

CONFIDENTIAL



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Treasury Chambers, Parliament Street, SW1P 3AG
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The Rt Hon Peter Walker MBE MP
 Secretary of State for Energy
 Department of Energy
 Thames House South
 Millbank
 London SW1

18 March 1985

Dear Secretary of State,

BNOC's PRICES FOR MARCH AND THE SECOND QUARTER

You wrote to me today about BNOC's prices.

I entirely agree that BNOC should move to market related pricing for the second quarter. As you say, such a move removes the risk of BNOC losses and can be presented as a transitional arrangement while BNOC is run-down.

In my view the March price should be handled in the same way. Suppliers will find it hard to resist the logic of the link to BNOC's run-down and OPEC are likely to see the move in a very different light as a result of the announcement of BNOC's abolition. I appreciate that the participation agreements say prices should only be changed in the quarter in exceptional and unforeseen circumstances. The announcement of BNOC's abolition is, arguably, such an event. In any case, the companies have previously acquiesced in other moves on pricing which are not consistent with the letter of the agreements and may well acquiesce again. In these circumstances, I do not believe it would be appropriate to continue with the price of \$28.65 for March and so incur losses of another £12 million, and additional public expenditure of the same amount.

Finally, on the text of the other parts of the telex, I would hope the second sentence of the first paragraph could convey greater urgency and enthusiasm about the run-down and be redrafted:

"We would be willing to lift committed volumes in the second quarter but we would be pleased for you to retain cargoes which would otherwise be delivered to BNOC."

Yours sincerely,

Philip Wynne Owen

ff NIGEL LAWSON

(Approved by the Chancellor and signed in his absence)

18 MAR 1985

