Prime Minister

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MR FLESHER

20 March 1985

BNOC'S PRICE FOR MARCH

The current exchange of letters between Peter Walker, Nigel Lawson and Geoffrey Howe on BNOC's March price turns on the question of whether it is worth risking the finishing touches of a thoroughly successful exercise for the sake of £3 million.

Since we are talking about the cost to the Exchequer, it may be worth drawing the Prime Minister's attention to another factor which could offset the Chancellor's gain from a market-related March price. Inevitably, BNOC is a dispirited organisation. The better traders will be looking outside for new jobs. The others will be pre-occupied with their prospects in the new Agency. Meanwhile, BNOC still has to sell oil worth around £20 million per day through a volatile spot market. The cost of not doing so with acumen could easily be \$0.2 per barrel, ie £3 million per month - with no tax offset to the Exchequer.

Clearly, the more rapidly BNOC's participation contracts can be run down the better. Contractually, nothing can be done in the short term. We depend on pressure from the Government and voluntary withdrawal by the producers. Antagonising them over March pricing, perhaps to the point of initiating legal action against BNOC, will hinder the wind-down.

We would side with Peter Walker and not risk impeding progress on the last lap.

JOHN WYBREW JW.

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