

Prime Minister

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PRIME MINISTER

BP/BNOC OIL TRADING

M.

To note. No need,
in my view, for you
to intervene at this stage.

But there is clearly a
trade-off between UK
security of supply and
losses to BP which may

You will wish to be aware of an approach BP have made to me about have
negotiations between them and BNOC on crude oil trading. to be

considered
further.

Under the terms of the BP participation agreement signed in 1977, BNOC gained access at market price to a volume of oil equivalent to 51% of BP's North Sea production. BP's world-wide supply position has been transformed this year and they now fear that they will be 35m tonnes short next year, on a world-wide requirement of 110m tonnes. They have asked BNOC to reverse the present relationship, making BNOC a net contributor to BP next year. BNOC have offered to reduce their net dependence on BP, but a gap of some 9m tonnes remains between BP and BNOC. BP have appealed to me to intervene. TL
26/9

BP's request amounts to an appeal to help supply their overseas subsidiaries at the expense of oil which would otherwise be available to BNOC's other customers, 75% of whom in 1980 are to be companies operating in the UK. BP's needs cannot be met solely at the expense of BNOC's overseas customers. On the other hand, BP estimate the potential cost to them of making no change in the supply arrangements with BNOC at £500m.

I have told BNOC that I expect them to negotiate constructively with BP, short of prejudicing UK national supply. I have similarly told BP that if they seek the intervention of HMG, they must demonstrate that their company needs can be reconciled with UK security of supply, if need be by some claw-back arrangement in the event of supply difficulties.

I trust that this will give a new impetus to the search for a solution; but there is a conflict of interest here which it will be difficult, in my view, to bridge. Any remaining conflict must ultimately be resolved in favour of UK security of supply.

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I am sending copies of this minute to the Foreign Secretary,
the Chancellor of the Exchequer and Sir John Hunt.

JH

Secretary of State for Energy

26 September 1979

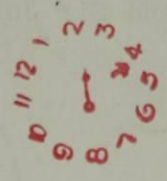
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10 DOWNING STREET

From the Private Secretary

28 September 1979

BP/BNOC Oil Trading

The Prime Minister was grateful for your Secretary of State's minute of 26 September on the above subject. She has noted that there is likely to be a trade-off between ~~the~~ UK security of supply and losses to BP (and indirectly to the Government). I should be grateful if you could keep us in touch with developments.

I am sending copies of this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and Sir John Hunt.

T. P. LANKESTER

W.J. Burroughs, Esq.,
Department of Energy

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