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10 DOWNING STREET

From the Principal Private Secretary

10 March 1983

OIL PRICES

The Prime Minister held a meeting at 10 Downing Street at 1615 hours this afternoon to discuss the response which your Secretary of State should make to the proposition put to him by Sheik Yamani and recorded in your minute of 9 March. The Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, Sir Kenneth Couzens, Mr. Middleton, Mr. Evans and Professor Walters were also present.

Your Secretary of State reported on his talk with Sheik Yamani the previous evening. Sheik Yamani had emphasised that, despite considerable pressure, the Nigerians refused to increase their price above \$30 per barrel. Sheik Yamani's judgement had been that the success of the OPEC agreement now depended on BNOC's maintaining its current price of \$30.50 per barrel until the end of March and then maintaining a price of \$30 per barrel. If your Secretary of State could give a favourable response to this proposition, Sheik Yamani said that he could present the OPEC agreement confidently: otherwise he would have to present the OPEC agreement with less conviction. Your Secretary of State said that he had pointed out to Sheik Yamani that neither the British Government nor BNOC could determine the term price of North Sea oil: if the term price was set too high, the oil would have to be sold on the spot market, which would have a far more damaging effect on the OPEC agreement. The British Government could not, as Sheik Yamani had suggested, solve the problem simply by influencing BP and Shell. Having now consulted BNOC, your Secretary of State suggested that the best answer to Sheik Yamani would be to say that he had asked BNOC to hold their current price for as long as possible: BNOC thought that they could hold the current price for at least ten days, and they would then have to assess their future policy in the light of market conditions. The more successful Sheik Yamani was in convincing the market that the OPEC agreement was realistic, the less would be the price adjustment which BNOC would have to make.

In discussion, it was pointed out that the British Government shared with OPEC an interest in avoiding sharp and competitive reductions in the oil price. It therefore matched our political

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and our economic interest to be as helpful to OPEC as possible. But our means of helping in the way suggested by Sheik Yamani were very limited. To restrict our production by leaving royalty oil in the ground would be very expensive and would not have sufficient effect on world supply to enable BNOC to maintain its price. It could be regarded as unreasonable on the part of OPEC to urge BNOC to hold its price when they were envisaging raising OPEC production from its current level of 14 mbd to an average of 17½ mbd over a year as a whole: but to respond to Sheik Yamani by saying that BNOC would only be able to maintain its price as proposed if OPEC was to maintain the current level of production would be to impose a condition which Sheik Yamani could not achieve and which he would regard as a direct rebuff. Other factors which had to be taken into account in considering your Secretary of State's response to Sheik Yamani, and the Prime Minister's reply to the message she had received from King Fahd, were the impending visit of the King of Morocco and the Arab League scheduled for 18 March, and the fact that the industrialised world (including the United States) together with the developing nations which were not oil producers would be hoping for a further reduction in the oil price.

Summing up the discussion, the Prime Minister said that the objective of the United Kingdom should be to achieve a stable oil price. We had therefore both an economic and a political reason for wanting to give as helpful a response to Sheik Yamani as possible. But the United Kingdom could not determine the North Sea oil price and it would not be in our interests to offer to Sheik Yamani what we could not deliver. Your Secretary of State should therefore respond to Sheik Yamani on the lines which he had suggested. She would also need to send a reply to the message from King Fahd and that reply should describe the limitations on the powers of the British Government as strongly and simply as possible: Sir Kenneth Couzens, in consultation with Mr. Middleton and Mr. Evans, should liaise on the draft which should be submitted to No. 10 in the course of tomorrow. The Prime Minister asked your Secretary of State to complete the paper which was being prepared by the Department of Energy in consultation with other departments on the economic and political issues arising from the present oil price situation, so that it could be circulated in time for collective consideration by Ministers before the end of next week if necessary.

I am copying this letter to John Kerr (H.M. Treasury), Brian Fall (Foreign and Commonwealth Office), Sir Kenneth Couzens, Peter Middleton (H.M. Treasury), Richard Evans (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

Julian West, Esq.,  
Department of Energy.