

PRIME MINISTER

OIL PRICES

You will have seen my letter of 22 January to Nigel Lawson about developments in the oil market.

Shaikh Yamani telephoned me today from Geneva to follow up the conversation Geoffrey Howe had with Prince Saud. He said that he had intended to be in London this week, and would have wished to see me, on a private basis, to discuss the state of the oil market. However he had influenza and would be unable to visit London before becoming tied up by his son's forthcoming wedding.

I said that it would be impossible for me to come to Geneva on Thursday because of Cabinet and the Gas Bill. He very readily agreed to leave matters for the present, and suggested we speak on the phone again with a view to arranging a meeting at the end of February.

The conversation then turned to the likely future trend in the oil price. I was non-committal. Yamani said that he thought prices would continue to fall until they bottomed out at \$15 per barrel. When I pressed him for the reasoning behind this figure he was unspecific about the mechanism, merely suggesting that the degree of chaos this would cause in the financial markets and in the oil companies would be so intolerable as to necessitate a halt.

It is impossible to be certain, but my guess is that Yamani was sounding out our willingness to take some (unspecified) action. If I had seemed keen to have a meeting, he would have pressed for it to be early rather than later.

I still do not believe there is anything we can or should do on production or otherwise which would have the desired effect. We clearly need to consider carefully the line I should take at any meeting in



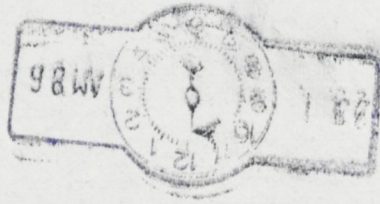
February. But we now have a breathing space which will allow us to see more clearly how the market is developing, and for officials to prepare an assessment of the implications.

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

Secretary of State for Energy  
22 January 1986

CONQUEROR

Energy: Oil Prices.



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11