in my Private Secretary's letter of 10 April, my understanding is that we agreed that any switch from royalty-in-kind to cash should take place in the longer term. Furthermore both the House and public opinion would consider that a very early change would call into question the case for setting up the new Agency. Indeed it would create severe difficulties for ourselves in Parliament to reveal such a step while the Oil and Pipelines Bill is going through Parliament. The fact that the run-down of BNOC has progressed very smoothly and that I have nearly completed the OPA Board makes it all the more important for us to avoid the unnecessary political obloquy of taking a step which everybody would represent as a volte-face.

Contrary to what Nigel suggests, RIK can make an important contribution to our security of supply. Given that RIK is sold spot, it can be deployed rapidly to enhance our security of supply, if a crisis blows up. Depending on when in the year the crisis occurred, it would take a minimum of 7-13 months to revert from RIC to RIK. As any supply crisis is likely to be limited, our ability to deploy RIK could make all the difference between keeping the market supplied and a politically damaging shortfall.

I am copying this letter to Geoffrey Howe and Nigel Lawson.



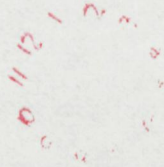
SECRETARY OF STATE FOR ENERGY

24 May 1985

Energy: Oil prices #2



24 MAY 1985



COMPTON



SECRETARY OF STATE FOR ENERGY  
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PEPB

EJD  
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Robin Butler Esq  
 Principal Private Secretary to the  
 Prime Minister  
 10 Downing Street  
 London  
 SW1

10 April 1985

Dear Bob:

Ric in Murray

Thank you for your letter of 26 March, which recorded a remit to my Secretary of State to consider, in consultation with the Chancellor, methods and timing of a move to take North Sea royalties in cash rather than in oil.

My Secretary of State will certainly pursue this matter. His understanding, however, is that it was agreed that any switch to cash should take place in the longer term, and when the Chancellor could accommodate the adverse impact this would have on the PSBR.

A very early change would call in question the case for setting up the new Agency, as announced to the House on 13 March. It would undoubtedly stir up fresh anxieties about security of supply which the Minister of State was at pains to allay at the time of the statement. It would also add to our problems with BNOG staff. The announcement about the Agency and its functions was, after all, agreed after careful consideration between the Treasury and the Department of Energy of the possibility of moving in the immediate future to cash rather than oil.

My Secretary of State will nevertheless be ready to review further the question of royalty oil once the new Agency has been successfully established and we have had some experience of their operations in this oil. And he certainly intends that the legislation should keep open the possibility of change.

I am copying this letter to Rachel Lomax and Len Appleyard.

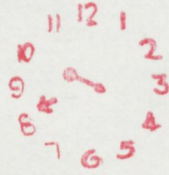
Yours sincerely  
 M F Reidy

M F REIDY  
 Private Secretary

ENERGY; Oil : Pt 2,



10 APR 1985



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10