

PREM19

45

ENERGY

(future of BNOC &
BP shares)

(Part 2)

PREM 19/45

95
830

MT

PART 2
SECRET

Confidential Filing

The future of BNOC.
Proposed sale of BP assets.

ENERGY

Part 1 : July 1979

Part 2 : Sept 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
	17.9.79						
	24.9.79						
	4.10.79						
	13.10.79						
	22.10.79						
	31.10.79						
	8.11.79						
	9.11.79						
	4.11.79						

PREM 19/45

PART 2 ends:-

Note of Mtg Ministers 21.12.79

PART 3 begins:-

s/Energy to CDL 27.12.79

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
OD(E)(79) 43	20.11.79
E(79) 67	21.11.79
E(79) 68	22.11.79
OD(E)(79) 17th Meeting, Minute 2	22.11.79
E(79) 15th Meeting, Minute 4	26.11.79
E(79) 80	7.12.79
E(79) 19th Meeting, Minute 3	12.12.79

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed AWayland

Date 19 September 2009

PREM Records Team

80-1

81-12.

82-3

-140.

-340.

-285

Case 1

-410

-325

-330

Case 2

-140

-335

-270

Case 3

-330.

-275

-230

4

-120.

-320.

-265

PM's notes from
Meeting on 21/12/79.

3-4

84-5

85-6

86-87

-215

-255

-180

-170

-15

-15

-20

-20

-185

-220

-140

-125

-170

-205

-145

-135

-195

-235

-150

-140

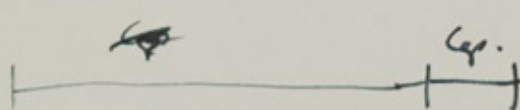
— *RM*

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Cuts
← 57%

Opens
—

	80	81	82	83	84	85	86	TOTAL
STAT	140	340	285	215	255	180	170	1585
CASE 1	450	325	330	15	15	20	20	1175
CASE 2	140	335	270	275	185	140	125	1415
CASE 3	330	275	230	170	205	145	135	1490
CASE 4	120	320	265	195	235	150	140	1425.



Leads.
Cost.

Top copy Energy Policy
PES
Energy

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OIL POLICY

NOTE OF A MEETING HELD AT 10 DOWNING STREET AT 2:30PM ON
FRIDAY 21 DECEMBER 1979.

PRESENT: THE PRIME MINISTER
THE CHANCELLOR OF THE EXCHEQUER
THE LORD PRIVY SEAL
SECRETARY OF STATE FOR ENERGY
ATTORNEY GENERAL
SIR KENNETH BERRILL

MR P LeCHEMINANT } Secretaries
MR P MOUNTFIELD }

1. GOVERNMENT-TO-GOVERNMENT OIL SALES

The meeting considered a note by the Secretary of State for Energy circulated with his Private Secretary's letter of 20 December.

THE SECRETARY OF STATE FOR ENERGY said that he wished to take the opportunity of his visit to the Middle East early in January to explore the possibility of Government-to-Government oil purchases. As agreed at the Prime Minister's meeting on 10 December, he had arranged for informal discussions with BP and Shell. While neither company was enthusiastic about the prospect, both recognised that in present circumstances, an increasing proportion of oil sales were likely to take the form of Government-to-Government deals, but were anxious that any initiatives taken by the British Government should not undermine their position in those countries where they still had a significant stake. The oil companies were anxious to be kept in touch.

In discussion, there was broad agreement that the British Government could not afford to ignore the possibility of such oil sales in future. At the same time it was important not to damage the interests of our own oil companies. We should therefore concentrate on developing

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Government-to-Government contacts with those countries where BP and Shell no longer had a significant interest. It was also important that BNOC, if it were used as an instrument in these sales, should not be put into a position where it might make sizable losses.

THE PRIME MINISTER, summing up the discussion, said that the meeting agreed the Secretary of State for Energy should explore, on an entirely non-committal basis, the possibility of Government-to-Government sales, and should inform her of the reactions here received.

2. PRIVATISATION OF BNOC.

The meeting considered a note by officials, circulated under cover of a letter from the Chancellor of the Exchequer's Private Secretary dated 20 December.

THE CHANCELLOR OF THE EXCHEQUER said that he hoped to raise £500 million by way of disposal of public sector assets in 1980-81. About half of this was already available from 'firm offers'. Or a number of other potential sales, and it would not be absolutely necessary to dispose of part of BNOC in order to meet the target. But BNOC could make a significant contribution. The figures in the paper set out first, the contribution which BNOC's cash flow was likely to make to a reduction of the public sector borrowing requirement (PSBR) over the years to 1983-84. It then showed, for each of four possible disposal cases, the difference which this would make. Consistent assumptions about the future course of oil prices had been taken, and tax revenue was shown separately. The essential difference was that any sale of assets involved giving up future revenues in exchange for immediate cash. The Budgetary position in 1980-81 and 1981-82 would probably justify such disposals. The longer-term objective remained the privatisation of large parts of the present public sector.

In discussion, it was suggested that the Government might need the additional revenue from BNOC just as badly in the later years of the

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period. If oil prices continued to rise in real terms at their present rate, those revenues would be significantly higher. It might be more prudent, therefore, to dispose of a comparatively small part of BNOC in the early years.

In further discussion, it was argued that any split of the existing BNOC into a 'trading' and 'operating' subsidiary would be seen overseas as a political device intended to retain a Government control over the destination of North Sea oil. Against this it was argued that the proposed arrangements were easier to defend, in terms of community law, than the present participation deals, which contained 'sale back' arrangements which were open to challenge. On balance, it seemed that, internationally, there was nothing to lose and possibly something to gain from the proposed changes.

It was further argued that the device of splitting the present BNOC would weaken the management of the BNOC 'trading' subsidiary by depriving it of information about the costs of North Sea oil production. Most major oil companies still operated as integrated entities, combining production with trading functions. Against this, it was argued that BNOC 'trading' would be dealing with many different production companies, and there was no particular case for it to retain a stake in its former affiliate, BNOC (operating). Indeed the operation might go better if the two were at arms length.

In continuing discussion, it was suggested that the sales of the 'operating' subsidiary would command a better price if it were made clear to the market from the start that the ultimate objective were to remove the new company from Government control. This would also have the technical advantage of removing the company from the public sector, and thus allowing the proceeds of sale to be treated as a reduction of the Public Sector Borrowing Requirement, rather than a means of financing it. It was however suggested that the accounting conventions in this area were unnecessarily rigid and need not be regarded as an overriding objection.

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THE PRIME MINISTER, summing up the discussion, said that the meeting agreed on a division of BNOC into separate 'operating' and 'trading' subsidiaries. The necessary legislation should be drafted accordingly. While the ultimate object remained the privatisation of BNOC, there was no need for a decision at this stage on the timing, speed or extent of disposal of shares in BNOC (Operating). The Secretary of State for Energy, in consultation with the Chancellor of the Exchequer, should raise the issues again at a later stage. At the same time, the Chancellor of the Exchequer should re-examine the accounting conventions which determined whether or not the proceeds of sale counted as a reduction of the PSBR.



SECRETARY OF STATE FOR ENERGY
 TRINITY HOUSE SOUTH
 MILLERS LONDON SW1P 4QJ

Tel: 211 6402

The Rt Hon Sir Ian Gilmour, Bart., MP
 Lord Privy Seal
 Foreign and Commonwealth Office
 London SW1

21 December 1979

BP/BNOC CRUDE OIL SALES

In your letter of the 18th December you draw attention to the political risks of the "claw-back" provisions in the BP/BNOC arrangements and posed the question whether that political risk is worth taking.

While, of course, I agree that there is an important foreign political dimension to the new arrangements, I am quite clear that we must accept any residual risk. Our first political priority must be UK security of supply. "Claw-back" offers a substantial potential contribution to that security - up to 5 million tonnes per year at peak.

Though I would certainly be prepared to consult you before exercising any claw-back provision built into the contracts, I cannot agree simply to forego the additional protection it potentially offers. Nor do I believe this to be necessary in the light of Michael Havers' advice. I would draw your attention in particular to the following points:

- i. The claw-back arrangements envisaged provide that BP should have the opportunity to increase product supplies to the UK from its own system before BNOC terminated any crude supply. If BP can in practice achieve that at the time there would be no termination in BNOC's supply;
- ii. BP would provide for the potential implementation of this feature of the arrangements by committing the supply in question to two refineries owned and operated by BP Trading itself in Holland and Belgium. These refineries are used as marginal suppliers to the BP system and accordingly have a crude supply which, even in normal circumstances, fluctuates by more than the volumes involved in the BNOC arrangement. BP would intend to maintain the level of supplies of UKCS crude to the European system, making up their obligations to the UK in terms of non-UKCS crudes.



- iii. BP is itself aware of the need to limit information about these arrangements. As you know, they found there was no need to discuss them in their recent briefing of their European affiliates.

This is now the one point outstanding which is inhibiting serious negotiation of the new supply arrangements between BNOC and BP. I regard it as urgent to make progress on the contractual implementation of the Principles of Understanding of the 1st November. We need to resolve this issue before I leave for the Middle East on the 4th January and I hope that you can inform me before then that you will not press your argument further at this stage.

Copies of this letter go to the Prime Minister, members of ODE, the Attorney General, the Lord Advocate and Sir Robert Armstrong.

Howell
David

D A R HOWELL

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21 DEC 1979

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

20th December 1979

Dear Tim,

FUTURE OF BNOC AND THE PSBR

The Chancellor of the Exchequer was asked at the meeting of E Committee last week to arrange for officials from the Departments concerned and from the CPRS urgently to review the implications for the PSBR of the various options for introducing private capital into BNOC, including delaying such an introduction for a period (E(79)19th Meeting, Item 3). The Prime Minister would then arrange for this further work to be considered by the Ministers directly concerned, if possible before Christmas (a meeting has now been arranged for Friday morning).

.....
I attach a note which the Chancellor has approved on the PSBR consequences of the various options for introducing private capital into BNOC. The note has been produced in consultation with officials from the Department of Energy, the CPRS and Inland Revenue. In accordance with the remit from E Committee it concentrates on the narrow, though important, PSBR points and is not intended to cover other issues relevant to BNOC privatisation.

.....
I also attach an aide memoire summarising the options, produced by Treasury officials as part of the Chancellor's briefing.

I am sending a copy of this letter and its attachments to the Private Secretaries of the Secretaries of State for Energy, Industry, Foreign and Commonwealth Affairs and Trade and to the Attorney General. Copies also go to Sir Robert Armstrong and to Sir Kenneth Berrill.

Yours etc,
ME
(M.A. HALL)

T. Lankester, Esq.,
No.10, Downing Street,
S.W.1.

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SUMMARY COMPARISON OF OPTIONS WITH STATUS QUO

Unified Management	Control of UKCS oil	PSBR (see para 4 of draft paper)	Private Shareholders
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Status quo	No change	No change	No change
<u>Case 1</u> Mr Howell's proposal - split Trading and Operating and sell 75% of Operating to private shareholders	No change	No change	No change
<u>Case 2</u> Maintain unified management but sell 49% to private shareholders	No change	Large early reductions in PSBR, later increase; provided clear statement made about giving up control, & intention to sell at least 51%; & oil subject only to 51% participation options	Private shareholders control all Operating assets
<u>Case 3</u> Partial privatisation of upstream assets: selling porportion of BNO's license interests to separate company, with 75% private shareholding	No change	Share sales, at depressed prices compared with Case 1, finance but don't reduce PSBR	Private shareholders get income stream but no control
<u>Case 4</u> Transferring the right to, say, 5% of the revenue from BNO's oil fields to a company, with 100% to private shareholding	No change	Some early reduction in PSBR; later increase. As in Case 1 but no Statement on future privatisation needed	Partial private control of oil assets As in Case 2 above but smaller scale

206

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THE FUTURE OF BNOC & THE PSBR

Note by the Chancellor of the Exchequer

1. I was asked to arrange for officials from the departments concerned and from the CPRS urgently to review the implications for the PSBR of the various options for introducing private capital into BNOC, including delaying such introduction for a period (E 79) 19th Meeting, Item 3). The position is as follows.

Assumptions

2. Any assessment of the PSBR effects of introducing private capital into BNOC must inevitably rely on many working assumptions. But the figures in paragraph 4 below illustrate the broad size and direction of the effects for the main options for introducing private capital into BNOC listed in paragraph 3 below. The critical assumptions in those figures are:

- a) Tax. It is assumed that payments of PRT and Corporation Tax to the Exchequer will be the same for all 4 cases in paragraph 3.
- b) Oil prices. These are assumed by BNOC to be at \$28.50 per billion barrels in April 1980, an assumption which now looks conservative in view of Caracas. The higher oil prices, the greater BNOC's prospective revenues. It is uncertain whether the full benefits of these higher revenues would be reflected in sale proceeds from privatisation (for the reasons in paragraph 5 below). If BNOC, or a part of it, remains under public sector control, the PSBR would certainly benefit.
- c) BNOC's capital expenditure programme. This is taken to be at the level assumed by BNOC in their recent review (see Annex). This is some £45 million to £90 million a year below levels agreed by Ministers in September. The higher the capital programme, the less the PSBR case for keeping BNOC, or any part of it, in the public sector.
- d) Size of sale proceeds. These are calculated on the basis of Mr Philip Shelbourne's valuation of BNOC as at 1st January 1980 of £1.5 billion (about £1.25 billion at 1979 Survey prices). This valuation took no account of any effect on the sale price of any Opposition threats to re-nationalise the privatised company on onerous terms.

The Options

3. In broad terms the options for introducing private capital into BNOC are set out below. Their PSBR effects are summarised in paragraph 4 below.

- a) Case 1. Splitting BNOC into two independent companies, BNOC (Trading) and BNOC (Operating), and selling 75% (or a somewhat lesser amount) of the

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shares in Operating to private shareholders, with a minimum of 25% being owned by Trading, which would remain 100% owned by the Government. This is the option favoured by the Secretary of State for Energy in E(79)67.

The shares could be sold in 3 equal tranches of 25%, but for the proceeds to count as a PSBR reduction, it would have to be made clear at the outset that the public sector was immediately relinquishing control over Operating and that it intended to sell at least 51% of the shares eventually.

The proceeds would finance the PSBR but would not reduce it if there were obligatory arrangements whereby 100% of its oil (as distinct from the normal 51%) was sold to Trading. Three years after the start of the sale the PSBR would be increased, because Operating's cash surpluses would no longer accrue to the public sector and there would be no more sales proceeds to offset this loss.

b) Case 2. Maintaining BNOC's present unified management by transferring the oilfield assets to a subsidiary company, and selling a minority (e.g. 49%) of this company to private shareholders. This is the option discussed in paragraphs 5-7 of E(79)67 and in the Annex to E(79)80.

The proceeds from this sale would finance, but would not reduce the PSBR, since the privatised subsidiary would be under BNOC's control and thus within the public sector. If the company's cash surpluses in later years are to continue to reduce the PSBR, they would have to be invested in public sector debt so that the cash remained available to the public sector and this has been assumed in estimating the figures for Case 2. Such a requirement would have to be made clear to prospective investors in the prospectus, and sale proceeds could be reduced if they believed the company too much under Government control. The size of the cash surpluses would partly depend on the amount of capital expenditure undertaken by the company. The Government would therefore want to control the capital programme. This too would need to be disclosed to investors with potential effects on sale proceeds.

c) Maintaining BNOC's present unified management by routes other than at (b) above. For example:

i) Case 3. Selling a proportion of BNOC's license interests in individual oilfields to a separate company in which private shareholders would own 75% of the shares. The company would be essentially an investment company owing e.g. X% of Dunlin field, Y% of Statfjord and Z% of Ninian. The effect would be to sell part of BNOC's assets to the private sector

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through the medium of a company owned by private shareholders. The attraction to investors would be the prospect of increased revenues and capital gains. Investors would prefer the widest possible spread of interests in BNOC's fields. The inevitable negotiations necessary with field partners could prevent an early sale, though this might apply equally with Case 1.

The proceeds from the sale would reduce the PSBR (as distinct from financing it) if the new company was wholly independent (e.g. its management and its marketing and its pricing policies) from BNOC and it had the normal participation obligation of selling no more than 51% of its oil to BNOC. In later years the PSBR would be increased since the revenues from the field interests sold would no longer be available to the public sector.

This course, which Ministers have not so far considered, would produce a smaller reduction in the short term and a smaller increase in the longer term in the PSBR compared to Case 1; keep, except for the proportion of assets transferred to the separate company, a unified BNOC management; and reduce the amount of oil lost from public sector control. The figures for Case 3 in paragraph 4 illustrate the PSBR effects of privatising some £250 million (about one-fifth) of BNOC assets in this way. The more assets sold, the more the privatised company would resemble an oil company rather than an investment company.

ii) Case 4. Transferring the rights to, say, 5% of the revenue (but not to the oil) from BNOC's oilfields to a company, all of whose shares would be sold to the public.

The proceeds from the sale would finance, but not reduce the PSBR, since such a company would in effect only be a channel for advancing money to BNOC with no control over the oil assets. In later years the PSBR would be higher, since the revenues paid out to the privatised company would no longer be available to the public sector.

Summary of PSBR Effects

4. The estimated PSBR effects of the 4 cases above compared with the base line of the status quo (i.e. assuming BNOC remains as it is) are as follows:

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Estimated Effect of the 4 Cases on the PSBR Compared with the Status Quo Baseline (+ means the PSBR is higher, - means it is lower)

	£m 1979 Survey Prices							
	1980-81	81-82	82-83	83-84	84-85	85-86	86-87	Total
<u>Status Quo Base-</u> <u>line (ie BNOC's</u> <u>contribution to</u> <u>PSBR assuming it</u> <u>stays as now and</u> <u>capital expendi-</u> <u>ture as now as-</u> <u>sumed by BNOC)</u>	-140	-340	-285	-215	-255	-180	-170	-1585
<u>Changes in above</u> <u>baseline produced</u> <u>by</u>	<i>450</i>	<i>-325</i>						
Case 1	-310	+ 15	- 45	+200	+240	+160	+150	+ 410
Case 2	0*	+ 5*	+ 15*	+ 30	+ 35	+ 40	+ 45	+ 170*
Case 3	-190	+ 65	+ 55	+ 45	+ 50	+ 35	+ 35	+ 95
Case 4	+ 20*	+ 20	+ 20	+ 20	+ 20	+ 30	+ 30	+ 160*
	- - - - -							
Tax assumed payable in every case	-	-	-125	-245	-250	-360	-375	-1355
	- - - - -							
Capital expen- diture assumed in status quo baseline	+215	+210	+220	+200	+185	+170	+155	+1355

* In Case 2 and Case 4 the proceeds would not reduce the PSBR and therefore are not reflected in the asterisked figures. For case 2 (49 per cent privatisation) it is very hard to estimate the scale of the sale proceeds because the share price would be depressed by the prospect of continued public sector control (see paragraph 3(ii)). But it is clear that the figures would be a good deal less than the theoretical value of around £200m in each year in the period 1980-81 to 1982-83. For Case 4 (the revenue rights company) the proceeds would be some £200m in 1980-81, and like the proceeds under Case 2, would help finance the PSBR.

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Timing

5. There are two factors affecting the timing of sales. PSBR reductions are achieved quicker the earlier the shares are sold. The longer the period over which a share sale of a given size is phased, the longer the period it takes to achieve the PSBR reductions and the later consequent PSBR increases. On the other hand, the CPRS argue that the stock market has not fully reflected the prospect of future oil price rises. If this is right, the later the sale of the shares the higher the proceeds are likely to be, since they will reflect the full effect of actual higher prices. This latter effect cannot be quantified.

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ASSUMPTIONS ON CAPITAL INVESTMENT FOR THE ESTIMATES IN PARAGRAPH 4 OF PAPER

1. The total public sector take is affected significantly by the size of the capital expenditure programme assumed for BNOC. BNOC has recently reviewed its capital expenditure projections and, on the assumption that its future programme is limited to already identified upstream projects on existing licenses, a reduced exploration programme, including future licenses, and a small allowance for unidentified projects, it now foresees capital expenditure well below the level agreed by Ministers as part of the Investment & Financing Review in September. This lower level of capital expenditure has been used in estimating the PSBR effects of the status quo base case of keeping BNOC as it now is. This is because if BNOC remained in the public sector in its present form, Ministers could insist that the capital expenditure programme remained at the level foreseen by BNOC in their recent review.

2. The capital expenditure programme assumed is:

1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
+215	+210	+220	+200	+185	+170	+155

20 DEC 1979

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PRIME MINISTER

BNOC: FUTURE STRUCTURE AND PRIVATE SECTOR PARTICIPATION

It is essential that tomorrow we take the basic decisions on this.
If we don't:

- (a) there is a grave risk that we won't be able to get legislation through in time;
- (b) our whole political stance will be undermined;
- (c) early support for the PSBR will become impossible.

Nothing has changed my view that the plan I originally put forward and which was virtually agreed on 26 November is the right one.

Key points are:

- (i) We must retain 100% control over the crude oil trading operation in the interests of national security of supply;
- (ii) We must separate the highly political trading operation from the commercial upstream operation. If we don't there is no prospect of interesting the private investor on acceptable terms. This is quite different from the British Airways' position. In the BNOC case there is no way in which anyone could be convinced that the Government would not interfere if oil trading and upstream operations remain together.
- (iii) Again, unless the management is split we won't convince anyone that the Government will not interfere through a joint management with the North Sea company. I do not accept that splitting should cause management problems. We have also established that EEC considerations actually favour a separation.
- (iv) The impact on the PSBR of whatever we do is important - but it is obvious that benefits sooner mean revenue for the PSBR foregone later. All the financial signs seem to favour "sooner". We must not

forget the underlying issue - our policies of reducing the public sector.

Timing

Successful privatisation by whatever route is going to require legislation. If we cannot reach decisions now to proceed with this legislation we have no prospect of getting it through in time. Without early legislation privatisation and the benefits to the PSBR cannot be achieved. The later we get it the later the benefits and the longer severe political and managerial uncertainties remain. I ought now to be deciding on the new chairman or chairmen. But I cannot move with continuing uncertainty.

Failure to reach a decision must amount to a decision to keep the structure as it is now, thus frustrating our determination to denationalise BNOG and set up a new independent British Oil company. This would be seen by the party and the backbenchers as a major retreat from our publicly stated position.

Far from backing away from this central theme in our strategy at this moment, I think the arguments for starting now to bring capitalism to the people are stronger than ever. To proceed on the lines I suggest gives us ample time to consider and develop, at the appropriate pace, really imaginative schemes for a substantive widening of ownership, for example, along the British Columbian model, if we so decide.

I hope we will be able to agree on Friday to press ahead with restructuring and privatising BNOG on the lines proposed in my papers to E Committee and that we should set about preparing legislation at once.

Copies of this minute go to the Chancellor of the Exchequer, Lord Privy Seal, Secretary of State for Trade, Secretary of State for Industry, the Chief Secretary, Sir Kenneth Berrill and Sir Robert Armstrong. Secretary of State for Foreign Affairs, the Attorney General.

JH.
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20 DEC 1979

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Qa 04390

To: PRIME MINISTER

From: SIR KENNETH BERRILL

BNOC

1. A group of Ministers under your chairmanship is due to discuss on Friday the future organisation of BNOC. For this meeting the Chancellor is circulating a paper setting out four main options on selling BNOC assets and with estimates of the likely PSBR effects of each. Some of the options involve splitting BNOC and putting the operating company into the private sector. Others keep a unified public sector company but introduce private capital by other means. In what follows the CPRS offers some comments on these four options. Ministers will naturally be very concerned with the PSBR comparisons, especially in the early years, but the other differences between the four options in terms of the possible effects on BNOC as an efficient oil trading company and on the United Kingdom security of supply cannot be neglected.

2. To take the efficiency point first: in the decade ahead it is vital to HMG that BNOC be a highly efficient oil trader at a world level. The company will be handling billions of pounds' worth of North Sea oil and very small errors of judgement could cost the Exchequer dear. In addition, as the Secretary of State for Trade's recent visit to the Middle East showed, OPEC countries are moving away from their traditional links with the oil majors and looking for deals with small companies or Government to Government. In the right circumstances an efficient and effective BNOC might undertake such deals to the benefit both of United Kingdom security of supply and the supply of our 'own' majors - BP and Shell. The new Chairman of BNOC has stated that with a separate BNOC (Trading) of 40/50 people it would be difficult to provide a proper management and career structure to attract and retain an adequate management team from the oil industry.

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3. On the security of supply point, BNO (Operating) can only be counted as a private sector company if its relationships with BNO (Trading) are similar to those of other private sector oil companies operating in the North Sea. In particular if its obligations to sell oil to BNO (Trading) are no more than 51 per cent. At present only some 60 per cent of North Sea oil is 'secure' to the United Kingdom market and such a reduction from 100 per cent to 51 per cent in BNO 'secure' oil would weaken this further. Also, as a private sector company with obligations to its shareholders, BNO (Operating) could well sell its oil on the spot market, like Tricentral and Lasmo; a possibility of some potential embarrassment to HMG with a 25 per cent holding in the company.

4. On trading efficiency and security of supply grounds the CPRS sees strong arguments for retaining BNO as a unified public sector company and introducing private capital through one or other of the options 2, 3 and 4 described in the Chancellor's paper. But what of the PSBR arguments?

5. On any PSBR calculations two points should be made. First, any calculations are necessarily very tentative; assumptions have to be made about future oil prices and sterling exchange rates. The oil price assumptions (10 per cent per annum rise in money [sic] terms) already looks modest and therefore the case for going slow on selling tranches of BNO assets looks stronger. Second, the calculations stop at 1986/87 (understandably so) but substantial benefits will continue to flow for many years after that. In part, benefits from the BNO investment programme 1980/87 which will not yield their fruits until the late 1980s and 1990s. Third, in the past the Stock Market has not always adequately valued shares in oil companies. HMG sold a large block of BP shares in 1977 (£570m.); in the thirty months since then the stock market generally has fallen but BP has risen by 70 per cent. BNO (Operating) is unlikely to be even as adequately valued by the market as BP since (a) it does not yet have a track record; (b) it might be under the threat of re-nationalisation on punitive terms; (c) Ministers might decide on depletion policy grounds to delay the development of BNO field 37/17B. Neither of these last two points were taken into account in Mr Shelbourne's valuation on which the PSBR calculations are based. Even on Mr Shelbourne's valuation the Secretary

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of State's proposal only reduces the PSBR substantially in the first year (by £310m.) and by a limited degree in the third year (by £45m.). In all other years his course will increase the PSBR.

6. The arguments set out above suggest that in PSBR terms the object should be to sell the minimum in the early years (consonant with the PSBR needs for 1980/82) and do so in a form which will not attract re-nationalisation fears.

7. Options 3 and 4 meet those criteria, as well as meeting the trading efficiency and security of supply criteria discussed earlier. Under option 3 if 30 per cent of BNOC's assets are put in a separate company, 75 per cent of which is sold to the public, the PSBR position in 1980/81 would be as favourable as under option 1 but very much better in later years. Option 4 (which is similar to the Lasmo Ops issues), if $7\frac{1}{2}$ per cent of BNOC revenues were sold to a new company, would have the same effects, although in this case the PSBR would be financed rather than reduced.

8. Ministers should note options 1, 2 and 3, but not option 4, would all involve detailed negotiations between BNOC and its partners in the various oilfields.

Conclusion

8. The CPRS view on the very important problem of the future organisation of BNOC is that trading efficiency and security of supply both point to retaining a unified company. In purely PSBR terms 1980/87 the best policy is to sell nothing (see the table in the Chancellor's paper). But if the political commitment to a sale of some assets and the PSBR needs of 1980/82 are considered paramount, then a better price and better PSBR effects can be obtained by selling smaller quantities of BNOC assets than 75 per cent and in ways other than through the status of a private sector company holding all BNOC assets.

9. I am sending a copy of this minute to the other recipients of the Chancellor's paper.

KR

20 December 1979



*With the Compliments
of*

The Lord Advocate

19 December 1979

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19 December 1979

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
London SW1

Dear David,

BNOC/BP/CRUDE OIL SALES

7
19/12

The Attorney General copied to me his letter of 10 December to you and you were good enough to let me have a copy of your reply. I have since seen a copy of the Lord Privy Seal's letter to you of 18 December.

In the first instance let me say that I entirely agree with the views expressed by the Attorney General in relation to Professor Jacob's opinion on the legal risks in an EEC context of the "Ring fixing" and "Claw back" agreements.

Although I was not initially consulted in this matter, I had thought that it might be helpful, in the light of these opinions, to consider whether any doctrine of Scots Law could be used to advantage as a means of avoiding the difficulties referred to. Unfortunately, it is my view that in the circumstances the application of Scots Law to these agreements would not alter the position in relation to Community Law.

I am sending a copy of this letter to the Prime Minister, the members of OD(E) and to Sir Robert Armstrong.

Yours ever,

James.

19 DEC 1979

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Conroy

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

R

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

18th December, 1979

Ref. A0991

Dear Sir

Energy Policy

I am writing to confirm that there will be a meeting at No. 10 at 11.30 am on Friday, 21st December to consider further the Secretary of State's proposals for BNOC, as well as the proposals contained in the penultimate paragraph of his minute to the Prime Minister of 12th December.

I am copying this letter to the Private Secretaries to the Ministers invited to this meeting, namely the Chancellor of the Exchequer, the Lord Privy Seal, the Secretary of State for Energy and the Financial Secretary, Treasury, and to Sir Kenneth Berrill.

Yours ever

Martin Vile

(M.J. Vile)

T.P. Lankester, Esq.

118 DEC 1979





Foreign and Commonwealth Office
London SW1

18 December 1979

R.

BP/BNOC CRUDE OIL SALES

I understand that OD(E) is to discuss this question again on Thursday, 20 December in the light of the advice contained in Michael Havers' letter of 10 December. We now have an assessment of the legal implications necessary to a decision, but I remain concerned about the political aspects and it may be helpful if I summarise the points which I think require further discussion.

If ring fencing alone were involved, I would be inclined to agree that the supply benefits to the United Kingdom outweigh the legal risks (which I assume will be minimised in the ways suggested by Michael Havers). But clawback is a different matter. If I understand it correctly, this could be provided for in such a way as to make a successful challenge unlikely unless the power were exercised in such a way as to restrict exports to other Member States; if this were to happen, the arrangements could not be saved from a legal challenge which would probably be successful.

In the light of this, we should ask ourselves whether the provision for clawback is worth making. I assume that its purpose is precisely to allow us to restrict exports, and that we should be likely to do so only in conditions of tight supply when such action would appear most provocative to those affected. Do you envisage circumstances in which we might exercise clawback to restrict
/exports

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
London SW1

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exports only to non-EEC destinations (which would presumably mean largely at the expense of the United States)? Failing that, is there a good chance that we could exercise clawback without it becoming known to those affected? If not, it would seem that clawback, once exercised, would provoke:

- (i) a major political row;
- (ii) the probability of a legal challenge, which legal advice suggests would be successful; and
- (iii) the possibility that, once a legal challenge had been set in motion against clawback, the campaign could range more widely and take in also the ring fencing and perhaps other arrangements we have made to secure supplies to the UK (the landing requirement and aspects of the participation agreements).

These are risks which require political as well as legal evaluation. I can see no point in taking powers designed to ensure our security of supply if their exercise would in practice be likely to put that objective in danger. And, while I agree with Michael Havers (paragraph 16 of his letter) that it will be important that the information relating to the arrangements is treated confidentially by all parties and not disclosed to BP's European affiliates, I suspect that this may not prove easy to ensure : I understand that BP have already briefed their affiliates on some aspects of the proposed new arrangements; the explicit references to clawback in the draft Principles of Understanding must be fairly widely known within BNOC and BP; and the possibility of a leak cannot be excluded.

I am sending copies of this letter to the Prime Minister, all members of OD(E), the Lord Advocate and Sir Robert Armstrong.



10-2-1970

01 211 6402

The Rt Hon Sir Michael Havers QC MP
 Attorney General
 Royal Courts of Justice
 London
 WC2A 2LL

18 December 1979

cc Michael
 BNOG/BP CRUDE OIL SALES *Requested*

Many thanks for your letter of 10 December advising me on the Principles of Understanding of 1 November drawn up by BNOG and BP. I am most grateful for your advice on this matter and, subject only to the point in the paragraph below over which I have no control, I accept unreservedly the guidance you offer. Subject to the agreement of our colleagues in ODE, I agree that contractual negotiations can now proceed.

You should know that Sir David Steel told me on 11 December that it would be necessary to give some limited information on the new arrangements to a meeting of BP's European affiliates that day. He undertook, however, to see this was done in a responsible manner which emphasised the overall benefits to BP from the new arrangements. "Claw-back" would not be mentioned. I understand that those representing the European affiliates in practice accepted the arrangements as a sensible package of real value to the Group.

I am sending a copy of this letter to the Prime Minister, our colleagues in ODE, the Lord Advocate and Sir Robert Armstrong.

D A R HOWELL

Yours in
David

18 DEC 1979

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BF21/12/79

PRIME MINISTER

*A letter Wednesday
please*

Prime Minister

The position looks very much better from BP's viewpoint than M. Laidlaw made out. Shall I return this to your box for the weekend, and arrange a meeting with Mr Howell for you to discuss?

BP/BNOC SUPPLY ARRANGEMENTS

At your meeting on 28 November, Mr Laidlaw of BP raised with you the question of the alleged financial burden placed on BP by their obligation to supply BNOC with high cost foreign crudes. Your Private Secretary's letter of 29 November recorded your wish to consider the case for re-opening the arrangements concluded in principle on 1 November to see whether this apparent financial burden could be reduced. As I said in my minute of 30 November, Sir David Steel has in fact since confirmed that BP are not seeking to re-open these arrangements.

The existing supply arrangements, the policy underlying the new arrangement and a description of its main features are set out in the attached note. Also attached are a copy of the Principles of Understanding of 1st November, the 1977 Participation Agreement and a note on BP's present supply position. The Principles are not a contract, but a document to guide those responsible for drafting the final contracts.

As you know, OD(E) has considered the EEC aspects of these Principles and the Attorney General will be advising on possible risks under EEC law and how the contractual arrangements might best be structured to reduce these risks.

The oil flows on which Mr Laidlaw bases his comments arise from the 1977 Participation Agreement under which BP sells BNOC 51% of its UKCS production at market price. At BP's insistence an exchange arrangement was included under which the company re-acquires a large proportion of the UKCS crude, which it wants for operational reasons, in exchange for Middle Eastern oil of equal value, with volumes being adjusted to take account of quality differences. About 12 m. tonnes per year is involved in total.

- 2 -

BP's real difficulty arises not from the exchange arrangement with BNOB - which is financially neutral for BP - but from BP's dramatic change of fortune this year in respect to its overall supply and demand (details at annex). It is the company's shortage of supply to meet its commitments which is forcing it onto the spot market and Mr Laidlaw was disingenuous in attributing the cost of acquiring high priced crudes wholly to the commitment to BNOB. BP has, in fact, taken on new third party supply commitments this year to Svenska Petroleum and Veba.

In 1979, the only foreign crude BP has supplied to BNOB has been Kuwait crude available to BP at a modest discount from the official selling price. This supply will continue at least until the Kuwait contract terminates in April 1980, at which point BP expect to conclude another contract, albeit for a reduced volume and possibly without discount. BP should nonetheless then still have access to sufficient quantities of non-UKCS crude at or near official selling price to cover their commitment to BNOB as reduced by over half under the new arrangements now agreed in principle. The exchange arrangements between BNOB and BP provide (on BP's insistence) for exchanges to take place at term prices, a provision designed to protect BP's position as a net seller at a time when crude oil spot prices were below term prices. If, however, BP were obliged to purchase term supplies from overseas which included a proportion bearing a premium which they wished to roll into the overall market price to BNOB, this would be a point which BNOB would be prepared to consider in the price negotiations. If admitted, this cost would be passed on by BNOB to its customers.

The new arrangements with BP exhaust BNOB's supply capacity in 1980 and leave it with only a limited flexibility in 1981. BNOB cannot plead force majeure to justify disengagement from its current commitments in order to improve BP's international supply

- 3 -

position further. One of the major purposes to which BNOG has put its oil in 1980 and 1981 is securing a reduction of the public sector borrowing requirement by forward sales.

Copies of this minute go to the Foreign Secretary, the Chancellor, the Attorney General and Sir Robert Armstrong.

JA.

SECRETARY OF STATE FOR ENERGY

// December 1979

BP'S SUPPLY POSITION

(as reported December, 1979).

1980m. tonnes

Demand

97	of which	5	Third Party Sales
(107	before new arrangements					5	ENOC
	with ENOC and resale of					87	Affiliates (67
	royalty oil)						affiliates other
							than BP Oil)

Supply

UK	27
Iran)	10 - 32
Kuwait)	
Iraq	2
Other Persian Gulf	10
Norway	<u>0.5</u>
Total Term Supplies	49.5 - 71.5
Anticipated Product Purchases	<u>5 - 6</u>
Total	54.5 - 77.5
Deficit	19.5 - 42.5

In 1979 BP has bought about 14m tonnes of spot crude or product. Similar purchases may be made in 1980, or BP may elect to reduce business where the incremental supply cost cannot be recovered in the market.

The following sets down the principles which should guide the drafting of the Heads of Terms to reflect the agreement reached between BP and BNOC.

A. GENERAL PRINCIPLES

1. It is the intention of both parties to continue the existing Participation arrangements unchanged and that BNOC will exercise its options for 1981.
2. It is agreed that the intention of the agreement is to bring BP into volume balance on all oil traded with BNOC by 1.1.82.
3. In return for the oil made available under 2 and the sale of royalty oil to BP by HMG, BP will
 - (i) sell 49% of its UKCS production to BP Oil
 - (ii) ring fence its UK refining requirement
 - (iii) dedicate 100% of its net UKCS production after any obligations under Shell/Exxon unitization, royalty, or BNOC retention oil to the UK in conditions as defined under B 4(ii).
4. BNOC is unable to contemplate an arrangement lasting more than 3 years. BP would like an arrangement lasting until 1989 but accepts BNOC's position. However, in so doing BP wishes to record that if in 1983 it is impossible to agree new arrangements that leave BP in a break even position on volumes then BP's undertaking under 3 above also lapses. BNOC will meet BP before 31.12.81. to discuss sales after 31.12.82.
5. The BP contracting parties will be BP Trading and BP Oil.

B. POINTS OF AGREEMENT ON DEDICATION AND A NEW CRUDE OIL SALE

1. Period

1980 - 1982.

2. Dedication

An example of the working of the proposed BP dedication mechanism is set out in Annexe A.

3. Nominations

In the event that the arrangements covered by Section A and illustrated in

Annexe A do not satisfy BP Oil's requirements, BP Trading will meet the shortfall by supplying to BP Oil as a priority from the oil available to it under D(a) of Annexe A.

4. Clawback

Subject to the prior application of B 3 above, the conditions on which BNOC may claw back UKCS crude sold to BP Trading are:

- (i) clawback is triggered only as a consequence of tripartite discussions D.En., BNOC and BP that result in a decision by D.En. at ministerial level that it is necessary.
- (ii) Crude or products are required to meet a UK supply shortfall and cannot be provided via BP Oil.
- (iii) BP's obligation is to provide volumes of oil as specified in Annexe A and in grades of crude or products of its own choice but always comparable to an average UK barrel and after adequate consultation with HMG on levels of UK refining.
- (iv) the parties have 15 days to consult and oil will be clawed back no more than 60 days later.
- (v) If oil is supplied to UK refiners other than BP Oil, then BP will negotiate a sale to the UK customer nominated by BNOC/D.En. at a price for that crude which reflects the average downstream margin in the UK as defined by EEC less the appropriate variable cost of the recipient company. An exception to this will be where the crude sold to a third party refiner is BNOC crude made available under 6 below. In this circumstance BNOC will negotiate with the UK refiner and pay to BP the downstream margin.

5. Royalty Oil

As part of this arrangement HMG will sell back to BP all royalty taken in kind. If royalty is not taken in kind or taken only partially in kind, the BNOC crude sale to BP Trading in 6 below will be increased pro rata.

6. New Crude Sale (the aim will be to consolidate the existing Leg 4 in this sale)

- (i) Volumes - the volumes of new crude sold by BNOC to BP Trading will be as in Annexe B. They rise through 1980 and 1981 and amount on average to:

168,500 b/d	1980 (30,000 b/d is from current Leg 4)
230,000 b/d	1981
The amount required to break even	1982

- (ii) Quality - The objective of these arrangements is to sell back to BP Leg 1 oil (UKCS crude) and foreign crude in the grades supplied by BP to BNOC. BNOC will use its best endeavours to achieve this objective. However it is agreed that BNOC may supply comparable grades on the basis set out in the original Participation Agreements provided that the principle of ratio of qualities is maintained always subject to Annexe B.

The procedures in declaring qualities from one party to the other shall be as far as possible contemporaneous and the same as those in the existing Participation deals.

- (iii) Price - Prices between BP and BNOC will endeavour to recognise the principle of no better no worse in the basic Participation arrangements. It is the intention that crudes will be traded at market prices as defined in the COA aiming to set market comparable grades at comparable prices.

7. Prepayment

BP will pay not more than £300 million in advance, by 28.3.80., and BNOC will have the option to call for £300 million again on or just before 30.3.81. with the approval of HMG and as a measure of general application in the context of public expenditure planning. BNOC will use best efforts to reduce the £300 million in March 1980, pro rata to the availability of prepayments by others, without prejudice to the £300 million option in March 1981. There will be no option for March 1982.

8. General Terms

Sales to BP will be on general terms and conditions agreed at the time and based on the BP/BNOC Crude Oil Sales Agreement and the Operating Agreement.

1/11/79

DEDICATION MECHANISM AND CLAWBACK - ILLUSTRATION

'000 b/d

	1980	2080	3080	4080	1981	2981	1982
A. BP JKCS production	538	542	529	553	540	540	473
B. Assumed BP UK refining	400	400	400	400	400	400	400
C. Met by (a) 49% Equity Pet Dev/BP Oil	232	234	227	237	231	231	203
(b) Royalty sell back D.En.	65	64	66	69	68	68	59
*(c) Part of Leg 2 Oil - BP Oil nominated by BP	103	102	107	94	101	101	138
	400	400	400	400	400	400	400
D. Sales to BP Trading by BNOC							
*(a) Remainder of Leg 2	81	84	74	95	64	64	7
o (b) New Sale (from Legs 1 and 3)	100	120	160	174	220	239	226
	181	204	234	269	284	303	233
E. Maximum Clawback (A - B)	138	142	129	153	140	140	73
Less Net oil Retained by BNOC	119	102	74	71	38	19	NIL
BP Clawback obligation	19	40	55	82	102	121	73

* To diminish barrel for barrel with fall off in Leg 3 if BNOC so desires in accordance with Participation. See A1.

o BNOC will use its best endeavours to sell back to BP Leg 3 grades pro-rata during 1980 and grades from Leg 16/51 and Leg 35/51 pro-rata during 1981 and 1982. Some substitution of grades of comparable quality as defined in COA in terms of gravity and sulphur may be made.

31st October 1979

RESTRUCTURING PROPOSALS - OIL FLOWS

	1980	2080	3080	4080	1981	2981	1982
... '000 bpd							
BP UKCS Prod.	538	542	529	553	540	540	473
Less Royalty	(65)	(64)	(66)	(69)	(68)	(68)	(59)
	473	478	463	484	472	472	414
Leg 1 (51% to BNOC)	241	244	236	247	241	241	211
BP Equity 49%	232	234	227	237	231	231	203
Legs 3/4 Net Oil to BNOC	162	164	179	187	182	182	160
+ Retention Oil	57	58	55	58	76	76	66
= Flow to BNOC	219	222	234	245	258	258	226
Less BNOC offer *	100	120	160	174	220	239	226
Net Oil to BNOC	119	102	74	71	38	19	NIL

* BNOC will use its best endeavours to sell back to BP Leg 3 grades pro-rata during 1980 and Grades from Leg 16/51 and Leg 35/51 pro-rata during 1981 and 1982. Some substitution of grades of comparable quality as defined in COA in terms of gravity and sulphur may be made.

COMMERCIAL IN CONFIDENCE

OIL FLOWS : ENOC/BP

Responsibilities of BP Trading

1. BP Trading, under present arrangements, is responsible within the BP Group for securing crude oil supplies, including those from BP's UKCS equity production, and supplying BP's refinery affiliates, including BP Oil (the UK Refinery Company).

Existing delivery arrangements between ENOC and BP

2. ENOC's rights to acquire participation oil from BP are set out in Article 9 of the 1977 Participation Agreement and the Supplemental Crude Oil Agreements covering 1977 to 1981 and 1982 to 1989. The arrangements are:

First Leg: ENOC has access at market price to 51% of crude oil from UKCS commercial fields in which BP has an interest, after royalty has been taken in kind.

Second Leg: Resale by ENOC to one or more of BP's affiliates, nominated by BP Trading, of specified grades of UKCS oil equivalent in quantity to the first leg percentage, less a percentage which may be retained by ENOC (up to 12% for 1979 and 1980, 16% for 1981 and 1982 and 12.75% for 1983).

Third Leg: In return for the second leg volumes, BP supplies ENOC with specified grades of non-UKCS oil equal in value to the second leg volume. Because of quality differences, ENOC receives about 10% more in volume terms. If BP cannot supply non-UKCS grades, then ENOC may retain an equivalent amount of UKCS option oil.

Fourth Leg: A limited sale by ENOC to BP undertaken in 1978 when, as a result of the operation of the participation arrangements, ENOC thought it would have too much non-UKCS crude under leg 3. Leg 4 terminates in October 1980, but would be absorbed into the new arrangements (see below).

Effect of the proposed new arrangements

3. The new arrangements for 1980 to 1982 are set out in the attached Principles of Understanding of November 1st 1979. When given contractual form and implemented, these would have the following

Contd/2.

effect:

- i. ENOC will increase its sale of oil to BP progressively from the beginning of 1980, so that by 1982 there will be a net balance of oil in volume terms traded between ENOC and BP under the terms of the Participation Agreement and the Supplemental arrangements. This is equivalent to giving BP another 12m tons of supplies in 1981 and 1982. (7m tons in 1980).
- ii. Volumes of oil equivalent to all BP's royalty in kind will be sold direct to BP Oil by ENOC acting as Agent for HMG. This gives a further 3.5m tons supply immediately.
- iii. BP will dedicate to BP Oil all of the 49% of their own UKCS production remaining after royalty in kind and the participation option thus redirecting this volume (about 12 m. tons) from BP Trading's general supply pool, which is subject to force majeure cuts arising from events outside the UK, to BP Oil.
- iv. In addition to ii. and iii. above, BP Trading will dedicate to BP Oil sufficient of the second leg volume, returned by ENOC, to make up BP Oil's full requirements. This volume will not be subject to general force majeure cuts by BP Trading.
- v. BP wishes to retain the commercial benefits of increasing supply and would in the first place seek to meet UK shortages via BP Oil. However, ENOC may retain an amount of the new oil sold to BP under i. above in defined circumstances. The amount is equivalent to the positive difference between BP's total UKCS production and BP Oil's requirements. The circumstances are the existence of a UK supply shortage which cannot be met by crude or product supply via BP Oil. ENOC's rights may be triggered only following tripartite discussions between ENOC, BP and the Department which result in a Ministerial decision to that effect.

Contd/3.

4. Items ii, iii and iv. above will secure BP Oil's supplies from shortages arising outside the UK; v. above will provide a further source of supply from BP's worldwide system to the UK up to an amount fully equivalent to BP's UKCS production.

Policy underlying the new arrangements

5. The Participation Agreement arrangements were entered into at a time when BP was a substantial net seller of crude oil, having about 40 to 50% of its total crude supplies on contract to third party customers, in addition to meeting its own refining requirements in full. In addition, uniquely amongst UKCS producers with refining interests in the UK, BP's UKCS production was clearly going to exceed the volume of its UK refining run. The Participation Agreement reflected this position by providing that BP should supply ENOC with net volumes of oil broadly equivalent to ENOC's 51% option. In other Participation Agreements with UK refiners (eg. Shell, Esso) ENOC sold back up to the full 51% of option oil to the company, subject to the right of the Secretary of State to override this saleback. However, because BP had operational requirements for the particular quality of oil covered by the participation option, it was agreed that ENOC should exchange most of the participation oil delivered by BP for lower quality Middle Eastern crudes of equal total value. This reflected BP's ready availability of non-UKCS crudes at the time.

6. BP's position has now changed, with the loss of all Nigerian crude and the great majority of their Iranian supplies and continuing uncertainty over future availabilities from Iran and from Kuwait. Before taking account of their reduced commitment to ENOC, BP forecast a supply shortfall in 1980 of between 30 and 50m. tons against their existing supply commitments of about 107m. tons (which include their obligations to supply participation oil and UK royalty in kind). Their third party sales volumes have been reduced to the minimum achievable under the contracts (some 5m. tons for 1980).

7. Against this background BP pressed ENOC to help them by returning the net oil to which ENOC was entitled under participation,

COMMERCIAL IN CONFIDENCE

Contd/4.

arguing that it was better for the UK that the oil should be used through BP's integrated channels of refining and marketing to give BP the commercial benefits rather than leaving the oil with ENOC to trade as crude at a minimal financial gain.

8. Ministers had considerable sympathy for BP's plight and asked ENOC to help as far as they could without prejudicing UK security of supply. The problem was that oil committed to BP, in support of its international operations, had to be deducted from the volumes available to ENOC, whose principal purpose in today's oil supply situation is to increase the security of oil supply to the UK. The need for this had been starkly apparent this summer. Most UK refiners are supplied by international supply companies who apply equal misery provisions to their affiliates irrespective of the company's production position in any individual country. On the other hand, making additional supplies available to BP would obviously help BP to reduce the scale of the spot market purchases necessary to close its supply gap and this would be consistent with the undertakings entered into at the Tokyo Summit. A further consideration in determining what total settlement might be acceptable was that the Participation Agreement itself should not be altered, because of the high value attached to oil secured from a wide range of companies through complex Participation Agreements with some 50 companies and the undesirability of re-opening any one of them and thereby setting a precedent for others. These conflicting objectives were finally satisfactorily resolved in the Statement of Principles of 1st November 1979.

Original filed
Energy (P.D.M.) Pt 3.

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PRIME MINISTER

ENERGY POLICY - MEETING 21 DECEMBER

There are two separate points for discussion at this meeting: Government-to-Government oil sales; and Privatisation of BNOC. You may find it convenient to take them in that order.

(A) Government-to-Government Oil Sales:

BACKGROUND

At your meeting on International Energy Policy on 10 December, you agreed that there should be a further discussion among Ministers of Mr Howell's proposal to explore the scope for Government-to-Government oil sales. The original proposal was set out in the second of the three long papers which he sent to you on 5 December, under the heading 'Implications of changes in the world oil market'. Paragraph 37 of that paper said that, while North Sea oil reduced the pressure on us to seek such deals, and while we would wish to discourage others from doing so, we could not afford to be left behind. It then suggested a number of possibilities: using BNOC; using BP or Shell subsidiaries; or using other big British trading companies. In paragraph 5(a) of his covering note, he asked for agreement that 'officials should urgently evaluate the scope for and relative merits of establishing direct purchasing arrangements [of this kind]'. He returned to this point in his minute to you of 12 December, reporting on his visit to the IEA Ministerial meeting. Mr Alexander's letter of 17 December records your agreement that Mr Howell should enter into informal contacts with the United Kingdom oil companies, and report back before Christmas. His Private Secretary's letter of 20 December covers that report. It says that BP and Shell, while not enthusiastic, are prepared to play, provided that any oil they handle can be placed in such a way as to eliminate any loss to them (back-to-back sales); that BNOC is similarly prepared to operate on a 'no loss' basis, on-selling to British refiners (this disposes of the Chancellor's main worry about

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the involvement of BNOC and their possible exposure to risk); but he has not so far discussed the matter with any other British trading companies.

The point for decision is that Mr Howell wants to carry out some exploratory talks with producers while he is in the Middle East from 4 January onwards. This is the last chance for Ministers to give him a line to take.

HANDLING

You might therefore invite him, briefly, to recapitulate the stage he has reached with the oil companies and BNOC; and then invite comments from the Lord Privy Seal, the Secretary of State for Trade (who himself visited Saudi Arabia recently and saw possibilities there); and from the Chancellor. The points to establish are -

- a. should we, in principle, be prepared to enter into Government-to-Government sales at all, or should we pursue the path of virtue and encourage other Western Governments to do the same?
- b. if we are disposed to go in this direction, is the response of the oil companies and of BNOC sufficiently encouraging?
- c. is it agreed that Mr Howell should explore these possibilities with producer states during his visit? If so, with what degree of commitment? On this, the key point, you will presumably want him to stick to exploration, and if there is any interest shown, to promise to send out Government and oil company officials to explore in more detail. Such matters as quantity, price, and other conditions should not finally be settled during this visit;
- d. what implications does this have for the future role of BNOC? At this point the discussion shades off into the next item: you may prefer to wind up this part of the meeting first.

CONCLUSIONS:

You will probably be able to sum up this part of the discussion by saying -

- i. that Ministers agree in principle to explore the scope for Government-to-Government oil sales;
- ii. that they agree that the best route is to use BP, Shell and BNOC on the terms suggested by Mr Howell;
- iii. to agree that in his visit to the Middle East, Mr Howell should explore without commitment the scope for such deals, and if necessary, promise to send out officials to negotiate in more detail.

(B) Privatisation of BNOCBACKGROUND

Following an inconclusive discussion in E last week, the Chancellor has arranged for officials to set out, more clearly than before, the PSBR consequences of the various routes to privatisation. He has added a rather more general cover note, and is also circulating an aide-memoire setting out the various options schematically. At the same time, the CPRS have produced a note which effectively re-opens the whole question of disposing of BNOC at all.

It may help to put these in the context of a recent discussion in E(DL). The Chancellor has established a target of £500 million - worth of disposals next year (1980-81). Against this, he has a shopping list amounting to some £879 million. About £320 million of this is 'fairly firm'; and BNOC is set down for a separate £225 million, corresponding roughly to a sale of 25 per cent of the shares in BNOC 'operating'. (For comparison, sale of BGC's Wytch Farm oil field would yield perhaps another £100 million). So disposal of BNOC next year is not absolutely essential to the achievement of the Chancellor's target.

now combined
in one document
-

The facts and figures are now set out, with a fair degree of confidence. There are two main points to watch. The first is the trade-off between early revenue from disposals and later revenue from keeping BNOC in the public sector. The second is the differing effects on the PSBR of the different modes of disposal. Roughly speaking, the further BNOC moves away from the Government, the bigger the reduction in the PSBR. If the Government retains control of BNOC, so that it stays within the public sector, disposal does not reduce the PSBR; but the proceeds of sale go to finance the PSBR instead. (ie, they count as a kind of Government borrowing, although tapping a rather different market.) The effect on the budget arithmetic is the same. It is the published PSBR figure which differs and this can affect confidence. The points raised by the CPRS are very fair, and may affect the absolute figures but they do not seem to affect the relative costs of the various options. Ministers thus have the facts and figures on which they can reach a judgement. The essential choice now is between postponing a decision, or pressing ahead with legislation early in the New Year. If a decision is postponed, there will be more time to explore the alternatives. If there is to be legislation next year, and in particular if the Chancellor is to score £225 million or so for BNOC in 1980-81, then one or other of the modes of disposal must be chosen now. The CPRS paper points up some of the difficulties. The first part of the discussion is also relevant: do Government-to-Government oil deals increase the attractions of maintaining a state owned oil company of sufficient and credible size, ie is there now a case for going slow on changing the nature of BNOC.

HANDLING

I suggest you might pose the question in these terms, and then call for statements from the Chancellor, the Secretary of State for Energy and (if you wish) from Sir Kenneth Berrill. Other Ministers can then join in. It will be particularly important to hear from the Lord Privy Seal and - in view of the legal issues raised before - from the Attorney General.

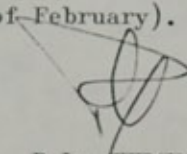
CONCLUSIONS

The essential conclusion must be either -

- i. to agree to postpone the privatisation of BNOC; or
- ii. to agree to press ahead with legislation in the current Parliamentary Session.

If the choice is ii, then you need also to record a decision on -

- iii. the choice of method -
 - whether to split the Corporation between 'operating' and trading'; (Case 1)
- or
- to keep the Corporation intact and sell 49 per cent of the shares; (Case 2)
- or
- to choose one of the other two options set out in the Chancellor's paper (Cases 3 and 4)
- iv. whether to hold open the option of a 'British Columbia' give-away
- v. to invite the Secretary of State for Energy, after consulting the Chancellor, to prepare a detailed scheme, on which policy approval can be given so that drafting can proceed, and thereafter, to come up with a phased plan for disposals in 1980-81, on which the Chancellor can base his Budget arithmetic. (He will need this by the end of February).



P Le CHEMINANT

Cabinet Office
20 December 1979

covering

CONFIDENTIAL
PARTICIPATION AGREEMENT

L. PALMER

INDEX

		<u>PAGE</u>	
ARTICLE	1	DEFINITIONS	1
	2	PERFORMANCE BY <u>BP GROUP</u>	2
	3	PARTICIPATION IN NINIAN	2
	4	PARTICIPATION IN FORTIES	3
	5	PARTICIPATION IN OTHER COMMERCIAL OILFIELDS	3
	6	PROVISIONS RELATING GENERALLY TO COMMERCIAL OILFIELDS	4
	7	BENEFICIAL INTERESTS	4
	8	TRANSFER OF INTERESTS	5
	9	CRUDE OIL AND NGL RIGHTS	6
	10	VOTING	7
	11	INFORMATION AND CONFIDENTIALITY	8
	12	DOWNSTREAM CO-OPERATION	10
	13	CONSULTATION	10
	14	ASSIGNMENTS	11
	15	SUBSTITUTE LICENCES	12
	16	REFINING POLICY	12
	17	TERMINATION	12
	18	DIRECTIONS BY THE SECRETARY	13
	19	GENERAL	13
SCHEDULE	1	NOREX AGREEMENTS	14
	2	AMENDMENT TO OPERATING AGREEMENT DATED 9TH OCTOBER 1973 BETWEEN THE LICENSEES OF PRODUCTION LICENCE P.199	15
	3	FORM OF ASSIGNMENT OF A PRODUCTION LICENCE	17
ANNEXE	A	CRUDE OIL AGREEMENT 1977-1981	
	B	CRUDE OIL AGREEMENT 1982-1989	
	C	AGREEMENT FOR DOWNSTREAM CO-OPERATION	

PARTICIPATION AGREEMENT 1.6

PARTICIPATION AGREEMENT

This Agreement made the 1st day of June 1977 BETWEEN The Secretary of State for Energy (hereinafter called "the Secretary") for and on behalf of Her Majesty of the first part, The British National Oil Corporation (hereinafter called "BNOC") of the second part, The British Petroleum Company Limited of Britannic House, Moor Lane, London EC2Y 9BU (hereinafter called "BP") of the third part, BP Petroleum Development Limited of Britannic House aforesaid (hereinafter called "Petroleum Development") of the fourth part and BP Oil Development Limited of Britannic House aforesaid (hereinafter called "Oil Development") of the fifth part.

WHEREAS

- (a) It is the policy of Her Majesty's Government to achieve through voluntary negotiations majority State participation in commercial oilfields discovered in the U.K. Continental Shelf but so that the licensees of the production licence within the area comprised in which such oilfield is located shall be financially neither worse nor better off as a result of such participation.
- (b) Petroleum Development is a licensee with others of production licence P.199. Within the area comprised in that licence is located part of the commercial oilfield known as Ninian.
- (c) Oil Development is the licensee of production licence P.246. Within the area comprised in that licence is located part of the commercial oilfield known as Forties.
- (d) Members of the BP Group are licensees either alone or with third parties of further production licences. Within the respective areas comprised in such licences commercial oilfields may hereafter be established.
- (e) By a Memorandum of Principles signed on the 28th June, 1976 and ratified on the 1st July, 1976, the Secretary, BNOC and BP on behalf of itself, Petroleum Development, Oil Development and other members of the BP Group agreed to majority State participation in Ninian and Forties and to certain other matters as therein appearing.
- (f) The parties now wish to enter into this Agreement for the fuller implementation of the provisions of the said Memorandum of Principles.

NOW THEREFORE IT IS HEREBY AGREED AS FOLLOWS:

ARTICLE 1 - DEFINITIONS

Where used in this Agreement the following expressions shall have the respective meanings assigned to them:

- (a) "BP Group" shall mean BP and every company which for the time being is directly or indirectly controlled by BP; for the purposes of this Agreement a company is controlled by BP if it is a subsidiary of BP or if BP, either alone or with any subsidiary of BP, is by any means able to control the policy of the company.
- (b) "commercial oilfield" shall mean an oilfield, to the extent that it is located within the area comprised in a production licence, in respect of which either:
 - (i) the Secretary has
 - (aa) approved a development programme in accordance with the provisions of such licence; or
 - (ab) given his consent in writing to the commencement of production; or
 - (ii) the relevant member of the BP Group has agreed to implement a development programme following service by the Minister of a programme in accordance with the provisions of such licence.

For the purposes of this Agreement the oilfields known as Forties and Ninian shall each be deemed to be a commercial oilfield.
- (c) "crude oil" shall mean crude liquid petroleum which has been stabilised and, if necessary, otherwise treated to render it suitable for transport by conventional crude oil tankship.
- (d) "Crude Oil Agreement" shall mean an agreement referred to in Article 9(e) hereof.
- (e) "Forties" shall mean the commercial oilfield known by such name, part of which is located within the area comprised in production licence P.246.
- (f) "gasfield" shall mean a naturally occurring sub-surface accumulation of hydrocarbons which produces, under the conditions existing at the time of its first production, a sample of fluid the liquid hydrocarbon content of which at standard temperature and pressure is such that the gas to liquid hydrocarbon ratio is greater than 35,000 standard cubic feet of gaseous hydrocarbon to one stock tank barrel of liquid hydrocarbon. For the purposes of this definition a single well means a recombinant separator sample taken under conditions of stabilised flow with suitable drawdown, as recommended in the American Petroleum Institute RP 44 (January 1976).

- (g) "NGL" shall mean any hydrocarbon or mixture of hydrocarbons produced from a commercial oilfield, other than crude oil or natural gas. For the purposes of this definition natural gas means any gas actually supplied through pipes to the British Gas Corporation and any other gas the supply, use or liquefaction of which is made subject to the consent of the Secretary or of the British Gas Corporation by virtue of ss. 8 and 9 of the Energy Act 1976 and any statutory modification or re-enactment thereof.
- (h) "NGL Agreement" shall mean any agreement entered into between BNOC and a member of the BP Group setting out the conditions applicable to the purchase of NGL pursuant to Article 9(f)(i) hereof
- (i) "Ninian" shall mean the commercial oilfield known by such name, part of which is located within the area comprised in production licence P.199
- (j) "Norex Agreements" shall, subject to Article 4(d) hereof, mean the agreements in force at the date hereof entered into by members of the BP Group with Norex Trading Limited and others, and the associated documents, in respect of the financing of part of the development costs of Forties. The said agreements and documents are listed in Schedule 1 hereto.
- (k) "oilfield" shall mean a naturally occurring sub-surface accumulation of petroleum, a substantial proportion of which is in the liquid phase at the time of its discovery and which, under the conditions existing at the time of its first production, contains a fluid the liquid hydrocarbon content of which is such that the gas to liquid hydrocarbon ratio is less than 3,000 standard cubic feet of gas to 1 stock tank barrel of liquid hydrocarbon.
- (l) "petroleum" shall have the meaning specified in s.1(2) of the Petroleum (Production) Act 1934.
- (m) "production licence" shall mean a licence to search and bore for and get petroleum granted by virtue of the Petroleum (Production) Act 1934, as applied by the Continental Shelf Act 1964, which licence was in force as at the 28th June, 1976 or any production licence granted in substitution in whole or part therefor. Provided that any member of the BP Group which is a licensee of the licence being substituted shall have concurred therein. Any reference to a production licence by number shall include a reference to any production licence granted as aforesaid in substitution for such first-mentioned production licence.
- (n) "subsidiary" shall have the meaning specified in s.154 of the Companies Act 1948.
- (o) "transfer" in respect of share capital shall include the vesting of shares by issue or renunciation of allotment and "transferor" shall include a member of the BP Group whose percentage shareholding interest is reduced in consequence of such issue or renunciation of allotment.
- (p) "wholly owned subsidiary" shall have the meaning specified in s.150(4) of the Companies Act 1948.

ARTICLE 2 - PERFORMANCE BY BP GROUP

BP undertakes that in so far as any obligation hereunder falls to be performed by any member of the BP Group not a party to this Agreement, BP shall in accordance with its lawful powers procure the performance of that obligation by the relevant member of the BP Group.

ARTICLE 3 - PARTICIPATION IN NINIAN

- (a) Upon the terms and conditions in this Agreement contained Petroleum Development hereby assigns and BNOC accepts a fifty one (51) per cent undivided share in all of Petroleum Development's right, title and interest in production licence P.199, together with a like share of the obligations arising thereunder.
- (b) Petroleum Development and BNOC will do all things necessary on their respective parts to procure the execution forthwith upon the execution of this Agreement of an agreement in the form of Schedule 2 hereto in order to amend the provisions of the Operating Agreement dated 9th October, 1973, as amended, made between the licensees of production licence P.199.

ARTICLE 4 - PARTICIPATION IN FORTIES

- (a) Subject to Article 6 hereof Oil Development hereby undertakes with BNOC that within a reasonable time prior to the expiry of the Norex Agreements, Oil Development will consult with BNOC and that promptly after such expiry Oil Development will notify BNOC as to which of the following options Oil Development intends to exercise:
- to execute an assignment in the form of Schedule 3 hereto assigning production licence P.246 to itself and/or any wholly owned subsidiary of BP and to BNOC; or
 - if desirable to the BP Group for financing reasons, to procure the transfer to BNOC of fifty-one (51) per cent of the share capital of Oil Development Provided that such transfer shall not be so made as to prejudice in any way the rights accruing to BNOC in respect of Forties under this Agreement or increase BNOC's obligations or impose new obligations under this Agreement
- subject always to Oil Development not having passed out of the control of BP under the terms of the Norex Agreements. If Oil Development notifies BNOC that it intends to exercise option (i) above, the said assignment shall be executed as soon thereafter as may be practicable. If Oil Development notifies BNOC that it intends to exercise option (ii) above it shall not do so nor shall any such transfer be made unless BNOC shall by notice to Oil Development within 30 days from such notification elect to receive such transfer. If BNOC so elects, Oil Development shall procure the execution of the said transfer as soon thereafter as may be practicable. If BNOC does not so elect, Oil Development shall not be obliged in lieu to execute the assignment referred to in option (i) above. The failure by BNOC to elect as aforesaid shall not prejudice or defer BNOC's rights in respect of Forties pursuant to Articles 9, 10, and 11 hereof or Oil Development's right to utilise production licence P.246 or Forties for financing purposes pursuant to Article 6 hereof. If at any time after BNOC has or, as the case may be, has not elected as aforesaid Oil Development decides that it no longer wishes to utilise production licence P.246 or Forties for financing purposes, Oil Development shall promptly so notify BNOC and shall at BNOC's request execute the assignment referred to in option (i) above as soon thereafter as may be practicable Provided that where BNOC has so elected and subsequently so requested it shall first re-transfer the said shares to the transferor or its successor in title free of consideration.
- (b) If an assignment is made to BNOC pursuant to (a) above, Oil Development and BNOC shall at the same time as that assignment is made execute a further deed under which, subject as in (a) above provided and upon the terms and conditions in this Agreement contained, Oil Development shall assign and BNOC shall accept a fifty-one (51) per cent undivided share in all of Oil Development's right, title and interest in production licence P.246, together with a like share of the obligations arising thereunder.
- (c) If an Event of Default (as defined in the BP Development Debenture, being document number (2) listed in Schedule 1 hereto) occurs or is likely to occur, with the effect that the rights contained in Clause 6 of that document in respect of the Special Share (as therein defined) may or do become exercisable, BP and Oil Development will promptly consult with the Secretary and BNOC to consider how the rights of BNOC in respect of Forties under this Agreement may be secured, but subject always to the rights of third parties under the terms of the Norex Agreements.
- (d) Nothing in this Agreement contained shall in any way restrict BP or Oil Development from entering into any agreement or other document modifying or supplementing the Norex Agreements or any of them Provided that no such modification or supplement shall adversely affect the rights of BNOC hereunder without the consent of BNOC.

ARTICLE 5 - PARTICIPATION IN OTHER COMMERCIAL OIL FIELDS

- (a) Subject to Articles 4 and 6 hereof BP hereby undertakes with BNOC that promptly after the time when any oilfield wholly or partially located within the area comprised in a production licence in respect of which at 25th June, 1976 any member of the BP Group was a licensee becomes a commercial oilfield, such member will:
- if sole licensee at that time, execute an assignment in the form of Schedule 3 hereto assigning such licence to itself and/or any wholly owned subsidiary of BP and to BNOC;
 - if a licensee with others at that time make every reasonable effort to procure the execution of an assignment in the form of Schedule 3 hereto by all the licensees of that licence to themselves and BNOC, if BNOC is not at that time already a licensee of the licence in question.
- (b) Where a member of the BP Group is a joint licensee of a production licence due to be assigned to BNOC under (a)(i) above, such member will make every reasonable effort to negotiate with its co-licensees appropriate amendments, reflecting the said assignment and the provisions of this Agreement, to any agreement between the licensees equivalent to the agreement referred to in Article 3(b) hereof and which relates to operations in the commercial oilfield in question.
- (c) In addition to any assignment required to be executed pursuant to (a)(i) above, the relevant member of the BP Group and BNOC will execute a further deed under which, subject to (b) above and upon the terms and conditions in this Agreement contained, the said member shall assign and BNOC shall accept a fifty-one (51) per cent undivided share in all of that member's right, title and interest at the time of execution in the production licence in question, together with a like share of the obligations arising thereunder.

ARTICLE 6 - PROVISIONS RELATING GENERALLY TO COMMERCIAL OIL FIELDS

- (a) Subject as hereinafter provided in this Article 6 nothing in this Agreement shall in any way prevent, or otherwise limit the rights of, any member of the BP Group from subjecting to any mortgage charge lien pledge or other encumbrance or otherwise utilizing any production licence or commercial oilfield or interest therein (including any interest assigned to BNOC pursuant to this Agreement) or in connection therewith selling any petroleum derived therefrom for financing purposes, whether or not such purposes are connected with any such commercial oilfield, in such manner as BP or any member of the BP Group shall in its sole discretion deem necessary or desirable.
- (b) The provisions of Article 5 hereof shall be implemented as soon as is practicable in conformity with the the principles of this Article.
- (c) BP undertakes to inform BNOC in reasonable time of the terms of a proposal for such arrangements as are permitted by virtue of this Article which are relevant to BNOC's rights under this Agreement. BNOC undertakes to execute all necessary documents and to do all things necessary within its control in respect of its interests under this Agreement in order to assist such arrangements.
- (d) The provisions of (a), (b) and (c) above are subject to:
- (i) all statutory consents required in connection with such arrangements from the Secretary being obtained; and
 - (ii) the obligations undertaken by BNOC under or pursuant to this Agreement not being increased by arrangements permitted by virtue of this Article; and
 - (iii) the rights conferred upon BNOC by Articles 9, 10 and 11 hereof not being prejudiced or deferred by arrangements permitted by virtue of this Article save insofar as, after default, such arrangements confer on a third party prior rights to the delivery of crude oil or NGL or affect the enjoyment of rights referred to in Articles 10 and 11 hereof.
- (e) A provision in any arrangement referred to in (d)(iii) above whereby crude oil or NGL referred to in Article 9 hereof is to be delivered to a third party and (except after default) immediately re-sold to a nominee of BP shall not, except in the event of such a default, be deemed to prejudice or defer BNOC's rights under Article 9 hereof and crude oil or NGL so re-sold shall be made available to BNOC subject to the provisions of Article 9 hereof. If the arrangements contain such a provision BP shall make every reasonable effort to ensure that the arrangements will, in the event of default, require the third party to offer to re-sell such crude oil or NGL to BNOC, upon the same terms as such crude oil or NGL would have been re-sold to a nominee of BP, until any such default has been remedied. If BNOC accepts such an offer and if the said terms result in a cost for the crude oil or NGL in question lower (after taking into account price, credit period and all other relevant factors) than the cost that would have been payable therefor if it had been delivered by the relevant member of BP Group under the Crude Oil Agreement or NGL Agreement then BNOC shall when paying the third party for such crude oil or NGL pay to such member the difference between the said respective costs. If there is a dispute between BNOC and the said relevant member as to whether there is any such difference, or the amount thereof, the matter shall be referred for determination to an expert nominated by the President for the time being of the Institute of Petroleum of the United Kingdom and the provisions of Clause 16 of the Crude Oil Agreement shall be deemed to apply to such reference.

ARTICLE 7 - BENEFICIAL INTERESTS

- (a) All rights, titles and interests which are assigned to BNOC pursuant to this Agreement shall be held by BNOC subject to this Article and BNOC hereby undertakes:
- (i) with Petroleum Development or, as the case may be, with BP for and on behalf of each relevant member of the BP Group that BNOC shall hold as trustee all right, title and interest assigned or which may hereafter be assigned to BNOC pursuant to Article 3, 5 or 8 hereof, including but not by way of limitation title to all petroleum won and saved from Ninian and from each other commercial oilfield to which Article 5 or 8 hereof shall apply, upon trust for and to the sole order and account of Petroleum Development or such member as the case may be absolutely;
 - (ii) with Oil Development or, as the case may be, with BP for and on behalf of the transferor, that BNOC shall hold as trustee all right, title and interest or the share capital, as the case may be, which may hereafter be assigned or transferred to BNOC pursuant to Article 4 hereof, including but not by way of limitation title to all petroleum won and saved from Forties, upon trust for and to the sole order and account of Oil Development or, in respect of share capital, of the transferor absolutely.
- (b) Petroleum Development, Oil Development or, as the case may be, BP for and on behalf of each relevant member of the BP Group hereby undertakes to indemnify and keep indemnified BNOC against all costs and expenses incurred by BNOC as such trustee of the rights, titles and interests assigned or which may hereafter be assigned or transferred to BNOC pursuant to Article 3, 4, 5 or 8 hereof, or under the supplemental agreements made under the provisions of the said Articles except to the extent that:
- (i) such costs and expenses arise through BNOC's negligence or failure to perform an obligation imposed on it under this Agreement or any of the said supplemental agreements; or
 - (ii) any such costs or expenses are under the provisions of this Agreement to be borne by BNOC.

- (c) BNOC and the relevant member of the BP Group will promptly after each assignment made pursuant to this Agreement give such notices of the trust as may be required to enable the operator of the commercial oilfield in question to direct requests for payment and other notices to the said member.
- (d) The relevant member of the BP Group, being the beneficial owner of the share of petroleum won and saved from each commercial oilfield the subject of this Agreement proportionate to its beneficial interest in the production licence within the area comprised in which such oilfield is located, shall without prejudice to the generality of (b) above be responsible as between itself and BNOC for meeting royalty obligations, payment of PRT and other relevant U.K. taxes in respect of such share of petroleum.
- (e) Notwithstanding the provisions of this Article 7, BNOC shall be under no obligation to account to BP or to any member of the BP Group for any profit derived by BNOC from any dealings in the crude oil or NGL purchased by it pursuant to Article 9 hereof.

ARTICLE 8 - TRANSFER OF INTERESTS

The terms set out in this Article 8 shall apply to the acquisition or disposal of an interest in or under a production licence by a member of the BP Group save insofar as the relevant provisions of a participation agreement relating to an interest to which this Article 8 applies do not permit the implementation thereof and in such event the relevant member of the BP Group, BNOC and the Secretary shall consult as to the means by which the terms of this Article can be applied to the acquisition or disposal of that interest as the case may be. Subject thereto:

- (a) if any member of the BP Group shall acquire an interest in a production licence in which at 28th June, 1976 no member of the BP Group held an interest and if at the time of such acquisition a commercial oilfield is located within the area comprised in such licence then:
- if there is a participation agreement in force relating to the interest of the disposing party in such commercial oilfield, which agreement was made by or with the approval of the Secretary, the terms of that participation agreement shall apply to the interest acquired as aforesaid in lieu of the provisions of this Agreement;
 - if there is no such participation agreement in force, the terms of this Agreement shall apply to the interest acquired as aforesaid

Provided that, whichever of (i) or (ii) above shall apply, the parties hereto agree that nothing in this Agreement shall imply, nor shall a participation agreement referred to in (i) above take effect so as to require the member of the BP Group acquiring the said interest to assign to BNOC an interest in the production licence in question greater than the interest which the disposing party, immediately prior to such disposal, would have been obliged to assign to BNOC in accordance with the said participation agreement and with the policy of majority State participation set out in the White Paper of July, 1974 (Cmd. 5696). The Secretary undertakes that he shall not, as a condition of granting consent to the said acquisition by a member of the BP Group, require the assignment to BNOC of an interest in the production licence in question which would result in BNOC acquiring an interest therein greater than the limit aforesaid.

- (b) If any member of the BP Group shall acquire (otherwise than by equity re-determination under unitisation arrangements) an additional interest in a production licence in which at 28th June, 1976 a member of the BP Group held an interest and if at the time of such acquisition a commercial oilfield is located within the area comprised in such production licence then the provisions of this Agreement shall apply in respect of the interest so acquired and the proviso to (a) above shall be deemed to be incorporated herein and shall apply as though set out herein at length, save only that the terms of any participation agreement applying to such additional interest immediately before the said acquisition thereof by the member of the BP Group shall continue to apply in determining the quantity of petroleum to be delivered to BNOC in respect of that interest and this Agreement shall not apply to such determination.
- (c) BP hereby undertakes that if any member of the BP Group shall acquire an interest in a production licence in respect of which at 28th June, 1976 no member of the BP Group held an interest or shall acquire (otherwise than by equity re-determination under unitisation arrangements) an additional interest in any production licence beyond the interest held by it at the said date, and if at the time of any such acquisition a commercial oilfield is located within the area comprised in such licence then, unless (a)(i) above applies in respect of the interest so acquired, the said member shall have the same rights and obligations towards BNOC, *mutatis mutandis*, as if the interest so acquired had been held by a member of the BP Group at 28th June, 1976.
- (d) If any member of the BP Group shall assign after 28th June, 1976 an interest in a production licence within the area comprised in which a commercial oilfield is located then the provisions of Article 14(b) or (c) hereof, as the case may be, shall apply to such assignment and the Secretary undertakes that he shall not, as a condition of granting consent thereto, require the assignment to BNOC of any part of such interest.

- (e) (i) Except to the extent that the interest disposed of is an interest in a production licence within the area comprised in which a commercial oilfield is located, nothing in this Article shall affect the right of any member of the BP Group to dispose of all or part of its interest in a production licence and neither Article 14(b) nor (c) shall apply nor shall the Secretary require, as a condition of granting consent to the said disposal, the assignment to BNOC of an interest in the said production licence.
- (ii) If any member of the BP Group shall acquire an interest in a production licence after 28th June, 1976 then, except to the extent that at the time of such acquisition it is an interest in a production licence within the area comprised in which a commercial oilfield is located, such interest shall be regarded in all respects as though it had been held by a member of the BP Group at 28th June, 1976 and the provisions of this Agreement shall have effect in lieu of the terms of any participation agreement to which the licensee disposing of such interest was a party.
- (f) For all the purposes of this Article 8, an acquisition of shares whereby a company having an interest in a production licence becomes a member of the BP Group shall be treated as an event whereby a member of the BP Group acquires an interest in such production licence and the rights and obligations arising under this Agreement in consequence thereof shall be enjoyed and performed by the company so becoming a member of the BP Group.

ARTICLE 9 - CRUDE OIL AND NGL RIGHTS

- (a) BNOC shall have the option to purchase at market price at the time of delivery in each calendar year, commencing with the year 1977, up to fifty-one (51) per cent of the crude oil belonging to each relevant member of the BP Group by virtue of that member's beneficial interest in the production licence within the area comprised in which is located the commercial oilfield from which such crude oil is produced in the year in question. The said option shall, in respect of each calendar year until the termination of this Agreement, constitute an irrevocable offer by each relevant member of the BP Group which offer shall be available for acceptance by BNOC in accordance with the Crude Oil Agreement or any successor agreement.
- (b) In calculating for the purposes of (a) above the quantity of crude oil belonging to each relevant member of the BP Group there shall be disregarded:
 - (i) crude oil from the commercial oilfield in question which the Minister requires to be delivered pursuant to the terms of the production licence in question and
 - (ii) crude oil produced from Forties which is delivered by Oil Development to Norex Trading Limited pursuant to the Forward Oil and Gas Purchase Agreement between the said companies made the 15th day of September, 1972 but only to the extent that such crude oil is not delivered by Norex Trading Limited to BP Trading Limited pursuant to the Long Term Sale Agreement between the said companies made the 15th day of September, 1972 by reason of the operation of Clause 5 (Default) thereof, the said Agreements being documents numbers (4) and (5) respectively listed in Schedule 1 hereto.
- (c) In each of the calendar years 1977 to 1981 inclusive BNOC shall, contingent upon the exercise of its option under (a) above, supply to members of the BP Group at market price at the time of delivery certain quantities of UKCS crude oil and BP shall procure the delivery to BNOC in each of the years 1979, 1980 and 1981 of quantities of non-UKCS crude oil equal in value to the said certain quantities. For the purposes of this Agreement "UKCS crude oil" shall mean crude oil produced from commercial oilfields on the U.K. Continental Shelf and "non-UKCS crude oil" shall mean crude oil from a source or sources other than the U.K. Continental Shelf.
- (d) For the years 1982 - 1989 inclusive BNOC and BP have reached agreement upon the implementation of BNOC's option under (a) above and the supply of crude oil by BNOC to members of the BP Group and for the period thereafter BNOC and BP shall consult with a view to reaching agreement thereon, taking full account of the need which each recognises for adequate long term planning.
- (e) (i) The terms and conditions applying to the crude oil arrangements provided for in (a) and (c) above in respect of the calendar years 1977 to 1981 inclusive are contained in the Crude Oil Agreement the text of which is attached hereto as Annexe A and which is to be executed by BNOC and BP forthwith upon the execution of this Agreement.
- (ii) The terms and conditions applying to the crude oil arrangements provided for in (d) above in respect of the calendar years 1982 - 1989 inclusive are contained in the agreement the text of which is attached hereto as Annexe B and which is to be executed by BNOC and BP forthwith upon the execution of this Agreement.
- (f) (i) Subject as hereinafter provided it is agreed that BNOC shall have the right to purchase fifty one (51) per cent of the NGL belonging to each relevant member of the BP Group by virtue of that member's beneficial interest in the production licence within the area comprised in which is located the commercial oilfield from which such NGL is produced on conditions to be agreed by BNOC and BP which conditions shall have regard in particular to the operational features prevailing in respect of the commercial oilfield in question and the special factors associated in general with the marketing and disposal of NGL.

- (ii) In the light of explanations given by BP about its existing plans and commitments for the disposal of NGL from Forties and having regard also to the present intention of BNOC and BP to enter into a joint venture agreement for *inter alia* the buying and selling of NGL from Ninian, BNOC hereby undertakes with BP on behalf of each relevant member of the BP Group that BNOC shall not exercise its right of purchase under (i) above in respect of any NGL produced from Forties and Ninian respectively. If contrary to present expectations BP should have available for disposal uncommitted quantities of NGL from Forties, BP in considering sales opportunities will afford to BNOC the opportunity to make a commercial proposal in respect of such quantities.
- (g) BNOC, BP and each relevant member of the BP Group recognize and acknowledge that it is the essence of BNOC's rights to crude oil under this Agreement and the Crude Oil Agreement that the relevant member of the BP Group shall deliver or procure to be delivered to BNOC each quantity of crude oil produced from a commercial oilfield to which this Agreement applies which is required to be delivered to BNOC in accordance with the Crude Oil Agreement and that performance in any other manner by the relevant member of the BP Group, or, as the case may be, by its assignee of the obligations as to delivery cannot adequately be substituted.

ARTICLE 10 - VOTING

- (a) (i) BNOC shall have the following rights in respect of Ninian:
- (aa) prior to meetings between Petroleum Development and the licensees holding the remaining 50% interest in production licence P.199 in accordance with the Operating Agreement referred to in Article 3(b) hereof, to meet Petroleum Development to discuss the agenda for the relevant meeting. Petroleum Development shall pay due regard to such of BNOC's views in respect of matters referred to in the said agenda as BNOC makes known to Petroleum Development prior to the exercise by Petroleum Development on behalf of itself and BNOC of Petroleum Development's vote under or pursuant to the said Operating Agreement at the relevant meeting
- (bb) to attend at meetings of the Ninian Management Committee ("NMC") and, as soon as the agreement proposed to be entered into between all parties having an interest in Ninian and governing voting procedure has been concluded, to vote at such meetings in accordance with the provisions of such agreement.
- (ii) if at the expiry of one month from the date hereof the agreement referred to in (i)(bb) above is not in force Petroleum Development hereby agrees to transfer to BNOC voting rights equivalent to 15% of the voting rights from time to time exercisable by Petroleum Development in respect of meetings of the NMC and BNOC shall exercise such voting rights at its sole discretion. Provided that
- (aa) BNOC shall not exercise such voting rights acquired from Petroleum Development whether by way of voting or abstaining in such a way
- (1) that the effect thereof when added to the voting rights otherwise available to BNOC and to any subsidiary of BNOC would be to defeat or carry a motion before the NMC without the support of one or more of the other parties having voting rights in the NMC
- (2) as to change the relative effectiveness of the aggregate voting strengths existing as at 28th June, 1976 between the beneficial licensees of production licences P.199 and P.202 respectively
- (bb) nothing in this (a)(ii) shall be construed as a transfer to BNOC of any voting rights in respect of any matter which could affect the apportionment of rights and liabilities pursuant to a proposed or existing unitisation agreement.
- (iii) In the exercise of its voting rights under (ii) above BNOC shall have due regard to such views of Petroleum Development as shall be made known to BNOC on any matters which could affect the interests of Petroleum Development.
- (iv) the provisions of (ii) above shall cease and be of no further effect in respect of Ninian on the date that the agreement referred to in (i)(bb) above comes into force but BNOC and BP hereby record their intention that the proposed agreement referred to in (i)(bb) above shall achieve, but not necessarily by the same means, the effect of the principles in respect of the transfer and exercise of voting rights which are contained in (ii) above.
- (b) (i) Except as provided in (a)(i) above where a member of the BP Group is a licensee with others of a production licence in which an interest has been assigned to BNOC pursuant to this Agreement (or would have been so assigned but for the application of Article 6 hereof) and where in respect of such licence and the commercial oilfield located within the area comprised therein voting arrangements are in force whereby the relevant member cannot exercise a controlling majority vote, the relevant member shall make every reasonable effort to procure that in respect of the commercial oilfield in question BNOC shall have such voting rights, or so be able to require the exercise of such voting rights in accordance with its directions, or otherwise be so empowered in respect of voting rights as will enable BNOC to have an effective and, subject to (ii) below, unrestricted vote in respect of the interest assigned (or which would have been so assigned) as aforesaid, subject to the consent of any third party whose consent shall be required (which consent the said member undertakes to use every reasonable effort to obtain).

- (ii) It is the parties' intention that the provisions of (c)(i) above shall *mutatis mutandis* apply so far as possible to all voting arrangements under this (b), although the parties recognise that voting arrangements identical to such provisions may not be appropriate or may not be capable of being applied in respect of each of the commercial oilfields referred to in this (b).
- (c) BNOC's rights under (a) and (b) above shall apply only in respect of the commercial oilfield located within the area comprised in the production licence in which an interest has been assigned to BNOC pursuant to this Agreement (or would have been so assigned but for the application of Article 6 hereof) and BNOC shall not have the right to discuss agenda items, nor to attend meetings or relevant parts thereof or to vote thereat in respect of any matter which relates to any area other than the area of the commercial oilfield in question or which could affect the apportionment of rights and liabilities pursuant to a proposed or existing unitisation agreement.
- (d) (i) In respect of any commercial oilfield located within the area comprised in a production licence of which a member of the BP Group is a licensee, being an oilfield to which the foregoing provisions of this Article 10 do not apply, (e.g. where the relevant member is sole licensee or where there is no provision for voting rights under the relevant agreements or where the voting rights are such that the relevant member can exercise a controlling majority vote), BNOC shall have the right to join with the BP management team concerned (including any relevant study or working groups concerned with the development or operation of the commercial oilfield in question) and the right to consultation at management level on all aspects, including forward planning, of the development and operation of the said commercial oilfield (save insofar as consultation about matters other than those directly concerned with such development or operation might prejudice BP's commercial interests).
- (ii) Nothing in this (d) shall give BNOC rights in respect of any matter which relates to any area other than the area of the commercial oilfield in question, or which could affect the apportionment of rights and liabilities pursuant to a proposed or existing unitisation agreement.
- (e) For the purposes of this Article 10 references to a commercial oilfield shall, if it is proposed that crude oil from the said oilfield shall be loaded into tankships within the area comprised in the relevant production licence, include matters relating to the disposal of such crude oil up to the point of delivery into such tankships, but subject thereto shall exclude any matter relating to activities or operations downstream of the point at which a main oil pipeline is connected to the field production facilities.
- (f) The relevant member of the BP Group shall promptly notify BP of the time and place of all meetings which BNOC is entitled to attend pursuant to the provisions of this Article 10.
- (g) The provisions of this Article 10 shall apply only in respect of interests assigned or which may hereafter be assigned to or otherwise vested in BNOC pursuant to this Agreement and shall not in any way prejudice any other voting rights BNOC may have at the date hereof or which may hereafter accrue to BNOC otherwise than pursuant to this Agreement.

ARTICLE 11 - INFORMATION AND CONFIDENTIALITY

- (a) With effect from the declaration of commerciality in respect of an oilfield located within the area comprised in a production licence of which a member of the BP Group is a licensee, the said member shall supply and BNOC shall receive the following information, in respect of such oilfield, subject to the consent of any third party having rights to prevent the disclosure of information referred to in this Article (which consent the said member undertakes to use every reasonable effort to obtain):
- all information (including but not limited to progress and technical reports, logs, field and well data, copies of surveys and technical evaluations) as would normally be provided to an equity participant by the operator of a joint venture. Provided that the said member shall not be obliged to supply such information where either BNOC is an equity participant in the oilfield in question or the said member is not the operator thereof and BNOC is already in receipt of all such information;
 - such supplementary reports which would normally be provided to an equity participant at its own cost as BNOC may reasonably request, the cost thereof to be for BNOC's account;
 - such further information as can properly and reasonably be made available to reflect the spirit of the co-operative arrangements existing between BP and BNOC;

Provided that if disproportionate expense or administrative burden would be incurred by the relevant member of the BP Group in the supply of any information (including but not limited to samples of cores, rocks and fluids from wells) to be made available to BNOC pursuant to the provisions of this (a) then such information shall be made available to BNOC for examination at all reasonable times and upon BNOC giving reasonable notice of its wish to make such examination.

- (b) Without limitation to the provisions of (a) above the relevant member of the BP Group shall permit BNOC, persons employed exclusively by BNOC, and any person on long term secondment to BNOC to have full access, at reasonable times and upon reasonable notice being given by BNOC, to the operations of the relevant member of the BP Group at an oilfield to which (a) above applies. Provided that such access shall be effected, in the absence of express agreement to the contrary, at the sole risk and expense of BNOC.

- (c) (i) Subject to any third party consent as in (a) above, the relevant member of the BP Group shall also supply BfOC with such information about the pipelines carrying petroleum from any commercial oilfield which is the subject of this Agreement and about the related onshore terminal facilities as may be necessary to give BNOC a proper understanding of the operation of the commercial oilfield in question. BP shall not be obliged to supply BNOC with any information under this (c)(i) where BNOC is already entitled to receive such information by virtue of its equity or participation interest in the pipeline or facility in question.
- (ii) Although BNOC's entitlement to information under (i) above does not include the right to a presence at or vote in any committee which makes decisions concerning such pipelines or facilities nor, in the case of commercial oilfields to which Article 10(d) hereof applies, the right to consultation concerning such pipelines or facilities, BP on behalf of each relevant member of the BP Group undertakes that such member will not seek to oppose the acquisition by BNOC from third parties of those or other rights in such pipelines or facilities, including BNOC's accession to the relevant agreements, unless prejudice to the interest therein of such member would or might arise from such acquisition. BP on behalf of each such member acknowledges that such prejudice would not normally be expected to arise from the mere exercise by BNOC of the right, acquired from another party, to be present at or to vote in any committee referred to in this (ii).
- (d) (i) All information received hereunder by any party hereto shall be kept confidential by the recipient and shall not be disclosed to any person other than full or part-time directors (or in the case of BNOC full or part-time members), to persons employed exclusively by the recipient or on long term secondment to the recipient, or to such directors, members and persons so employed by or seconded to a wholly owned subsidiary of the recipient or a company of which the recipient is a wholly owned subsidiary.
- (ii) BNOC hereby undertakes that each of its members and every other person to whom information is disclosed hereunder shall keep the same confidential. BNOC hereby further undertakes, but not so that this undertaking shall apply to any disclosure by BNOC to any member of BNOC, not to disclose any such information to the persons specified in (i) above without first obtaining from the intended recipient thereof an undertaking that the said information will be kept confidential. In the event of BNOC not obtaining the undertaking as aforesaid the provisions of (iii) below shall apply.
- (iii) Save as provided in (i) and (ii) above, no party may divulge information received hereunder to any person without the prior consent of the party supplying such information such consent not to be unreasonably withheld. If the party seeking consent to disclose information is requested by the party supplying the same to obtain from the intended recipient an undertaking enforceable by the supplying party to keep such information confidential but fails to do so then the supplying party may (without prejudice to any other right which it may have so to do) withhold consent to such disclosure and such withholding shall not be deemed unreasonable.
- (iv) BNOC undertakes not to use information received hereunder in a manner which would or might prejudice the commercial interests of the BP Group or any member thereof.
- (v) The provisions of this (d) shall remain in force during the currency of this Agreement and for two two years after termination or expiry thereof.
- (e) Subject to the obtaining of any such consents as are mentioned in (a) above BNOC may in the course of discharging its statutory duty to tender or provide advice to the Secretary utilise information received by BNOC hereunder Provided that such information shall not without BP's prior consent be utilised by BNOC in such a manner as to attribute the information to the BP Group or any member thereof and Provided further that specific details of any such information shall not without BP's prior consent be tendered or provided to the Secretary in the form in which it is received from any member of the BP Group but such details may only be used as a basis for the advice so tendered or provided.
- (f) The obligations contained in (d) and (e) above shall not apply:
- (i) to information which is or becomes public knowledge; nor (unless such information is made available by a third party who in so doing is in breach of any obligation to any party to this Agreement)
- (ii) to information which can be shown to have been obtained by or otherwise to have been in the possession of the recipient at the time of its receipt hereunder and which was not subject to restrictions upon disclosure; or
- (iii) to information which subsequent to the time of its receipt hereunder is made available to the recipient by a third party without restrictions upon its disclosure being imposed by the said third party Provided that in using such information the said recipient shall at all times give due consideration to the commercial sensitivity likely to be attached to that information by the party which supplied the same hereunder and where appropriate in the light of that consideration shall consult with such party before using such information.

- (g) If as a result of information gained substantially from any member of the BP Group under or pursuant to this Agreement BNOC or any subsidiary of BNOC makes a non-invited application (as such expression is used in the Petroleum (Production) Regulations 1976) for the grant of a licence in respect of an area adjoining the area comprised within a production licence the subject of this Agreement, BNOC shall promptly notify BP so that BP shall have sufficient time to make appropriate representations designed to achieve a fair solution.
- (h) In using information received hereunder BP or BNOC as the case may be shall at all times have due regard for the spirit of the co-operative arrangements existing between BP and BNOC.
- (j) For the purposes of this Article 11:
 - (i) the "declaration of commerciality" in respect of an oilfield shall mean the publication of an announcement by a member of the BP Group or, in the case of a production licence of which a member of the BP Group is a licensee with others but is not the operator, of an announcement by the operator in accordance with the relevant operating agreement of the intention to develop the oilfield in question;
 - (ii) "long term" shall mean for a period exceeding twelve (12) months.

ARTICLE 12 – DOWNSTREAM CO-OPERATION

- (a) In the Memorandum of Principles referred to in recital (e) hereof it was agreed that:
 - (i) BP Oil Limited ("BP Oil") will provide training for BNOC staff in refining, distribution and marketing;
 - (ii) BP Oil will give to BNOC a non-voting presence in BP Oil's refining and marketing counsels for so long as BNOC in the U.K. does not enter into any joint commercial operations with others in refining or marketing or refine or market independently;
 - (iii) BP Oil and BNOC will seek to establish a long-term basis for co-operation downstream in the U.K. in both refining and marketing;
 it being affirmed that BP Oil will retain full management responsibility for its operations and that BNOC will respect the confidentiality of any intelligence gained from the arrangements referred to in (i), (ii) and (iii) above.
- (b) The terms and conditions applying to the arrangements provided for in (a) above are contained in the Agreement for Downstream Co-operation the text of which is attached hereto as Annex C and which is to be executed by BNOC and BP Oil forthwith upon the execution of this Agreement.

ARTICLE 13 – CONSULTATION

- (a) BP and the Secretary will maintain effective and regular consultation on matters of concern to either party arising from or connected with the company's petroleum interests on the U.K. Continental Shelf and U.K. supply and downstream activities.
- (b) These consultations will include, but not by way of limitation, the company's historical and planned UKCS production levels, U.K. refinery throughput (including the basis for the proposed use by the company of UKCS production in U.K. refineries) and output, arrangements for the secure supply of other crude oil needed for U.K. refinery throughput and consequent export and import balances of crude oil and products and plans for the construction in the U.K. of new refinery processing or up-grading facilities or modification of existing facilities. The company will disclose fully to HMG all pertinent information relating to those U.K. operations and plans, including relevant information on price.
- (c) Procedures to give effect to these arrangements will be agreed between the parties and developed from time to time as necessary. Forthwith upon conclusion of this Agreement, the parties will meet to agree the procedures relating to operations in the years 1977 and 1978.
- (d) The Secretary may invite BNOC to be represented at meetings held under the procedures to be agreed under (c) above in order that BNOC may better fulfil its role under s.3 (3) of the Petroleum and Submarine Pipe-lines Act 1975 as adviser to the Secretary. BNOC hereby undertakes on behalf of itself, its members and employees and persons on secondment to BNOC that commercially sensitive information disclosed by BP at such meetings and available to BNOC only by virtue of its said advisory role will not be used for any purpose other than the formulation by BNOC of advice to the Secretary and will not in the course thereof be disclosed to any third party.
- (e) In view of the provisions of Article 11 of this Agreement and of Article 6 of the Agreement for Downstream Co-operation, BP may from time to time ask the Secretary for assurances that the advisory role of BNOC is adequately segregated from its roles as a commercial entity and as the instrument of State participation or that the necessary confidentiality is otherwise satisfactorily achieved. Specifically, it is agreed that the persons representing BNOC at a consultation shall, unless BP otherwise agrees, be different from any of the persons representing BNOC under the provisions of Article 10 of this Agreement or of Article 5 of the Agreement for Downstream Co-operation.

- (b) If notwithstanding the provisions of (c) above BP considers that it would be inhibited by BNOC's attendance at a consultation from presenting material or views which would otherwise be conducive to the conduct of the consultation but which would expose BP and BNOC to a direct conflict of interest, BP may so advise the Secretary in order that the Secretary may make appropriate arrangements, which may include BNOC's withdrawal from the consultation on the relevant items.

ARTICLE 14 -- ASSIGNMENTS

- (a) Whenever any assignment is proposed to which this Article 14 would apply the relevant member of the BP Group or BNOC as the case may be will inform BNOC or BP respectively in reasonable time and BNOC and the relevant member of the BP Group will consult together in respect of the proposed assignment and its effect on the arrangements the subject of this Agreement.
- (b) The relevant member of the BP Group may assign the whole or any part of its interest in a production licence within the area comprised in which is located a commercial oilfield and which licence or commercial oilfield is subject to BNOC's rights under this Agreement to another member of the BP Group Provided that the assignee shall first have agreed in writing with BNOC to be bound by the provisions of this Agreement, if not already a party thereto.
- (c) (i) The relevant member of the BP Group may assign the whole or any part of its interest in a production licence within the area comprised in which is located a commercial oilfield and which licence or commercial oilfield is subject to BNOC's rights under this Agreement to any person other than a member of the BP Group Provided that subject to Article 8 hereof the assignee shall first have agreed in writing with BNOC to be bound by the provisions of this Agreement so far as the same are relevant to the assigned interest.
- (ii) If the Secretary refuses consent to a proposed assignment under this Article BP on behalf of itself and the relevant member of the BP Group undertakes not to challenge his decision (whether or not the Secretary makes public the reason for his decision) on the ground that the refusal was given because the proposed assignee would not comply or was likely not to be able to comply with its obligations under an agreement specified in (i) above.
- (d) BNOC may assign the whole or any part of its interest under or pursuant to this Agreement or any agreement entered into pursuant to this Agreement to a wholly-owned subsidiary of BNOC Provided that
- (i) the assignee shall first have agreed in writing with each relevant member of the BP Group to be bound by the terms of this Agreement;
- and
- (ii) BNOC shall have undertaken with each relevant member of the BP Group to procure that the assignee will fulfil its obligations under this Agreement undertaken pursuant to (i) above.
- (e) BNOC may assign the whole or any part of its interest under or pursuant to this Agreement or any agreement entered into pursuant to this Agreement to any person other than a wholly owned subsidiary of BNOC Provided that
- (i) the assignee shall first have agreed in writing with each relevant member of the BP Group to be bound by the provisions of this Agreement;
- and
- (ii) the relevant member of the BP Group shall have given its consent to the proposed assignment, such consent
- (aa) not to be unreasonably withheld in the case of the assignment of the whole or part of its rights and obligations under this Agreement to a U.K. State corporation having the same or essentially similar statutory powers as those of BNOC contained in s.2 (1)(c) of the Petroleum and Submarine Pipe-lines Act, 1975 or a wholly owned subsidiary thereof or to a joint subsidiary wholly owned by two or more such State corporations or by BNOC and one or more such State corporations;
- (bb) to be in all other cases to which this (e) applies within the absolute discretion of BP;
- and
- (iii) the relevant member of the BP Group shall in giving any consent under (ii)(bb) above have the discretion to attach reasonable conditions thereto.
- (f) For the avoidance of doubt it is hereby confirmed that any assignment to which this Article 14 applies shall be subject to any statutory consents of the Secretary which may be necessary.
- (g) Nothing in this Article 14 shall prejudice the rights of any member of the BP Group pursuant to Article 8(c) hereof.

ARTICLE 15 - SUBSTITUTE LICENCES

- (a) If the Secretary shall grant in substitution or partial substitution for production licence P.199, P.246 or any other production licence in which an interest shall have been assigned to BNOC pursuant to this Agreement a new production licence then:
- (i) if no commercial oilfield is located within the area comprised in such new production licence BNOC shall hold the said new licence in trust for the relevant member of the BP Group and shall have the right at any time and the obligation at the request of the said relevant member to assign the same to such member or as such member may direct so that BNOC shall cease to be a licensee of such new licence;
 - (ii) if a commercial oilfield is located within the area comprised in such new production licence BNOC shall hold the said new production licence in trust for the relevant member of the BP Group subject to the terms of this Agreement as though such new licence had been assigned to BNOC pursuant to this Agreement and if the production licence previously assigned to BNOC pursuant to this Agreement remains in force in respect of that part of the licensed area not relating to the commercial oilfield BNOC shall have the right at any time and the obligation at the request of the said relevant member to re-assign such production licence to such member or as such member may direct so that BNOC shall cease to be a licensee of such production licence.
- (b) BP shall have the right to nominate a member of the BP Group to receive an assignment under (a) above in the event that the company which would otherwise have received the assignment shall have ceased to be a member of the BP Group.

ARTICLE 16 - REFINING POLICY

The Secretary declares that it is his intention to implement any refining policy of Her Majesty's Government, whether statutory or not, in such a way that due account will be taken of any alteration to BP's availability of UKCS crude oil resulting from the provisions of this Agreement.

ARTICLE 17 - TERMINATION

- (a) If firm arrangements shall be made as a result of which BNOC will
- (i) be dissolved or otherwise cease to function as a body corporate;
 - or
 - (ii) cease to be empowered to exercise or otherwise be prevented from exercising those powers on its behalf contained in s.2 (1)(e) of the Petroleum and Submarine Pipe-lines Act 1975 or any statutory modification or re-enactment thereof to such extent as to render it impossible for BNOC substantially to exercise its rights and perform and observe its obligations and duties under this Agreement
- then, unless a U.K. State corporation referred to in Article 14 (c)(ii)(aa) hereof shall have been established and shall have received an assignment thereunder or by statute, Petroleum Development, Oil Development and BP on behalf of each relevant member of the BP Group shall be entitled a reasonable time before the implementation of such arrangements to terminate BNOC's respective trusteeships hereunder and to have reassigned all rights, titles and interests which have been assigned by it or such member pursuant to Article 3, 4, 5 or 8 hereof as the case may be and thereupon this Agreement shall terminate and be of no further effect and the rights and obligations of the parties hereto (excepting any rights or obligations which have accrued prior to the date of termination) shall cease.
- (b) Petroleum Development, Oil Development and BP on behalf of each relevant member of the BP Group each severally undertakes that, subject to (a) above and (c) below and to Articles 14 and 15 hereof, it will not seek to end the relevant trusteeships in its favour nor to have re-assigned to it any such rights, titles or interests as are referred to in (a) above.
- (c) In the case of a breach of this Agreement which is of such a material nature as to entitle the party not in breach to terminate this Agreement, the latter party shall, before terminating this Agreement, serve notice on the party alleged to be in breach specifying the breach, whether it considers the breach to be capable of remedy, and if so what steps are required to be taken to remedy the same. The notifying party and the notified party shall thereupon promptly consult together as to whether a breach has been committed and as to what remedy is appropriate. If within 21 days of the service of such notice agreement is not reached as to whether a breach has occurred and if so the steps required to remedy the same, the notifying party may then exercise any right which that party may have to terminate this Agreement. Upon such termination the respective trusteeships of BNOC shall terminate and all rights, titles and interests assigned to BNOC pursuant to Articles 3, 4, 5 or 8 hereof as the case may be shall be re-assigned to Petroleum Development, Oil Development and each relevant member of the BP Group. The rights under this (c) shall be in addition to and not in substitution for any other remedy which the notifying party may pursue or assert.
- (d) Notwithstanding termination of this Agreement pursuant to (a) or (c) above, the provisions of Articles 11(d), 11(i) and 13 hereof shall remain in force.

- (e) If this Agreement shall terminate pursuant to (a) or (c) above then the Crude Oil Agreement (unless the parties thereto otherwise agree) and the Agreement for Downstream Co-operation referred to in Article 12(b) hereof shall likewise thereupon terminate but without prejudice to the respective rights and obligations of the parties to such Agreements which have accrued at the date of termination.
- (f) Except as otherwise in this Article provided, this Agreement shall terminate on the expiry of the last of the production licences to which this Agreement applies or the expiry of the period of 30 years from the date hereof referred to in s.1 of the Perpetuities and Accumulations Act 1964, whichever shall be the earlier.

ARTICLE 18 - DIRECTIONS BY THE SECRETARY

- (a) If the Secretary gives BNOC a direction under s.4 of the Petroleum and Submarine Pipe-lines Act 1975, the effect of which is to require BNOC to cease or reduce deliveries of UKCS crude oil to BP pursuant to Article 9 of this Agreement and to the Crude Oil Agreement or any other agreement entered into pursuant to the said Article, BNOC shall, provided it shall previously have produced to BP satisfactory evidence in writing that the said direction has the effect specified above, be relieved of the consequences of the breach of its obligations under this Agreement and under the Crude Oil Agreement or such other agreement occasioned by its compliance with the said direction, nor shall such breach entitle BP to serve notice under Article 17(c) of this Agreement.
- (b) If the said direction so applies as not to prevent BNOC from delivering UKCS crude oil to a member or members of the BP Group other than the member to which delivery was due to be made, BNOC shall deliver the quantity of UKCS crude oil in question to such other member or members of the BP Group as BP shall specify, but on the equivalent terms and conditions as previously agreed with or for the member to which delivery was due to be made, making suitable allowances for relevant operational circumstances.
- (c) If the said direction remains in force for 180 days and (b) above does not apply, the Secretary, BP and BNOC shall consult with a view to agreeing appropriate amendments to this Agreement and the Crude Oil Agreement or to any other such agreement, or such other arrangements as may be equitable.

ARTICLE 19 - GENERAL

- (a) The Secretary confirms to BP
- that the execution of this Agreement and the performance by the relevant member of the BP Group of the obligations required to be performed by such member hereunder fully satisfies majority State participation, in pursuance of the White Paper of July 1974 (Cmd. 5696), in the interests of the BP Group in oilfields located within the areas comprised in production licences; and
 - that he will not seek such participation in the interests of the BP Group in gasfields located within the areas comprised in production licences; and
 - that he consents to the assignments to BNOC and to such other arrangements as are made or agreed to be made in accordance with the provisions of this Agreement and that such consents shall apply to the extent necessary to give effect to the provisions of this Agreement.
- (b) In respect of any petroleum field, other than an oilfield or a gasfield, such field being located within the area comprised in a production licence of which a member of the BP Group is a licensee, BP undertakes that when it appears that such field is commercially producible BP will consult with the Secretary and BNOC to agree how majority State participation may be secured in such field, and the extent of BNOC's involvement in such majority State participation. Having regard to the complex nature of such fields, such consultation shall in arriving at the appropriate level of BNOC's participation rights take full account of the natural gas to be produced, including its volume and thermal value, and any plans of the BP Group for its disposal, any sales of petroleum to be made to the British Gas Corporation or another U.K. State corporation and other relevant aspects of the involvement of the British Gas Corporation or another U.K. State corporation in respect of such field. The parties recognise that the degree of involvement of the British Gas Corporation or another U.K. State corporation in BP's plans for production of and disposals from such field may be sufficient to satisfy majority State participation without the need for BNOC to acquire any participation rights.
- (c) The Memorandum of Principles referred to in the Recitals to this Agreement shall from the date hereof be superseded by this Agreement and be of no further force or effect.
- (d)
- The Secretary declares to BP that it is not the intention of HMG to promote legislation which would increase the total liability of the BP Group to UK taxes, royalties, stamp duties or other UK imposts ("UK imposts") as a result of BP entering into this Agreement insofar as the extra liability would arise solely as a direct consequence of anything falling to be done under Articles 4, 5, 7, 8, 9, 10, 15, 17, 19 or Schedule 2 hereof.
 - BP recognises that it is not the intention of the parties hereto that as a result of entering into this Agreement BP or any member of the BP Group should escape liability to UK imposts to which it would have been liable but for the execution of this Agreement.

- (d) The Secretary and BNOC agree that they will consult with BP if, contrary to the present expectations of the parties, either BP can reasonably demonstrate that the total liability of the BP Group to UK imposts is likely to increase, or it has increased, solely as a direct consequence of any of the events referred to in (b) above. The purpose of such consultation shall be to agree an equitable solution in accordance with the principle that BP shall be financially neither worse nor better off as a result of participation and with the need to preserve BNOC's rights under Articles 9, 10 and 11 hereof and (b) above. If the parties fail to agree within 3 months of the start of such consultation, any party may request the consent of the other parties that the matter be referred for resolution by an independent person to be selected by agreement, or, in default of such agreement, to be selected by the President for the time being of the Law Society and the opinion of such independent person shall be final and conclusive.
- (e) The construction, validity and performance of this Agreement shall be governed by the laws of England.
- (f) (i) Any notice or other communication by any party to another shall be in writing and shall be sufficiently made if sent by pre-paid first class post, telegraph or telex or by delivering the same by hand to the address of the party to be served specified for this purpose below and shall, except in the case of delivery by hand and save for evidence to the contrary, be deemed to have been made on the day on which such communications ought to have been delivered in due course of postal, telegraphic or telex communication.
- (ii) Unless otherwise specified by not less than 15 days' notice by the party in question, the addresses to which notices and communications shall be sent shall be:
- | | | |
|---------|---------------------------|--|
| | to the Secretary by post: | Department of Energy,
Thames House South,
Millbank,
London, SW1P 4QJ. |
| | by telex: | telex No. 918777 |
| to BNOC | by post: | Sturnoway House,
13, Cleveland Row,
St. James's,
London, SW1A 1DH |
| | by telex: | telex No. 919474 |
| to BP | by post: | Britannic House,
Moor Lane,
London, EC2Y 9BU |
| | by telex: | telex No. 888811 |
- Service on any member of the BP Group may be effected by service on The British Petroleum Company Limited.

IN WITNESS WHEREOF the Secretary has caused his Corporate Seal to be affixed hereto and BNOC, BP, Petroleum Development and Oil Development have caused their respective Common Seals to be affixed hereto.

SCHEDULE 1
NOREX AGREEMENTS

- (1) Credit Agreement dated 15th September 1972 between the Banks (as therein set out), the Managers (as therein defined) and Norex Trading Limited.
 - (2) Debenture dated 15th September 1972 between BP Oil Development Limited and Norex Trading Limited.
 - (3) Debenture dated 15th September 1972 between Norex Trading Limited and the Trustees (as therein defined).
 - (4) Forward Oil and Gas Purchase Agreement dated 15th September 1972 between BP Oil Development Limited and Norex Trading Limited.
 - (5) Long Term Sale Agreement dated 15th September 1972 between Norex Trading Limited and BP Trading Limited
- and all documents referred to therein.

SCHEDULE 2
FOURTH SUPPLEMENTAL AGREEMENT TO THE P.199 OPERATING AGREEMENT

THIS DEED is made the _____ day of _____ 1977 BETWEEN THE BRITISH NATIONAL OIL CORPORATION ("BNOC") of the first part and the companies whose names and registered offices are set forth in the Schedule hereto (hereinafter called "the Consortium Parties") of the second to fifth parts respectively.

WHEREAS

- A. National Carbonising Company, Limited ("NCC"), Caswoods Holdings Limited ("CH") and the Consortium Parties were together granted on 16th August, 1972 by the Secretary of State for Trade and Industry the Petroleum Production Licence No. P.199 (hereinafter called "the Licence") and on 9th October, 1973 entered into an Operating Agreement relating thereto (hereinafter called "the Operating Agreement").
- B. By a Deed of Assignment dated 26th June, 1975 NCC, CH and the Consortium Parties assigned their interest in the Licence to Natural Resources Limited ("Natural Resources"), William Reay & Company, Limited ("Reay") and the Consortium Parties and, pursuant to an Agreement also dated 26th June, 1975 expressed to be supplemental to the Operating Agreement (hereinafter called "the First Supplemental Agreement"), (i) Natural Resources and Reay novated the obligations of NCC and CH respectively to the Consortium Parties under the Operating Agreement, (ii) Natural Resources and Reay were accepted as parties to the Operating Agreement in substitution for NCC and CH respectively and (iii) NCC and CH respectively guaranteed the due and timely performance by Natural Resources and Reay of the aforesaid obligations.
- C. By a Deed of Assignment dated 14th January, 1976 Natural Resources, Reay and the Consortium Parties assigned their interest in the Licence to the Consortium Parties and pursuant to a Deed also dated 14th January, 1976 expressed to be supplemental to the Operating Agreement (hereinafter called the "Second Supplemental Agreement") (i) LSMO novated the respective obligations of Natural Resources and Reay to the Consortium Parties under the Operating Agreement, (ii) the Consortium Parties recognised the said Assignment and acknowledged that LSMO was entitled to all the rights and benefits under the Operating Agreement previously accruing to Natural Resources and Reay and (iii) the Consortium Parties released Natural Resources and Reay from any and all obligations under the Operating Agreement and accordingly Natural Resources and Reay ceased forthwith to be parties to the Operating Agreement.
- D. By a Deed of Assignment of 27th May, 1976 the Consortium Parties assigned their interest in the Licence to the Consortium Parties and to BNOC, and pursuant to a Deed of even date therewith (hereinafter called "the Third Supplemental Agreement") certain arrangements were set out whereby the Consortium Parties and BNOC would hold the interests assigned as aforesaid.
- E. Consequent upon the execution on the _____ day of _____ 1977 of an agreement ("the Participation Agreement") between *inter alia* BP Petroleum Development Limited ("BP") and BNOC, the Consortium Parties and BNOC wish to enter into this Deed which is supplemental to the Operating Agreement and to the First, Second and Third Supplemental Agreements (such agreements being hereinafter together called "the Agreements").

NOW IT IS HEREBY AGREED as follows:—

- BP hereby assigns to BNOC, and BNOC hereby accepts, a 51% undivided share of all of the right, title and interest of BP in and under the Agreements to hold as trustee for and on behalf of BP all such right, title and interest in accordance with the terms of the Participation Agreement.
- Notwithstanding the assignment referred to in Clause 1 hereof, BNOC shall not be regarded as a separate party to the Agreements in respect of the right, title and interest so assigned and the rights conferred and obligations imposed upon BNOC under the Agreements in respect thereof shall at all times be exercised and borne by BP and in particular but without prejudice to the generality of the foregoing BNOC shall not:
 - be liable to contribute to the Joint Account pursuant to the Operating Agreement;
 - be entitled to attend meetings of the Operating Committee pursuant to Article 3 thereof, or to vote thereat;
 - be entitled to a share of Oil or Gas produced under the Operating Agreement pursuant to Articles 10 or 11 thereof.
- For the purposes only of the assignment referred to in Clause 1 hereof, each of the Consortium Parties hereby waives compliance with the terms of sub-clause (c)(ii) and (iii) of Article 14 of the Operating Agreement.
- The Agreements and this Deed shall henceforth be read and construed as constituting one Agreement between the parties hereto.

THE SCHEDULE (above referred to)

<u>Name of Party</u>	<u>Registered Office</u>
BP Petroleum Development Limited	Britannic House, Moor Lane, London, EC2Y 9BU
Ranger Oil (U.K.) Limited	1st Floor, Glen House, Stag Place, London, S.W.1.
Scottish Canadian Oil & Transportation Company Limited	12, Tokenhouse Yard, London, E.C.2.
London & Scottish Marine Oil Company Limited	12, Tokenhouse Yard, London, E.C.2.

AS WITNESS whereof the parties hereto have caused their respective Common Seals to be affixed hereto the day and year first above written.

THE COMMON SEAL OF
BP PETROLEUM DEVELOPMENT LIMITED
was hereunto affixed in the
presence of:

THE COMMON SEAL OF
RANGER OIL (U.K.) LIMITED
was hereunto affixed in the
presence of:

THE COMMON SEAL OF
SCOTTISH CANADIAN OIL &
TRANSPORTATION COMPANY LIMITED
was hereunto affixed in the
presence of:

THE COMMON SEAL OF
LONDON & SCOTTISH MARINE OIL
COMPANY LIMITED
was hereunto affixed in the
presence of:

THE COMMON SEAL OF
THE BRITISH NATIONAL OIL CORPORATION
was hereunto affixed in the
presence of:

SCHEDULE 3

THIS AGREEMENT is made the _____ day of _____ 1977
 BETWEEN (the existing licensees) (hereinafter jointly referred to as "the Assignors") of the one part AND
 the Assignors and the BRITISH NATIONAL OIL CORPORATION (hereinafter jointly referred to as "the
 Assignees") of the other part.

WHEREAS:

- A. The Assignors are the holders of the Licence No. () (hereinafter called "the Licence") granted by the Secretary of State for Trade and Industry on the _____ under the Petroleum (Production) Act 1934, the Continental Shelf Act 1964 and the Petroleum (Production) Regulations 1966 as amended by the Petroleum (Production) (Amendment) Regulations 1971.
- B. The terms of the Licence were amended by the Petroleum and Submarine Pipe-lines Act 1975.
- C. The Assignors have agreed with the Assignees to enter into this Deed and
- D. the Secretary of State for Energy in exercise of the power conferred upon him as a Secretary of State by virtue of Section 3 (2) of the Ministers of the Crown Act 1975 has given his written consent dated _____ to the assignment of the Licence and such consent has effect as if given by the Secretary of State for Trade and Industry.

NOW THIS DEED WITNESSETH THAT:

- 1. The Assignors hereby assign unto the Assignees the full and exclusive benefit of all rights granted under the Licence TO HOLD the same unto the Assignee absolutely.
- 2. The Assignees hereby jointly and severally covenant with the Assignors to perform and observe all terms and conditions contained in the Licence and to bear and discharge all obligations claims demands and expenses arising or incurred at any time (whether before or after the execution of this Deed).

IN WITNESS whereof the parties hereto have caused their respective Common Seals to be hereunto affixed.
 COMMON SEAL OF EACH PARTY

- o o o -

The Corporate Seal of the Secretary of State for Energy hereunto affixed is authenticated by:

THE COMMON SEAL of THE BRITISH NATIONAL OIL CORPORATION was hereunto affixed in the presence of:

THE COMMON SEAL of THE BRITISH PETROLEUM COMPANY LIMITED was hereunto affixed in the presence of:

THE COMMON SEAL of BP PETROLEUM DEVELOPMENT LIMITED was hereunto affixed in the presence of:

THE COMMON SEAL of BP OIL DEVELOPMENT LIMITED was hereunto affixed in the presence of:

Tony Benn C.S.

Kearton C.S.

D.E.C. Steel Director C.S.

D.A.G. Sarre Secretary C.S.

J. Birks Director C.S.

J.E. Wedgbury Secretary C.S.

J. Birks Director C.S.

J.E. Wedgbury Secretary C.S.

CRUDE OIL AGREEMENT 1977-1981

between

THE BRITISH PETROLEUM COMPANY LIMITED

and

THE BRITISH NATIONAL OIL CORPORATION

CRUDE OIL AGREEMENT
1977 - 1981 -

INDEX

Clause	Page
1 Definitions	1
2 Duration	2
3 BNOc's option	3
4 Cross-purchase	3
5 Retained oil	5
6 Quality	5
7 Delivery	8
8 Freight	8
9 Price	9
10 Allowance for water and sediment	11
11 Payment	11
12 Operational arrangements	12
13 Change in circumstances	12
14 Force majeure, etc.	13
15 Directions by the Secretary of State	15
16 Determination of Market Price, etc. by an expert	15
17 Adjustments to this Agreement	16
18 Assignment to and performance by affiliated companies	16
19 Arbitration	16
20 Notices	16
21 Applicable Law	17
Appendix I - Operational Guarantees	18
Appendix II - Tankship Tonnage Exchange Arrangement	19
Appendix III - Qualities of UKCS crude oil	20

CRUDE OIL AGREEMENT
1977 - 1981

AN AGREEMENT dated the 1st day of June 1977 made between THE BRITISH NATIONAL OIL CORPORATION of the one part and THE BRITISH PETROLEUM COMPANY LIMITED whose registered office is at Britannic House, Moor Lane, London EC2Y 9BU of the other part

WHEREAS under an agreement of today's date made between the Secretary of State for Energy for and on behalf of Her Majesty, The British National Oil Corporation, The British Petroleum Company Limited, BP Petroleum Development Limited and BP Oil Development Limited it has been agreed *inter alia* that the parties to this Agreement shall enter into certain option and cross-purchase arrangements in respect of crude oil

NOW THEREFORE IT IS HEREBY AGREED AS FOLLOWS:—

Clause 1 - Definitions

In this Agreement unless the context otherwise requires the following terms shall have the following respective meanings:—

- (i) "BNOC" means The British National Oil Corporation or any affiliated company to the extent that it causes such affiliated company to perform a particular obligation or exercise a particular right referred to in this Agreement and of which it shall keep The British Petroleum Company Limited informed;
- (ii) "BP" means The British Petroleum Company Limited or any affiliated company to the extent that it causes such affiliated company to perform a particular obligation or exercise a particular right referred to in this Agreement and of which it shall keep The British National Oil Corporation informed;
- (iii) "affiliated company" means in relation to The British Petroleum Company Limited The Standard Oil Company (Ohio) (provided that at the time in question BP controls directly or indirectly not less than one-third of the issued share capital of such company) and any company which is for the time being directly or indirectly controlled by The British Petroleum Company Limited and in relation to The British National Oil Corporation any company which is for the time being wholly owned by The British National Oil Corporation;
- (iv) "crude oil" means crude liquid petroleum which has been stabilised and, if necessary, otherwise treated to render it suitable for transport by conventional crude oil tankships;
- (v) "BP's U.K. crude oil" means the aggregate quantities of crude oil produced from commercial oilfields on the U.K. Continental Shelf and owned by BP or by the affiliated companies of BP by virtue of the respective interests of such companies in the production licences in the areas comprised in which the said commercial oilfields are located provided that in computing such aggregate quantities there shall be disregarded:—
 - (a) crude oil from the said commercial oilfields which the Minister requires to be delivered pursuant to the terms of the production licence in question; and
 - (b) crude oil produced from the commercial oilfield known as "Forties" which is delivered by BP Oil Development Limited to Norex Trading Limited pursuant to the Forward Oil and Gas Purchase Agreement between the said companies made the 15th day of September, 1972 but only to the extent that such crude oil is not delivered by Norex Trading Limited to BP Trading Limited pursuant to the Long Term Sale Agreement between the said companies made the 15th day of September, 1972 by reason of the operation of Clause 5 (Default) thereof;
- (vi) "commercial oilfield" means an oilfield, to the extent that it is located within the area comprised in a production licence, in respect of which either:
 - (a) the Secretary of State has
 - (1) approved a development programme in accordance with the provisions of such licence; or
 - (2) given his consent in writing to the commencement of production; or
 - (b) the relevant affiliated company of BP has agreed to implement a development programme following service by the Minister of a programme in accordance with the provisions of such licence.

For the purposes of this Agreement the oilfields known as Forties and Ninian shall each be deemed to be a commercial oilfield.

- (vii) "production licence" means a licence to search and bore for and get petroleum granted by virtue of the Petroleum (Production) Act 1934 as applied by the Continental Shelf Act 1964, which licence was in force as at the 23rd June, 1976, or any production licence granted in substitution in whole or part thereof, provided that any affiliated company of BP which is a licensee of the licence being substituted shall have concurred therein. Any reference to a production licence by number shall include a reference to any production licence granted as aforesaid in substitution for such first-

Clause 1 — Definitions (Continued)

- mentioned production licence;
- (viii) "North Sea crude oil" means crude oil produced from commercial oilfields in the United Kingdom sector of the North Sea;
- (ix) "UKCS crude oil" means crude oil produced from commercial oilfields on the U.K. Continental Shelf;
- (x) "non-UKCS crude oil" means crude oil from a source or sources other than the U.K. Continental Shelf;
- (xi) "Market Price" means, in respect of any grade of crude oil, the price per barrel (including credit and other relevant terms) which would from time to time be arrived at for arm's-length transactions between a willing buyer and a willing seller for international purchases and sales of the grade of crude oil in question. In assessing the price account shall be taken of similar transactions involving the grade in question or any comparable grade (due allowance being made for quality and location in the case of a comparable grade), having regard to relevant terms (such as, if relevant, duration and volume), and any other evidence available to the parties, except that barter transactions and Government to Government transactions shall be excluded from the assessment. The term "Government to Government transactions" shall mean transactions between Governments, between Governments and government agencies, and between government agencies, other than transactions between BNOC and Governments or government agencies where BNOC is acting on its own behalf and in the course of normal commercial activities;
- (xii) "Seller's Cost" means, in respect of any grade of non-UKCS crude oil, the total, expressed as an amount per barrel, of the Seller's and the Seller's suppliers' costs of any kind whatsoever which are incurred in procuring the grade in question and delivering it at the loading terminal and which are properly attributable to quantities of that grade delivered or deliverable hereunder. Such costs shall include, without limitation to the generality of the foregoing, production, loading and operating costs, royalties, duties, income and other taxes, payments and benefits of any kind whatsoever payable or accruing to any government or agency thereof or any governmental, local or port authority, and the cost of purchased oil under participation or other arrangements of whatsoever nature (no account being taken in the computation of such costs of any reduction by way of offset of a capital nature);
- (xiii) "the Buyer" means in the case of deliveries of crude oil by BP to BNOC hereunder, BNOC, and in the case of deliveries of crude oil by BNOC to BP hereunder, BP;
- (xiv) "the Seller" means in the case of deliveries of crude oil by BP to BNOC hereunder, BP, and in the case of deliveries of crude oil by BNOC to BP hereunder, BNOC;
- (xv) "ton" means a metric ton or tonne;
- (xvi) "long ton" means an English ton of 2,240 English pounds;
- (xvii) "barrel" means a barrel of 42 U.S. gallons at 60° Fahrenheit, and "barrels per day" means "barrels per calendar day";
- (xviii) "year" means a calendar year ending with the 31st day of December;
- (xix) "quarter" means a period of 3 consecutive months beginning on 1st January or 1st April or 1st July or 1st October;
- (xx) "month" means a calendar month;
- (xxi) "deliver" includes "procure to be delivered" and the term "delivery" shall be construed accordingly.

Clause 2 — Duration

This Agreement shall be deemed to have come into force with effect from 1st January, 1977 and shall continue thereafter until 31st December, 1981, provided that if the agreement referred to in the recitals hereof shall terminate before such date this Agreement shall, unless the parties hereto otherwise agree, likewise thereupon terminate but without prejudice to the respective rights and obligations of the parties to this Agreement which have accrued at the date of termination.

Clause 3 — BNOC's option

- (a) (i) BNOC shall have the option (subject to (c)(i) below) to purchase and take delivery in 1977 and each year thereafter up to and including 1981 of up to 51 per cent of BP's U.K. crude oil produced in each such year respectively;
- (ii) BNOC may opt under (i) above for any percentage in respect of each of the commercial oilfields in question provided that such percentage shall not in the case of any such commercial oilfield exceed 51 per cent except with BP's specific agreement and that the sum of the quantities of crude oil represented by all the percentages opted for shall not exceed 51 per cent of the total production of BP's U.K. crude oil in the year in question.
- (b) BP shall notify BNOC in writing of the quantities of BP's U.K. crude oil which BP estimates will be produced in each of the years 1979, 1980 and 1981. Notifications shall be given not later than 30th September in the second year preceding the first of the years to which the estimates relate and shall

Clause 3 — BNOC's option (Continued)

first such notification shall be given not later than 30th September 1977. In each such notification BP shall give its estimate of the range of production expected from each commercial oilfield with its best estimate of production likely to be achieved within each such range. In addition, but without effect on any notice given by BNOC under (c) below, BP shall in the month of June in the year preceding each year, commencing June, 1978, update the estimate for that year and give it by quarters for that year.

Where an affiliated company of BP is the operator of the commercial oilfield in question, its best estimate of production shall be accepted as the best estimate obtainable; and where the operator is not such a company there shall be a rebuttable presumption that the operator's best estimate is the best estimate obtainable.

- (c) (i) BNOC has given notice in writing to The British Petroleum Company Limited in respect of 1977 and 1978, and shall give such notice in respect of each of 1979, 1980 and 1981, stating whether or not it exercises its option for that year (and if so, specifying subject to (a) above the percentages by commercial oilfield applicable to that year) and giving without commitment on its part its best indications as to whether or not it is likely to exercise its option (and if so, to what extent) in respect of the remaining said years. BNOC shall endeavour to give notice of the exercise of the option as early as possible and in any case such notice shall be given by 31st December in the second year preceding the year to which it relates, and failure to give due notice shall be deemed to be notice that the option will not be exercised in respect of the year in question.
- (ii) The parties recognise that BP has to acquire crude oil on a consistent basis and that if the percentages opted for by BNOC as aforesaid fluctuate significantly from year to year this could adversely affect such basis. The parties also recognise that BNOC is unable at the date hereof to give any firm undertakings as to how it will exercise such options. BNOC does, however, undertake, as its forward planning becomes clearer, to keep this matter under review with BP, and to endeavour to avoid such fluctuations.
- (d) Upon BNOC's exercising its option as aforesaid BP shall deliver and sell to BNOC and BNOC shall take delivery of in bulk in the year in question and pay for the quantities of crude oil represented by the percentages specified in the notice referred to in (c) above as applied to the actual production of BP's U.K. crude oil in the year in question provided that if pursuant to a decision by BP any grade of BP's U.K. crude oil is or becomes deliverable to buyers generally as a blend with another grade or grades of UKCS crude oil, then:—
- (i) if the whole of the grade in question is so deliverable as a blend, BNOC's option under this Clause 3 for the grade in question shall be deemed to have been exercised in respect of the blend, i.e. the percentage opted for by BNOC in respect of the grade in question shall be applied to that quantity of the blend to which BP is entitled by virtue of its contribution of the grade in question to the blend;
- (ii) if a proportion only of the grade in question is so deliverable as a blend, in respect of that proportion BNOC's said option shall be deemed to have been exercised in respect of the blend on the same basis *mutatis mutandis* as is prescribed in (i) above.
- (e) By the 45th day of each quarter after 30th June in the year preceding the year in question, up to and including the third quarter of the year in question, BP shall advise BNOC of the updated estimate of production, by quarters, for the year in question, and in addition shall advise BNOC of any significant changes in such estimates as they occur and actual production figures for each quarter as they become available.
- (f) BNOC's option under (a) above shall, in respect of each of the years in question, constitute an irrevocable offer by each relevant affiliated company of BP which offer shall be available for acceptance by BNOC in accordance with this Agreement. BNOC, BP and each relevant affiliated company of BP recognise and acknowledge that it is the essence of BNOC's rights to BP's U.K. crude oil under this Agreement that the relevant affiliated company of BP shall deliver or procure to be delivered to BNOC each quantity of BP's U.K. crude oil which is required to be delivered to BNOC in accordance with this Agreement and that performance in any other manner by the relevant affiliated company of BP or, as the case may be, by its assignee, of the obligations as to delivery cannot adequately be substituted.

Clause 4 — Cross-purchase

- (a) (i) Having exercised its respective options under Clause 3 (a) hereof in respect of the years 1977 and 1978 BNOC shall in each such year re-deliver and re-sell to BP and BP shall receive in bulk, purchase and pay for the whole quantity of BP's U.K. crude oil delivered to BNOC pursuant to Clause 3(d) hereof. Such re-delivery and re-sale shall take place simultaneously with and at the same Market Price and upon the same terms and conditions as are applicable to BNOC's purchase of such crude oil.
- (ii) If BNOC exercises its option under Clause 3(a) hereof in respect of any of the years 1979, 1980 or 1981 then subject to (iii) below BNOC shall deliver and sell to BP and BP shall in each year receive in bulk from BNOC, purchase and pay for a quantity of UKCS crude oil equal to the

quantity of BP's U.K. crude oil deliverable to BNOC in the year in question pursuant to Clause 3(d) hereof less an amount equal to the quantity of crude oil determined in accordance with Clause 5 hereof.

- (iii) If BNOC exercises its option under Clause 3(a) hereof and if the royalty rate is increased to a rate above 12% and royalty oil is taken at a level higher than 12% then:—
- (aa) if an amount of royalty oil, being not less than the difference between the actual amount of royalty oil and the amount that there would have been if the royalty rate had remained at 12% and royalty oil had been taken at that level, is put at BNOC's disposal, BNOC shall sell to BP such quantity of UKCS crude oil as, when added to the quantity of BP's U.K. crude oil remaining available to BP (after deducting the quantity of BP's U.K. crude oil delivered to BNOC pursuant to Clause 3(d) hereof) shall equal the total amount of UKCS crude oil that would have been available to BP, from its own production and by purchase from BNOC pursuant to the other terms of this Agreement, if the royalty rate had remained at 12% and royalty oil had been taken at that level. Such total amount is for the purposes of this section, (iii) referred to as "BP's base availability";
- (bb) to the extent that less royalty oil is put at BNOC's disposal than the amount first described in (aa) above BNOC shall sell to BP such quantity of UKCS crude oil as, when added to the quantity of BP's U.K. crude oil remaining available to BP (after deducting the quantity of BP's U.K. crude oil delivered to BNOC pursuant to Clause 3(d) hereof) shall equal BP's base availability less one half of the amount by which the royalty oil put at BNOC's disposal falls short of the amount first described in (aa) above.

BNOC may elect to sell to BP in implementation of (aa) or (bb) above all or some part of the royalty oil put at its disposal but to the extent that BNOC does not so elect it shall sell to BP crude oil that it would otherwise be entitled to retain under Clause 5 hereof. In such latter case the quantity of UKCS crude oil to be sold by BNOC to BP under (ii) above and the quantity of non-UKCS crude oil to be sold by BP to BNOC under (b) below shall be *pro tanto* increased, always provided that (1) BNOC shall not exercise its election to sell royalty oil to BP in such a way that BP shall be obliged to deliver to BNOC a quantity of non-UKCS crude oil greater than the quantity that would have been deliverable if the royalty rate had remained at 12% and royalty oil had been taken at that level; and (2) if (bb) above applies BP shall use reasonable endeavours to deliver to BNOC at Market Price a quantity of non-UKCS crude oil (in addition to the quantity specified under (b) below) equal to the amount of the reduction under (bb) above having regard always to its then current availability of non-UKCS crude oils.

- (iv) If the royalty rate is increased to a level of 25% or above, such event not being foreseen at the date hereof, the parties shall promptly consult and agree appropriate amendments to this Agreement or such other arrangements in respect of this Agreement as may be equitable.
- (v) For the purposes of this Clause 4 "royalty rate" shall mean the percentage of crude oil won and saved which the Minister is entitled to require to be delivered pursuant to the terms of the production licence in question and "royalty oil" shall mean the quantity of crude oil which is so delivered by BP.
- (vi) The quantity of UKCS crude oil deliverable by BNOC to BP pursuant to (ii) above shall be calculated for each quarter of the year in question on the 30th June preceding such year on the basis of the then most recent best estimates of quarterly production given by BP pursuant to Clause 3(b) hereof. If subsequent estimates of BP's U.K. crude oil production, and the actual production figures therefor, notified by BP pursuant to Clause 3(e) hereof vary from the estimates on which the original calculations were made, the said quantity of UKCS crude oil shall be re-calculated in respect of the quarter in question on the basis of such subsequent estimates, or of the actual production, as the case may be, and in the latter case the underlift/overlift provisions of Clause 7(b) hereof shall apply. The said calculations shall be adjusted as necessary in the event that (iii) above applies.

- (b) In each of the years 1979, 1980 and 1981 BP shall deliver and sell to BNOC and BNOC shall receive in bulk, purchase in that year and pay for a quantity of non-UKCS crude oil equal in value, calculated on the 30th June in the year preceding the year in question at the Market Prices ruling on that date, to the quantity of UKCS crude oil then estimated to be deliverable to BP in the year in question pursuant to (a)(ii) above provided that if Market Prices for the relevant grades have not been agreed or determined by such date the quantity of non-UKCS crude oil deliverable in the year in question under this sub-clause (b) shall be eleven-tenths of the said quantity of UKCS crude oil or such other ratio as may be agreed between the parties. Thereafter, in the event that subsequent estimates of BP's U.K. crude oil production and actual production figures therefor notified by BP pursuant to Clause 3(e) hereof result in an amendment to the quantity of UKCS crude oil deliverable to BP pursuant to (a)(ii) above, the quantity of non-UKCS crude oil deliverable by BP under this sub-clause (b) shall be re-calculated using the same value basis that was used in the initial calculation on 30th June in the year preceding the year in question.

Notwithstanding the foregoing, either party may at any time, if it considers that there has been a significant change in the relationship of the values of the UKCS crude oil and the non-UKCS crude oil taken to arise at the relevant date in the said initial calculation or in any subsequent calculation, require the parties promptly to consult together and agree an appropriate adjustment of the quantity

Clause 4 — Cross-purchase (Continued)

of non-UKCS crude oil deliverable by BP under this sub-clause (b). In the event of disagreement the matter shall be referred to an expert for determination in accordance with Clause 16 hereof.

- (c) (i) During the first two months of the quarter beginning 1st April in the year preceding any of the years 1979, 1980 and 1981 in respect of which BNOC shall have exercised its option pursuant to Clause 3 hereof, the parties shall consult together to discuss the various qualities of crude oil and the quantities of each category referred to in Clause 6 hereof which each is likely, pursuant to (a)(ii) and (b) above respectively, to deliver hereunder over the six months' period commencing 1st January in the year in question. During the third month of the said quarter each party shall give notice in writing to the other of the qualities of crude oil and quantities of each category which it will, pursuant as aforesaid, deliver hereunder over such period. Like consultation shall take place and like notice shall be given during the quarter beginning 1st October in the year preceding the year in question in respect of the six months' period commencing 1st July in that year.
- (ii) During the last month of any quarter in which the parties have consulted pursuant to (i) above, BP and BNOC shall consult together to discuss which of BP's affiliated companies BP shall designate to purchase the UKCS crude oil referred to in (a)(ii) above in the six months' period commencing 1st January and 1st July respectively in the year in question. Not later than the last day of the first month immediately following the quarter in question, i.e. not later than 31st July or 31st January as the case may be, BP shall notify BNOC in writing which of BP's affiliated companies BP designates to purchase as aforesaid. Such purchase shall be governed by the terms and conditions *mutatis mutandis* of this Agreement except as may be negotiated between BNOC and the affiliated company in question.
- (iii) The parties shall thereafter consult together to discuss the precise quantity of each grade deliverable in the six months' period in question, the Seller of each such grade being required to notify the Buyer of such precise quantity in time for the establishment of the Market Price for the grade in question in accordance with Clause 9 hereof.
- (d) Upon Clause 9(f)(iii)(bb)(2)(B), 9(g)(i)(aa), 13(d)(iii) or 14(c)(ii) hereof being invoked in respect of a particular grade of crude oil BP shall have the right on giving written notice to BNOC to deliver during the period in question, subject to Clause 6 hereof, adjusted quantities of that grade and/or any other grade or grades notified pursuant to (c)(i) above and/or any alternative grade or grades of crude oil. The Market Price of each alternative grade of crude oil shall be agreed within 15 days of the said notice and failing such agreement shall be determined by an expert in accordance with Clause 16 hereof.

Clause 5 — Retained oil

- (a) (i) Subject to the ensuing provisions of this Clause 5 and to Clauses 4(a) and 6 hereof, BNOC shall have in respect of each of the years 1979, 1980 and 1981 the option, to be exercised in writing at the same time and in the same manner as provided for in respect of an option exercisable under Clause 3(a) hereof, not to sell to BP but to retain in such year up to the quantity of crude oil represented by the following percentage of BP's U.K. crude oil in the year in question:—

Year	Percentage
1979 and 1980	12%
1981	16%

- (ii) BNOC's said option shall be exercised individually in respect of each of the commercial oilfields in question provided that the percentage notified by BNOC under (i) above shall not:—
- (aa) in respect of any individual commercial oilfield exceed the percentage notified by BNOC in respect of such oilfield under Clause 3(a)(ii) hereof; nor
- (bb) except with BP's specific agreement exceed 12% or 16%, as the case may be, of the production (calculated in accordance with Clause 1(v) hereof) in that year from any individual commercial oilfield;
- and provided that the sum of the quantities of crude oil represented by all the percentages opted for shall not exceed 12% or 16%, as the case may be, of BP's U.K. crude oil in the year in question.
- (b) BNOC's said option may, subject to (a)(ii)(bb) above, be exercised notwithstanding that BNOC exercises its option under Clause 3(a) hereof to purchase a quantity of BP's U.K. crude oil production represented by a percentage of such production lower than 51.

Clause 6 — Quality

- (a) The grades of UKCS crude oil delivered by BNOC to BP pursuant to Clause 4(a)(ii) hereof shall be either:—
- grades of BP's U.K. crude oil or other grades of UKCS crude oil comparable in quality and in location in proportions to be agreed from time to time for each commercial oilfield;
- or
- by agreement, other grades of UKCS crude oil.

Accordingly it is agreed as follows:—

- (i) In return for crude oil from Forties BNOC shall in respect of:—
- (aa) the first 5 million tons thereof in any year, deliver either all Forties crude oil or at least 50% Forties crude oil f.o.b. Hound Point with the balance being Brent or Brent Mix crude oil f.o.b. Sullom Voe;
- (bb) any quantity thereof in excess of 5 million tons in any year, deliver all Forties crude oil f.o.b. Hound Point;
- but subject to BNOC's right of election pursuant to (iii) below.
- (ii) In respect of crude oil from Ninian:—
- (aa) in return for Ninian crude oil BNOC shall at its election deliver:—
- (1) f.o.b. Sullom Voe, Ninian crude oil; or
 - (2) f.o.b. another North Sea land terminal, a North Sea crude oil of a quality at least as good as Ninian crude oil; or
 - (3) any combination of the grades referred to in (1) and (2) above;
- (bb) in return for Ninian Mix (i.e. Ninian plus Heather) BNOC shall at its election deliver:—
- (1) f.o.b. Sullom Voe, Ninian Mix; or
 - (2) f.o.b. another North Sea land terminal, a North Sea crude oil of a quality at least as good as Ninian Mix; or
 - (3) any combination of the grades referred to in (1) and (2) above;
- but subject to BNOC's right of election pursuant to (iii) below. To the extent that the Brent (or Brent Mix) and Ninian (or Ninian Mix) streams may be mixed at the loading terminal in whole or in part, either temporarily or otherwise, the parties shall consult to agree revisions, if appropriate, to the foregoing provisions.
- (iii) BNOC may further elect, subject to the reasonable operational guarantees set out in Appendix I hereto, to deliver ex ship at a named discharge port in any year a quantity of North Sea (or, by agreement, other UKCS) crude oil equal to up to 10% of the quantity of UKCS crude oil deliverable by BNOC in that year pursuant to Clause 4(a)(ii) hereof or one million tons, whichever is less, of which up to half may be North Sea or, by agreement, other grades of UKCS crude oil from one or more offshore loading locations. If BNOC so elects then:—
- (aa) in return for Forties crude oil BP will accept a maximum of one half of the total quantity of UKCS crude oil which BNOC elects to deliver under this section (iii). Such maximum shall consist of Forties, Brent, Brent Mix, Thistle, Beryl or Montrose crude oils provided that not more than one quarter of the said total quantity shall be Thistle, Beryl or Montrose crude oils and that no more than one of these three grades may be delivered in any six month period referred to in Clause 4(c) hereof. The quantities of Brent or Brent Mix crude oil which BNOC elects to deliver under this section (iii) shall replace the quantities of those grades referred to in (i)(aa) above and the quantities of Thistle, Beryl or Montrose crude oils which BNOC elects to deliver under this section (iii) shall replace proportionately the grades of UKCS crude oil referred to in (i)(aa) and (bb) above respectively;
- (bb) in return for crude oil from Ninian, BP will accept the said 10% or one million tons, whichever is less, or the balance thereof remaining after any deliveries pursuant to (aa) above, in terms of a grade or grades of North Sea crude oil at least equal in quality to crude oil from Ninian or in terms of Flotta crude oil consisting of a mix of Piper crude oil and Claymore crude oil provided that:—
- (1) the quantity of Flotta crude oil shall not exceed one half of the total quantity of North Sea crude oil delivered under this section (iii), or 500,000 tons, whichever is less;
 - (2) for each barrel of Piper crude oil included in the Flotta crude oil delivered under this section (iii), BP shall be entitled to deliver a barrel of category B crude oil in place of a barrel of category A crude oil otherwise deliverable under (b) below;
 - (3) for each barrel of Claymore crude oil included in the Flotta crude oil delivered under this section (iii), BP shall be entitled to deliver a half-barrel of category C1 crude oil and (in addition to the quantity thereof specified in (b)(i) below) a half-barrel of category C2 crude oil in place of a barrel of category A crude oil otherwise deliverable under (b) below.

The ratios in (2) and (3) above have been agreed on the basis that Piper and Claymore crude oils include *inter alia* the following approximate characteristics:—

	Piper	Claymore
Sulphur	1%	2%
API	27°	29°

The parties will review the said ratios when the actual characteristics are known and each party reserves the right, should such actuals show that the said crude oils, or either of them, are of different quality than understood at the date hereof, to require an adjustment to the said ratios.

- (cc) BP shall, in addition to its rights under Clause 8 hereof, be entitled to supply freight to BNOC such that the tonnage used by BNOC in making deliveries under this section (iii) may be repaid by BP. To this end BP and BNOC shall enter into a world wide tankship tonnage exchange arrangement as set out in Appendix II to this Agreement. BP shall repay tonnage in vessels of dimensions at BP's option not exceeding 1150 feet length overall and a draught when fully laden of 70 feet in salt water (VLCC's) except that where as a consequence of a BP nomination BNOC delivers in vessels smaller than VLCC's to a refinery unable to accept VLCC's BP shall repay tonnage to BNOC in vessels corresponding to the size of vessel normally used by BP to make deliveries to the refinery in question. It is recognised by the parties that the other requirements of this Agreement make it likely that BP will nominate for delivery at its balancing refinery system and that this system is capable of accepting VLCC's.
- (dd) If BNOC elects to deliver Flotta crude oil under (bb) above, BP shall have the right to take delivery of the whole or some part thereof f.o.b. Flotta, in which event the quantity of Flotta crude oil deliverable ex ship under this section (iii) shall be reduced accordingly.
- (iv) BP understands that for the limited purposes of the foregoing substitution provisions Brent, Brent Mix, Thistle, Beryl and Montrose crude oils are each comparable in quality to Forties crude oil.
- (v) Certain of the grades of crude oil referred to in this sub-clause (a) are still in course of evaluation and BP reserves the right, in the event of any significant change in the respective qualities of any of such grades, as understood at the date hereof and set out in Appendix III hereto, to reconsider the acceptability of such grade or grades as a UKCS crude oil which BNOC may elect under this Clause 6 to deliver to BP pursuant to Clause 4(a)(ii) hereof. BNOC shall have a similar right to reconsider the comparability of grades hereunder if there is a significant change in the quality of Forties crude oil as understood at the date hereof and set out in Appendix III hereto.
- (b) (i) The grades of non-UKCS crude oil to be delivered by BP pursuant to Clause 4(b) hereof shall be divided into categories, viz:—
- Category A consisting of category A1 crude oils such as Iranian Light, or Arabian Light, or other crude oils with an API above 32° and a maximum sulphur content of 1.7%, in any combination. BP shall be entitled to deliver in place of up to one-third of the A1 crude oils category A2 crude oils being Iraq Kirkuk, or Iraq Basra, or other crude oils with an API above 32° and a maximum sulphur content of 2%, in any combination.
- Category B consisting of crude oils such as Iranian Heavy with an API above 30° and a maximum sulphur content of 1.8%, in any combination.
- Category C consisting of category C1 crude oils such as Kuwait Export, or Arabian Medium, or other crude oils having an API above 30° and a maximum sulphur content of 2.5%, in any combination. BP shall be entitled to deliver in place of up to one-sixth of the C1 crude oils category C2 crude oils being crude oils of a quality inferior to C1 such as Arabian Heavy which BP can reasonably show that it had to take in order to acquire at least an equal volume of a grade or grades at least equal in quality to category A.
- Category D consisting of BP's Abu Dhabi or Nigerian crude oils, or other crude oils having an API above 36° or a sulphur content below 1%. BP is not obliged to deliver to BNOC any crude oils in category D but may elect to do so in substitution for any crude oils falling within any of categories A, B or C.
- (ii) Of the first ten million tons of non-UKCS crude oil delivered by BP to BNOC in any year, 40% shall be of grades within category A, 30% of grades within category B and 30% of grades within category C. The parties shall consult with a view to agreeing the categories to be delivered in respect of any quantity of non-UKCS crude oil in excess of ten million tons deliverable in any year having regard to BP's remaining availability above ten million tons of crude oils within categories A, B and C, such agreement to be between the division specified above in this section (ii) (i.e. 40% category A, 30% category B and 30% category C) on the one hand and a division of 50% category B and 50% category C on the other.
- (iii) BP shall be entitled to deliver a grade of crude oil falling within a higher category in substitution for a grade falling within a lower category (category D being the highest, followed by A, B and then C) but such deliveries shall not alter the respective percentages specified in (ii) above provided that for each barrel of a grade falling within category A which BP elects to replace by a grade falling within category D, BP shall also be entitled to deliver in place of a further barrel of a grade falling within category A a half-barrel of a grade falling within category B and a half-barrel of a grade falling within category C, up to a maximum of one-eighth of the quantity which BP is entitled to deliver as category A.
- (iv) The ratios specified in this sub-clause (b) are intended to be firm but if BP for a reason falling within the scope of this Agreement does not deliver the total quantity of crude oil in any particular category, this in itself shall not require BP to reduce either the other quantities deliverable in that category or the quantities deliverable in any other category.

- (v) The qualities and the quantities of the grades in categories A, B and C are representative of the non-UKCS crude oils currently available to BP. In the event of a significant change in the gravity or sulphur content of any of the main grades of such crude oils, BP may require the parties to consult and agree appropriate modifications.

Clause 7 - Delivery

(a) *Delivery f.o.b. tankship*

Except in the case of deliveries provided for in Clause 6(a)(iii) hereof, deliveries of crude oil hereunder shall be given and taken f.o.b. the Buyer's tankship:-

- (i) in the case of deliveries of BP's U.K. crude oil and those grades of UKCS crude oil that are the same as BP's U.K. crude oil, at the loading installation appropriate to the grade in question;
- (ii) in the case of deliveries by BNOC of grades of UKCS crude oil other than a grade of BP's U.K. crude oil, at land terminals capable of accepting for loading tankships of up to 265,000 long tons summer deadweight with dimensions not exceeding 1150 feet length overall and a draught when fully laden of 70 feet in salt water;
- (iii) in the case of deliveries of non-UKCS crude oil, at the port appropriate to the grade in question.

(b) *Rate of delivery*

Within each year delivery of crude oil shall, subject to Clauses 13, 14 and 15 hereof and to operational tolerances agreed pursuant to Clause 12 hereof, be given and taken by the parties at an even rate having regard to the accrued availability at any point in time of the crude oil in question:-

- (i) in respect of each grade of BP's U.K. crude oil deliverable pursuant to Clause 3 hereof, the accrued availability at any point in time shall be calculated by reference and in proportion to the daily rates of production of the grade in question up to that point in time;
- (ii) in respect of deliveries of the total quantity of UKCS crude oil pursuant to Clause 4(a) hereof, the accrued availability at any point in time shall be calculated by reference and in proportion to the daily rates of delivery of the total quantity of BP's U.K. crude oil pursuant to (i) above up to that point in time;
- (iii) in respect of deliveries of the total quantity of non-UKCS crude oil pursuant to Clause 4(b) hereof, the accrued availability at any point in time shall be calculated by reference to a daily rate of accrual of 1/365 (1/366 in a leap year) of the total quantity deliverable. The accrued availability of each grade of non-UKCS crude oil deliverable in each six months' period, within that year shall be calculated by reference to a daily rate of accrual determined by dividing the total quantity of that grade deliverable in such period by the number of days in such period.

Any overlift or underlift in any quarter as a consequence of the exercise of the said operational tolerances or sub-clauses (a)(vi) and (b) of Clause 4 hereof, or any other provisions hereof having a similar effect, shall be compensated as soon as practicable thereafter, the price and payment terms in respect of any compensating quantity being determined with regard to the actual date of completion of loading.

Clause 8 - Freight

- (a) In respect of each of the years 1979, 1980 and 1981 BP shall be given the opportunity to offer to BNOC tankship tonnage to cover one-third of BNOC's unrestricted requirements for freight for non-UKCS crude oil to be purchased by BNOC under this Agreement in such year. The term unrestricted shall be taken as meaning *inter alia* unfettered by government obligations as to the use of specified tonnage for the transport of the crude oil in question. It shall also take account of such tonnage as may from time to time be owned by BNOC or chartered by BNOC for a period in excess of 12 consecutive months. BNOC shall endeavour, as is reasonable having regard to the circumstances, to give to BP the opportunity of meeting a proportion of each of its various categories of tonnage requirement. BNOC shall also reasonably endeavour to ensure that the time period for which such opportunities are offered is representative of the time period of BNOC's total requirement for the various categories of tonnage.
- (b) BNOC shall give BP notification in writing of its best estimate of the said proportion of such tankship tonnage requirements for each of the said years. Such notification shall be given not later than 31st December in the second year preceding the year to which the estimate relates (except that BNOC shall not be required to give the notice otherwise due by 31st December 1977) and shall be updated (or in the case of such tankship tonnage requirements for 1979, given for the first time) by 30th June of the next year and given by quarters and thereafter on a quarterly basis by the fifteenth day of the second month of each quarter. Such estimates shall be given in as meaningful a form as is reasonable having regard to the lead-time and other relevant circumstances and shall where possible include:-
- (i) tonnage requirement of each size of vessel (i.e. VLCC, LR2, LR1, MR and GP) and type of charter (i.e. spot, time, consecutive voyage, etc.) and where appropriate period of charter;
 - (ii) loading port/area and discharge port/area for each size of vessel;
 - (iii) any other relevant information.

(a) *General*

Subject to the ensuing provisions of this Clause, the price per barrel for each grade of crude oil delivered hereunder shall, unless another price is specifically agreed between the parties, be a price f.o.b. loading terminal expressed in U.S. dollars and equal to Market Price for the grade in question.

(b) *BP's U.K. crude oil*

- (i) Not less than 60 days before each year in which delivery of any grade of BP's U.K. crude oil to BNOC is due to be made hereunder (or, in the case of a grade from a new commercial oilfield, not less than 60 days before delivery of that grade is due to commence) BP and BNOC shall consult together to agree the Market Price of such grade.
- (ii) If such agreement is not reached by the 60th day before the beginning of the year in question (or, in the case of a grade from a new commercial oilfield, by the 60th day before delivery of that grade hereunder is due to commence) then the matter shall promptly be referred to an expert for determination in accordance with Clause 16 hereof.
- (iii) The Market Price so agreed or determined for the grade in question shall unless otherwise agreed apply hereunder, unless and until changed pursuant to (d) below, for the year in question (or, in the case of a grade from a new commercial oilfield, the balance of the year in question).

(c) *BNOC's UKCS crude oil*

- (i) Not less than 50 days before the beginning of each six months' period referred to in Clause 4(c)(ii) hereof, BNOC and each of BP's affiliated companies designated by BP to purchase the UKCS crude oil referred to in Clause 4(a)(iii) hereof in the six months' period in question shall consult together to agree the Market Price of the grade or each grade of UKCS crude oil in question and the provisions, if any, for the adjustment thereof.
- (ii) If such agreement is not reached in respect of the grade or, as the case may be, any of the grades in question by the 60th day before the beginning of the six months' period in question, The British Petroleum Company Limited shall have the right, to be exercised by written notice to BNOC not later than the 50th day before the beginning of the six months' period in question, to procure the purchase by BP Trading Limited of the quantity of UKCS grade in question in such period at the price prescribed in (iii) below.
If such right is not exercised the respective rights and obligations of the parties under Clause 4(a)(ii) and (b) hereof shall, unless otherwise agreed, be *pro tanto* reduced.
- (iii) The price referred to in (ii) above shall, if the grade in question is also one of the grades of BP's U.K. crude oil referred to in (b)(i) above, be equal to the Market Price for the grade in question agreed or determined pursuant to (b)(ii) or (b)(iii) above; and if not, the price shall be equal to the Market Price for the grade in question agreed by BNOC and BP Trading Limited by the 30th day before the commencement of the six months' period in question or, failing such agreement by such day, the Market Price for the grade in question determined by an expert pursuant to Clause 16 hereof. The Market Price so agreed or determined shall unless otherwise agreed apply hereunder, unless and until changed pursuant to (d) below, for the six months' period in question.

(d) *Review of Market Price of BP's U.K. crude oil and BNOC's UKCS crude oil*

- (i) Either party shall have the right to give written notice to the other at any time requesting a review of the Market Price of any grade of BP's U.K. crude oil or BNOC's UKCS crude oil deliverable hereunder. Promptly after any such notice is received the parties shall consult together with the object of agreeing what change, if any, in the Market Price in question would be appropriate to apply from the date of the notice.
- (ii) If such agreement is not reached within 30 days of the date of the notice requesting the review, then the matter shall promptly be referred to an expert for determination in accordance with Clause 16 hereof.
- (iii) The Market Price so agreed or determined shall apply from the date of the notice requesting the review for the balance of the year in question in the case of BP's U.K. crude oil or for the balance of the six months' period in question in the case of BNOC's UKCS crude oil, subject in either case to any further review under (d)(i) above.

(e) *Non-UKCS crude oil*

- (i) Not less than 60 days before the beginning of each quarter in which any grade of non-UKCS crude oil is due to be delivered under Clause 4(b) hereof, BP and BNOC shall consult together to agree the Market Price of such grade.
- (ii) If such agreement is not reached by the 60th day before the beginning of the quarter in question, then the matter shall promptly be referred to an expert for determination in accordance with Clause 16 hereof provided that, subject to Clause 6 hereof, BP shall have the right instead to substitute for the grade in question a grade or grades which was or were notified under Clause 4(c)(i) hereof and in respect of which the Market Price has been agreed.
- (iii) The Market Price so agreed or determined for the grade in question shall, subject to (i) below, apply hereunder for the quarter in question.

(f) *Changes in Seller's Cost of non-UKCS crude oil*

- (i) The Market Price of each grade of non-UKCS crude oil deliverable hereunder shall increase or decrease by the full amount of all increases or decreases (including retroactive increases and decreases) in Seller's Cost in respect of such grade. Such increase or decrease shall apply in

respect of all shipments delivered and to be delivered hereunder to which the related increase or decrease (as the case may be) in Seller's Cost is attributable.

- (ii) BP shall as soon as practicable give BNOC written notice of all increases and decreases pursuant to (i) above. If at the time of giving such notice BP is unable to specify the exact amount of the increase or decrease in question it shall give its best estimate thereof which shall be subject to adjustment when such exact amount has been quantified.
 - (iii) (aa) If, after a period of 25 days following the date of a notice of increase given by BP pursuant to (ii) above, BNOC considers that an expert's determination of the Market Price of such grade in accordance with Clause 16 hereof but made as at the date of BNOC's aftermentioned notice, (or as at the date the increase in question takes effect if later than such date) would be below Seller's Cost, BNOC may forthwith by written notice to BP require the parties to consult together as soon as possible with a view to agreeing that that is the case and if so what the Market Price of the grade in question would be as at the said date. Failing such agreement within 5 days from the date of BNOC's notice, the matter shall be referred to an expert in accordance with Clause 16 hereof on the specific question referred to above in this sub-section (aa), in which case the expert shall be required to communicate his decision within 10 days of the end of the said 5-day period and, if he confirms that the Market Price of the grade as at the date in question would be below Seller's Cost, he shall include in his decision his determination as to what the Market Price would be as at the said date.
 - (bb) If the parties agree or the expert confirms as aforesaid, then:—
 - (1) the Market Price as increased pursuant to (i) above ("the Escalated Market Price") shall apply, subject to this sub-clause (f), for the first 60 days (or such longer period as represents liftings over 60 days on the normal lifting pattern pursuant to Clause 7 hereof) immediately following the date of BP's notice (or, if later, the effective date of the increase in question);
 - (2) during the period referred to in (1) above or the balance thereof the parties shall consult together further (and shall, at the request of either of them, refer or again refer the matter to the expert for determination in accordance with (aa) above) and if they agree (or if the expert determines) that the Market Price at the time of such agreement (or determination) is equal to or above Seller's Cost, then deliveries of the grade in question shall continue hereunder after that time at the Escalated Market Price. If within such period or the balance thereof the parties agree or the expert determines in accordance with (aa) above that the Market Price is below Seller's Cost, then BP shall be required to exercise as from the end of such period one of the following options:—
 - (A) to continue to deliver the grade in question at the Market Price, if any, agreed by the parties in such further consultation or, if the matter having been again referred to the expert pursuant to this paragraph (2), included in his decision, or, if no such Market Price was so agreed or determined, at the Market Price agreed by the parties or included in the expert's decision pursuant to (aa) above, as the case may be, subject to this sub-clause (f);
 - (B) to substitute for such grade another grade or grades of non-UKCS crude oil on the basis prescribed in Clause 4(d) hereof;
 - (C) not to deliver such grade or a substitute grade or grades hereunder, in which case BNOC shall have the option to deliver to BP under Clause 4(a)(ii) hereof in the quarter or each quarter affected either the full quantity of UKCS crude oil which would otherwise have been deliverable under Clause 4(a)(ii) hereof or a lesser quantity calculated such that the full quantity of UKCS crude oil otherwise deliverable in that quarter is reduced by an amount equal in value to the quantity of non-UKCS crude oil not delivered by BP as a consequence of its exercise of this option (C) or any quantity between such full or lesser quantity.
- (g) *Expert's determination of Market Price of non-UKCS crude oil below Seller's Cost*
- (i) If the expert's determination of the Market Price of any grade of non-UKCS crude oil for any quarter pursuant to (e)(ii) above is below Seller's Cost for such grade at the date as at which such determination was made, BP may elect as soon as such determination is known:—
 - (aa) to substitute for such grade in the quarter in question another grade or other grades of non-UKCS crude oil on the basis prescribed in Clause 4(b) hereof; or
 - (bb) subject to (ii) below to deliver such grade for the first 60 days of the quarter in question (or such longer period as represents liftings over 60 days on the normal lifting pattern pursuant to Clause 7 hereof), in respect of which period the Market Price determined by the expert as aforesaid shall be adjusted to equal Seller's Cost for the grade in question.
 - (ii) If BP elects for (i)(bb) above, then during the period referred to therein the parties shall consult together (and shall, at the request of either of them, again refer the matter to the expert for determination) and if they agree (or if the expert determines) that the Market Price at the time of such agreement (or determination) is equal to or greater than Seller's Cost, then deliveries of

the grade in question shall continue hereunder after that time for the balance of the quarter in question at the Market Price as so agreed or determined subject to (f) above. If however no such agreement is reached (nor such determination made) within such period, BP shall be required to exercise as from the end of such period one of the following options:--

- (aa) to continue to deliver the grade in question in the balance of the quarter in question and, if applicable, in the next succeeding quarter, at the Market Price determined by the expert for the particular quarter pursuant to (e)(ii) above (or, in the case of the balance of the quarter in question, if the matter was again referred to the expert under this section (ii), at such later Market Price) provided that BP shall have the right, in the case of the said next succeeding quarter, on one occasion before or during that quarter, again to refer to the expert for determination within 10 days of the Market Price as at the end of that 10 day period and, if BP exercises such right, that the Market Price so determined shall apply subject to (f) above for the quarter in question or the remainder thereof, as the case may be, and also provided that, if the Market Price as so determined is below Seller's Cost, BP shall have the same options *mutatis mutandis*, but exercisable forthwith, as are prescribed in (bb) and (cc) below;
 - (bb) to substitute for such grade in the balance of the quarter in question and, if applicable, in the next succeeding quarter, another grade or grades as prescribed in (i)(aa) above;
 - (cc) not to deliver such grade or a substitute grade or grades hereunder in the balance of the quarter in question nor, if applicable, in the next succeeding quarter, in which case BNOC shall have the option to deliver to BP under Clause 4(a)(ii) hereof in such quarter either the full quantity of UKCS crude oil which would otherwise have been deliverable under Clause 4(a)(ii) hereof or a lesser quantity calculated such that the full quantity of UKCS crude oil otherwise deliverable in that quarter is reduced by an amount equal in value to the quantity of non-UKCS crude oil not delivered by BP as a consequence of its exercise of this option (cc) or any quantity between such full or lesser quantity.
- (h) *Prices agreed other than equal to Market Price*
If the price for any grade of crude oil deliverable under Clause 3, Clause 4(a)(ii) or Clause 4(b) hereof is, pursuant to (a) above, a price specifically agreed other than equal to Market Price, such price shall be subject to the provisions of this Clause *mutatis mutandis* as if it were equal to Market Price for such grade.

Clause 10 -- Allowance for water and sediment

The Buyer shall be entitled to an allowance for all water and sediment in the crude oil loaded as ascertained at the port of loading and certified in the certificate(s) of quantity and quality issued in respect of the shipment in question. Such allowance shall be calculated at the rate of the f.o.b. price hereunder.

Clause 11 -- Payment

- (a) Payment for each shipment shall be made, in the case of UKCS crude oil, in sterling or such other currency as may be or become normal for sales of UKCS crude oil, and, in the case of non-UKCS crude oil in U.S. dollars or such other currency as may be or become normal for sales of non-UKCS crude oil, subject always to such foreign currency regulations as may be in force at the time. Such payment shall be made in full to a bank to be nominated by the Seller. Where appropriate and practicable arrangements shall be made between the parties for offsetting payments due on each side.
- (b) The period of credit to be accorded by the Seller to the Buyer in respect of each shipment shall be the market credit period on which the Market Price for the grade of crude oil in question is based.
- (c) In so far as the price is expressed in U.S. dollars and payment is to be made in sterling, conversion to sterling shall be made, in the case of UKCS crude oil, at the mean of the 10.30 a.m. (or such other time as may become accepted) G.M.T. spot rates for selling and buying U.S. dollars against sterling for value on the date of payment for the shipment in question and, in the case of non-UKCS crude oil, at the 10.30 a.m. (or such other time as may become accepted) spot rate for selling U.S. dollars as aforesaid, as each such rate is quoted by the National Westminster Bank Limited, International Money Desk, the address of which is currently 53 Threadneedle Street, London EC2P 2JN, and obtainable from that bank on the second business day (or such other day as may become accepted) in London prior to the date of payment. If dealings in the London Market in U.S. dollars shall be suspended, and as a consequence such rate is not quoted and obtainable as aforesaid, the required rate shall be as agreed between the Buyer and the Seller or, failing such agreement, as fixed by an expert in accordance with Clause 16 hereof.
- (d) The parties agree that the provisions of (c) above represent a reasonable procedure for dealing with currency conversions necessary for the implementation of this Agreement. If, however, either party can show that such provisions prove to operate unfairly in causing it unforeseen exchange losses, the parties shall consult with a view to agreeing appropriate amendments.

Clause 12 - Operational arrangements

- (a) As soon as practicable after the date hereof the parties shall negotiate and enter into an Operational Agreement in respect of the years 1979, 1980 and 1981 which will incorporate provisions relating to (but not by way of limitation) operational tolerances; measurement and sampling; risk and property; nomination of tankships; berth, loading and demurrage; combined loadings at joint terminals; and any deliveries except hereunder which provisions shall apply to all deliveries in those years under this Agreement. In such Operational Agreement due account shall be taken of the need for consultation between BP and BNOC prior to declarations being made by either party to organisations responsible for the administration and operation of joint facilities.

- (b) It is agreed that if delivery of a shipment hereunder of non-UKCS crude oil is given and taken as other than a full cargo lot, then:-

- (i) for the purpose of the provisions governing loading conditions and demurrage the period from the commencement of running hours until completion of loading of the shipment in question (i.e. the actual time taken by the Seller or the Seller's suppliers to load the tankship in question) shall at the ports and in the cases mentioned below be deemed to be reduced to take account of part cargo loading by the time shown as follows:-

Port	Part cargo deliveries	Time
Mina-al-Ahmadi	Of less than 57,000 long tons into tankships of	12 hours
	60,000 to 100,000 long tons summer deadweight	
Mina-al-Ahmadi	Of less than 95,000 long tons into tankships of over 100,000 long tons summer deadweight	24 hours
Kharg Island	Of less than 95,000 long tons into tankships of over 100,000 long tons summer deadweight	12 hours
Other ports	As notified by the Seller from time to time	

- (ii) for the purpose of ascertaining the appropriate rate of demurrage a tankship of a summer deadweight equal to the shipment plus 5 per cent shall be deemed to have been used.

Clause 13 - Change in circumstances

- (a) Having regard to the fact that the majority of BP's crude oil, other than its U.K. crude oil, comes from sources under the jurisdiction of states which are members of OPEC and having regard to the manner in which such states are able to control the availability of crude oils which are under their jurisdiction, it is agreed as follows:-

- (i) If as a condition of its being able to purchase or otherwise acquire any grade of non-UKCS crude oil deliverable under this Agreement BP is required to take or suffer a course of action whether or not directly in connection with such purchase or acquisition including (by way of example only) being obliged to purchase petroleum products or goods other than crude oil, or being obliged to transport such crude oil upon terms or in tankships other than of its own choosing; or

- (ii) if in respect of any grade of non-UKCS crude oil deliverable hereunder there is any change in the unit of account in which BP or its suppliers pay government take or any part thereof; BP shall inform BNOC as early as practicable if it considers such an event to be likely and that as a consequence thereof BP may invoke this Clause 13, so that the parties may consult as to possible courses of action which might be appropriate.

- (b) If such an event takes place BP may give BNOC notice in writing thereof and require the parties to consult with a view to agreeing upon a course of action to be followed including appropriate modifications to this Agreement.

- (c) BP and BNOC agree that if the additional burden resulting from the said event is properly attributable to the purchase or acquisition of the grade in question and is generally applicable to the purchase or acquisition of that grade, deliveries of the grade hereunder shall continue subject to a fair apportionment between them of such additional burden.

- (d) If within 30 days of the date of BP's said notice BP and BNOC fail to reach agreement on a course of action to be followed (including if appropriate a fair apportionment of the additional burden in accordance with (c) above) BP shall give BNOC notice in writing of which one of or which combination of the following options it is to exercise:-

- (i) to require the matter to be referred to an expert in accordance with Clause 16 hereof to decide:-

- (aa) whether such additional burden is properly attributable to the purchase or acquisition of the grade in question and is generally applicable to the purchase or acquisition of that grade; and

- (bb) whether the additional burden resulting from the said event can be quantified; and

- (cc) if the answers to (aa) and (bb) above are in the affirmative, what would be a fair apportionment between BP and BNOC of such additional burden; or

- (dd) if the answer to (aa) above is in the affirmative but the answer to (bb) above is in the negative, what would be an equitable solution.

If BP elects for this option (i) then deliveries of the grade in question shall continue with such additional burden, so far as it relates to quantities of that grade delivered in weeks, being

borne by BNOC for a maximum period of 60 days (or such longer period as represents liftings over 60 days on the normal lifting pattern pursuant to Clause 7 hereof) from the date of BP's notice pursuant to (b) above (or the effective date of application of the additional burden if later than such date) and thereafter being borne by BP subject to such adjustment as may be called for in the light of the expert's decision;

- (ii) to continue in whole or in part deliveries of the grade in question with such additional burden being borne by BP;
- (iii) to substitute in whole or in part another grade or grades of non-UKCS crude oil on the basis prescribed in Clause 4(d) hereof;
- (iv) to suspend in whole or in part deliveries of the grade in question, in which case the suspension shall take effect 30 days after the date of BP's notice pursuant to this sub-clause (d) unless BP is discontinuing all liftings of that grade from its source, when the suspension shall take immediate effect;
- (v) to continue in whole or in part deliveries of the grade in question subject to such additional burden, so far as it relates to quantities of that grade delivered hereunder, being borne by BNOC for a maximum period of 60 days (or such longer period as represents liftings over 60 days on the normal lifting pattern pursuant to Clause 7 hereof) from the date of BP's notice pursuant to (b) above (or the effective date of application of the additional burden if later than such date) provided that unless the parties agree before the end of that period on another course of action acceptable to them both BP shall be required to exercise as from the end of such period a further option being the same as (ii) or (iii) or (iv) (but with any such suspension taking immediate effect) above;

provided that, whichever of the above options BP exercises, the parties shall continue to consult together from time to time with a view to agreeing upon another course of action acceptable to them both.

- (e) If, by reason of any cause falling within the scope of this Clause 13, the quantity of non-UKCS crude oil delivered by BP to BNOC under Clause 4(b) hereof in any quarter in a particular year falls short of the quantity otherwise deliverable under that sub-clause in such quarter, BNOC shall have the option to deliver to BP under Clause 4(a)(ii) hereof in the quarter in question either the full quantity of UKCS crude oil which would otherwise have been deliverable under Clause 4(a)(ii) hereof or a lesser quantity calculated such that the full quantity of UKCS crude oil otherwise deliverable in that quarter is reduced by an amount equal in value to the quantity of non-UKCS crude oil not delivered by BP as a consequence of the said cause or any quantity between such full or lesser quantity.

Clause 14—Force majeure, etc.

- (a) Subject to Clause 15 hereof, no failure or omission by either party to carry out or observe any of the terms or conditions of this Agreement shall, except in relation to obligations to make payments under this Agreement, give rise to any claim against the party in question or be deemed a breach of this Agreement if such failure or omission arises from any cause reasonably beyond the control of that party. In the event of any such failure or omission the party relying upon the provisions of this Clause 14 shall forthwith notify the other party of the cause from which such failure or omission arises or results.
- (b)
 - (i) In the event that for any reason falling within the scope of (a) above, but excluding the directions referred to in Clause 15(a) hereof, BNOC's availability of UKCS crude oil (excluding BP's U.K. crude oil deliverable hereunder) is so reduced that BNOC is unable to deliver to BP the total quantity thereof calculated pursuant to Clause 4(a) hereof, then notwithstanding the provisions of this Clause 14, BP shall have the option to require BNOC to re-deliver and re-sell to BP such quantity of BP's U.K. crude oil delivered pursuant to Clause 3(d) hereof as is necessary to enable BNOC to deliver to BP such total quantity. If BP exercises such option, such re-delivery and re-sale shall take place simultaneously with, and at the same Market Price and upon the same terms and conditions as are applicable to, BNOC's purchase of BP's U.K. crude oil in question.
 - (ii) If BP fails to exercise its option under (i) above and as a consequence thereof the quantity of UKCS crude oil delivered by BNOC to BP under Clause 4(a)(ii) hereof in any quarter falls short of the quantity otherwise deliverable thereunder in such quarter, BP shall have the option to deliver to BNOC under Clause 4(b) hereof in the quarter in question either the full quantity of non-UKCS crude oil that was calculated to be deliverable under that sub-clause in the quarter in question or a lesser quantity calculated such that the full quantity of non-UKCS crude oil otherwise deliverable in that quarter is reduced by an amount equal in value to the quantity of UKCS crude oil not delivered by BNOC by reason of the reduction referred to in (i) above or any quantity between such full and lesser quantities.
- (c)
 - (i) In the event that for any reason falling within the scope of (a) above BP's U.K. crude oil production in any quarter in a particular year is reduced, and as a consequence thereof the quantity of UKCS crude oil delivered by BNOC to BP under Clause 4(a)(ii) hereof in such quarter falls short of the quantity otherwise deliverable hereunder in such quarter, BP shall

- have the option to deliver to BNOC under Clause 4(b) hereof in the quarter in question either the full quantity of non-UKCS crude oil that was calculated to be deliverable under that sub-clause in the quarter in question or a lesser quantity calculated such that the full quantity of non-UKCS crude oil otherwise deliverable in that quarter is reduced by an amount equal in value to the quantity of UKCS crude oil not delivered by BNOC by reason of the said reduction or any quantity between such full and lesser quantities.
- (ii) Notwithstanding (i) above, BNOC shall have the right, to be exercised by notice to BP immediately after the event referred to in (i) above, to elect to deliver to BP in the quarter in question up to the full quantity of UKCS crude oil which would have been deliverable under Clause 4(a)(ii) hereof but for the reduction in BP's U.K. crude oil production in that quarter; and if BNOC exercises such right BP shall be obliged to deliver to BNOC under Clause 4(b) hereof in the quarter in question, depending on the extent to which BNOC exercises such right, either the full quantity of non-UKCS crude oil that was calculated to be deliverable under that sub-clause in the quarter in question or a lesser quantity calculated such that the full quantity of non-UKCS crude oil otherwise deliverable in that quarter is reduced by an amount equal in value to the quantity of UKCS crude oil not delivered by BNOC by reason of the reduction in BP's U.K. crude oil production in that quarter and BNOC's exercise of such right, or any quantity between such full and lesser quantities.
- (d) (i) If, by reason of any cause reasonably beyond the control of BP, there is such a curtailment of or interference with the availability from any of BP's sources of supply of non-UKCS crude oil as either to delay BP in, or to prevent BP from, supplying the full quantity of the non-UKCS crude oil deliverable hereunder and also at the same time maintaining in full its other business in crude petroleum (wherever produced and whether for delivery at the same place or places as is or are specified herein or elsewhere), then BP shall be at liberty to withhold, reduce or suspend deliveries of non-UKCS crude oil hereunder to such extent as BP considers reasonable and equitable in all the circumstances.
- (ii) If the curtailment or interference in question continues or BP reasonably believes it will continue beyond the balance of the quarter in which it occurred, BP shall be entitled:--
- (aa) to cancel the notification of grades and quantities given by it pursuant to Clause 4(c) hereof so far as it relates to the next succeeding quarter (if such quarter is the second of a six months' period commencing 1st January or 1st July) and/or any such notification in respect of the six months' period commencing 1st January or 1st July (if the next succeeding quarter is the first of a six months' period commencing 1st January or 1st July); and
- (bb) subject to Clause 6 hereof, to re-notify grades and quantities for such quarter and/or six months' period on a basis which BP considers reasonable and equitable in all the circumstances;
- provided that as soon as practicable after the curtailment or interference in question has ceased BP shall resume deliveries under this Agreement in accordance with its terms.
- (e) If BP invokes (d) above it shall not be bound to acquire by purchase or otherwise additional quantities of non-UKCS crude oil from other suppliers. In the event of a curtailment or interference as referred to in (d) above any crude oil acquired by BP, other than under supply arrangements existing or anticipated by BP at the date of that curtailment or interference, may be disposed of by BP in its absolute discretion and need not be taken into account in the determination whether or not, for the purposes of (d) above, the curtailment in question continues to subsist.
- (f) If, by reason of any cause falling within the scope of this Clause 14, the quantity of non-UKCS crude oil delivered by BP to BNOC under Clause 4(b) hereof in any quarter in a particular year falls short of the quantity otherwise deliverable under that sub-clause in such quarter, BNOC shall have the option to deliver to BP under Clause 4(a)(ii) hereof in the quarter in question either the full quantity of UKCS crude oil which would otherwise have been deliverable under Clause 4(a)(ii) hereof or a lesser quantity calculated such that the full quantity of UKCS crude oil otherwise deliverable in that quarter is reduced by an amount equal in value to the quantity of non-UKCS crude oil not delivered by BP as a consequence of the said cause or any quantity between such full or lesser quantity.
- (g) If the availability of any grade of crude oil notified pursuant to Clause 4(c)(iii) hereof for delivery during a six months' period is, or the Seller reasonably believes that it will be, reduced by reason of a cause falling within the scope of this Clause 14, the Seller shall have the right on giving written notice to the other to deliver during the six months' period (or remainder thereof) in question, subject, in the case of BP as Seller, to Clause 6 hereof and, in the case of BNOC as Seller, to (b) above and Clause 6 hereof, adjusted quantities of that grade and/or any other grade or grades notified pursuant to Clause 4(c)(iii) and/or alternative grades of crude oil. The Market Price of each alternative grade of crude oil shall be agreed within 15 days of the said notice and failing such agreement shall be determined by an expert in accordance with Clause 16 hereof.
- (h) For the purposes of this Clause 14 and without limitation to the generality of (a) above, where BP is the Seller in respect of non-UKCS crude oil, a cause shall be treated as being reasonably beyond the control of the Seller if it arises or results from:
- (i) the requirement by any government or government agency for crude oil or petroleum products by way of royalty in kind; or

Clause 14 — Force majeure, etc. (Continued)

- (ii) the termination of an agreement for the supply by a government or government agency of crude oil or petroleum products, or the suspension or reduction of deliveries under such agreement for whatever reason, whether or not such termination, suspension or reduction results from the exercise of rights in accordance with the terms thereof; or
- (iii) any reduction in availability of crude oil or petroleum products which in the Seller's opinion it could not reasonably have foreseen.

Clause 15 — Directions by the Secretary of State

- (a) If the Secretary of State gives BNOC a direction under Section 4 of the Petroleum and Submarine Pipe-lines Act 1975, the effect of which is to require BNOC to cease or reduce deliveries of UKCS crude oil to BP pursuant to Clause 4(a)(ii) hereof BNOC shall, provided it shall previously have produced to BP satisfactory evidence in writing that the said direction has the effect specified above, be relieved of the consequences of the breach of its obligations under this Agreement occasioned by its compliance with the said direction.
- (b) If the said direction so applies as not to prevent BNOC from delivering UKCS crude oil to an affiliated company or companies of BP other than the affiliated company to which delivery was due to be made, BNOC shall deliver the quantity of UKCS crude oil in question to such other affiliated company or companies of BP as BP shall specify, but on the equivalent terms and conditions as previously agreed with or for the affiliated company to which delivery was due to be made, making suitable allowance for relevant operational circumstances.
- (c)
 - (i) If the said direction remains in force for 180 days and (b) above does not apply, BP and BNOC shall consult with the Secretary of State with a view to agreeing appropriate amendments to this Agreement or such other arrangements as may be equitable.
 - (ii) If the said direction is given or remains in force after 31st December 1975 (unless (b) above applies) BP shall have the right to deliver to BNOC pursuant to Clause 4(b) hereof in any period after such date during which the direction remains in force or until amendments or arrangements are made pursuant to (i) above, whichever shall first occur, either a quantity of non-UKCS crude oil corresponding in value to the quantity of UKCS crude oil delivered by BNOC under Clause 4(a)(ii) hereof to BP during such period or such greater quantity up to the full quantity that would otherwise have been deliverable under Clause 4(b) hereof; and the right to substitute for any grade of non-UKCS crude oil deliverable in any such period another grade or other grades of non-UKCS crude oil on the basis prescribed in Clause 4(d) hereof.

Clause 16 — Determination of Market Price, etc. by an expert

- (a) Where any matter is under this Agreement to be determined by an expert, such determination shall be made by an impartial person fitted by the possession of expert knowledge for the determination of the particular matter and appointed for the purpose by agreement between the parties or, in default of such agreement within 10 days of the first nomination of an expert by either party to the other, nominated at the request of either party by:—
 - (i) in the case of a determination under Clause 9 hereof and in the cases referred to in Clauses 4(b), 4(d), 13(d)(i) and 14(g) hereof, by the President for the time being of the Institute of Petroleum of the United Kingdom;
 - (ii) in the case referred to in Clause 11(c) hereof, by the President and Chairman for the time being of the Council of the Institute of Bankers.
- (b) The parties shall furnish the expert with all information, written or oral, and other evidence, which he may reasonably require for his determination.
- (c) In determining the Market Price of any grade of crude oil the expert shall:—
 - (i) except as otherwise provided herein or as otherwise agreed by the parties, make such determination as at the date when the parties were due to agree the Market Price in question, i.e. as if he had had to make the determination on that date; and
 - (ii) be limited to choosing a figure within the range of the most recent proposals tabled by the parties at the date referred to in (i) above.
- (d) Unless otherwise specifically provided in this Agreement or otherwise agreed between the parties, the expert shall be required to communicate his decision within a reasonable period which will normally be taken to be 30 days after the date of the reference to him.
- (e) The expert's decision shall be final and binding on the parties.
- (f) The remuneration of the expert shall be borne by the parties in equal shares.

Clause 17 – Adjustments to this Agreement

It is recorded that the parties have agreed that while at the date hereof the provisions of this Agreement which relate to pricing and payment (including dates when notices and notifications are to be given; periods within which agreement is required to be reached or a decision communicated; and the way in which changes in Seller's Cost in respect of grades of non-UKCS crude oil are dealt with) appear to them to be appropriate for dealing with such matters, they envisage that it may be necessary, against a changing background (such as a change in the basis on which OPEC crude oil is sold) and with the market for North Sea crude oil being in a state of evolution, to adjust the provisions in question in order to make this Agreement operable in accordance with commercial practice at the time.

Clause 18 – Assignment to and performance by affiliated companies

- (a) Each party shall have the right to assign this Agreement in whole or in part to one or more of its affiliated companies, provided that the assigning party shall remain responsible for the due and proper performance of this Agreement and provided that the right of assignment of any such assignee shall be limited to the right to reassign that part of this Agreement assigned to it to the assigning party.
- (b) Each party may cause any or all of its rights hereunder to be exercised, or its obligations hereunder to be performed, by one or more of its affiliated companies.

Clause 19 – Arbitration

Subject to Clause 16 hereof, any dispute between the parties touching the construction, meaning or effect of this Agreement, or the rights or liabilities of the parties hereunder, or any matter arising out of the same or connected therewith, shall, unless otherwise specifically provided herein, be referred to the arbitration in England of two arbitrators (one to be appointed by each party) and, in the event of the arbitrators differing, to an umpire. The umpire shall be appointed by agreement of the arbitrators or, in default of such agreement, nominated by the President for the time being of the Law Society of England and Wales before the arbitration is commenced. Any such reference shall be deemed to be a reference to arbitration within the meaning of the provisions of the English Arbitration Act of 1950 or any statutory modification or re-enactment thereof which may for the time being be in force.

Clause 20 – Notices

- (a) Any communications (including without limitation invoices, certificates of quantities, bills of lading and similar documents) by either party to the other shall be in writing and shall be sufficiently made if sent by pre-paid first class post or by telegraph or telex or by delivering the same by hand to the address of the other party specified for this purpose below and shall, except in the case of delivery by hand and save for evidence to the contrary, be deemed to have been made on the day on which such communications ought to have been delivered in due course of postal, telegraphic or telex communication.
- (b) Unless otherwise specified by not less than 15 days' notice in writing by the party in question, the addresses to which communications shall be sent shall be:—

To BNOC:	By mail	– Stornoway House, 13 Cleveland Row, St. James's, London SW1A 1DH.
	By telex	– Telex No. 919474
To BP:	By mail	– Britannic House, Moor Lane, London EC2Y 9BU.
	By telegraph	– BEEPEELOND, LONDON EC2
	By telex	– Telex No. 898811

Clause 21 — Applicable law

The construction, validity and performance of this Agreement shall be governed by English Law.

IN WITNESS WHEREOF THIS AGREEMENT has been entered into the day and year first above written

Signed for and on behalf of
THE BRITISH NATIONAL OIL CORPORATION

.....
Kearton

Signed for and on behalf of
THE BRITISH PETROLEUM COMPANY LIMITED

.....
D.E.C. Steel

OPERATIONAL GUARANTEES

APPENDIX I

The operational guarantees referred to in Clause 6(a) of the Agreement of which this Appendix I forms part ("the Agreement") are as set out in the following paragraphs:—

1. BP will accept up to 10% of the UKCS crude oil deliverable to BNOC in any year pursuant to Clause 4(a)(iii) of the Agreement, or one million tons, whichever is the less, delivered ex ship at port or ports of BP nomination and within a five day range given by BP at a suitable time having regard to BP's short term planning cycle in the month prior to the month of arrival. BP may require delivery at ports listed below:

Finnart	Wilhelmshaven
Angle Bay	Hamburg
Isle of Grain	Genoa
Belfast	Trieste
Milazzo	Gothenburg
Rotterdam	Lavera
Antwerp	Dunkirk
Whitegate	Le Havre

provided that unless otherwise agreed BNOC shall not be required to deliver at Milazzo, Genoa, Trieste or Lavera crude oil loaded at an offshore loading installation.

Additions to or subtractions from the above list may from time to time be agreed between the parties.

2. Prior to making the first delivery hereunder of any particular grade of crude oil from any particular loading installation if such installation is other than a land terminal, BNOC will satisfy BP that the arrangements made by BNOC for effecting delivery of the grade from the installation in question are satisfactory. These arrangements will include *inter alia* agreement as to the basis for compensation to be paid to BP in the event of late or non-arrival of the nominated vessel or vessel substituted in accordance with 3 below. BNOC liability in this respect will be limited to:—
- deviation and shipping costs actually incurred by BP in making good the late or non-arrival in question;
 - demurrage costs on other vessels awaiting discharge which are actually prevented from discharge due to priority being given to the late arrival in question.

If a claim is made hereunder BP will make available to BNOC such evidence as may be reasonable to enable BNOC to satisfy itself as to the validity of the claim. BP may decline to accept delivery of any particular grade of crude oil from a particular loading installation if in its opinion the arrangements made by BNOC are unsatisfactory; however, BP may not so decline except as provided in 6 and 7 below subsequent to the first vessel nomination from such loading installation.

3. If BP is required to accept a grade of crude oil loaded at a sea terminal, then at the time of nominating for such delivery, BP will nominate one or more alternative grades of crude oil which BNOC may deliver in substitution for the originally nominated grade. Such alternative grade or grades shall be a grade or grades of crude oil loading at a land terminal.
4. If for reasons associated with loading delays BNOC expects that it will be unable to make a delivery within the nominated date range it shall immediately ask BP whether it should:—
- maintain the nomination giving the revised E.T.A., or
 - substitute for the delayed delivery a delivery of the alternative grade or grades of crude oil nominated in accordance with 3 above, such alternative delivery being able to be made within the date range agreed under 1 above.

5. Payment for crude oil and the calculation of the tonnage service used will be based on the Bill of Lading quantity for the shipment in question except that, in the event of a significant discrepancy between the outturn quantity at BP's installation and the said Bill of Lading quantity, BP shall investigate with BNOC the reasons for such discrepancy. If following such investigation the discrepancy between the two sets of figures, as revised or confirmed as a consequence of such investigation, exceeds 0.5% of the Bill of Lading quantity then BP shall pay BNOC for a quantity of crude oil based on 100.5% of the outturn quantity and the calculation of tonnage service shall also be based on 100.5% of the outturn quantity.

6. Notwithstanding the provisions of 2 above and unless BNOC has satisfied BP as to the remedial action taken by it, BP may decline to accept delivery of any particular grade of crude oil loaded at a particular loading installation if on a previous occasion BP has suffered as a consequence of late delivery of substandard quality occasioned by delays or difficulties associated with the loading of such previous delivery at the loading installation in question, provided that subject to 7 below BP may not so decline subsequent to the acceptance of an individual vessel nomination from such loading installation.

7. Notwithstanding the provisions of 2 and 6 above BP may decline to accept an individual vessel at any time prior to delivery if in its opinion it has reasonable grounds for believing that such vessel will fail to deliver its cargo on time and in good order and if consultations with BNOC have failed to satisfy BP in this respect. Without limitation on the generality of the foregoing the following events shall be considered as a failure to deliver on time and in good order:—

- arrival outside the date range advised pursuant to 1 above;
- water contamination of the cargo in excess of that normally expected.

The tankship tonnage exchange arrangement referred to in Clause 6(a)(iii)(cc) of the Agreement of which this Appendix II forms part ("the Agreement") is as set out in the following paragraphs:-

BP will charter tonnage to BNOG such that the tonnage service accrued by BNOG in making deliveries ex ship to BP under Clause 6(a)(iii) of the Agreement may be replaced by BP. Therefore:-

1. For each delivery made by BNOG the tonnage service performed by BNOG shall be recorded according to the Size Category of delivery as hereinafter defined. Each delivery shall fall into one of the following Size Categories which shall be based on the summer deadweight (SDW) of the tankship as follows:-

MR	0 - 44,999 tons SDW
LR1	45,000 - 79,999 tons SDW
LR2	80,000 - 159,999 tons SDW
VLCC	160,000 tons and above SDW

provided that if BNOG makes delivery in a tankship smaller than the size of tankship normally used by BP to make deliveries to the installation in question such delivery by BNOG shall be deemed to have been made in the Size Category normally used by BP to make deliveries to that installation (e.g. a delivery in a 30,000 tons SDW tankship to Rotterdam, where deliveries are normally made in VLCC's, would be recorded as a delivery in the VLCC Size Category).

2. BP will charter tankships to BNOG such that the tonnage service accrued by BNOG in each Size Category as recorded pursuant to 1 above is balanced by tonnage service in the same Size Category replaced by BP as a consequence of such chartering (e.g. tonnage service recorded as aforesaid in the LR1 Size Category is replaced by BP by a charter or charters to BNOG of a tankship or tankships also falling within the LR1 Size Category). Such charters shall be arranged at times and for voyages mutually acceptable to the parties. It is however the intention of the parties that as far as is practical the tonnage service within each Size Category provided by each party to the other should over a period of time and from time to time equate.
3. In order to give effect to the aforesaid principles BP and BNOG shall enter into a Blanket Charter Party drawn up on a BP Tanker Company Voyage form (BEEPEVOY 2) showing BP Tanker Company as Owners and Disponents and BNOG as Charterers, with provisions relating to vessel details, freighting and demurrage shown "as may be agreed". Thereafter provisions relating to vessel, voyage and cargo details, and freight and demurrage, shall be agreed from time to time as appropriate by "Fixing Letter". Such Blanket Charter Party and any other arrangements as may be necessary including, but without limitation to the generality of the foregoing, provisions for slow steaming and for actual voyages differing from the notional voyage used by the Worldwide Tanker Nominal Freight Scale ("Worldscale"), will be agreed at the same time as the Operational Agreement referred to in Clause 12 of the Agreement.
4. For the purposes of the foregoing the tonnage service for a particular voyage shall be calculated by multiplying the Bill of Lading quantity by the days necessary to perform the notional round voyage from the loading to discharge installations in question. Such notional round voyage days shall be those used by Worldscale for the purposes of calculating the freight rate for the voyage in question. In determining the tonnage applicable for any particular voyage account shall also be taken of tonnage corresponding to deadfreight, demurrage and deviations actually incurred and allowable.
5. In the case of deliveries by BNOG the Bill of Lading quantity referred to in 4 above shall be taken as meaning the quantity of crude oil calculated in accordance with paragraph 5 of Appendix I to the Agreement and for the purposes of the above calculation and determining the freight element in 6(a)(ii) below there shall be deducted from the said Bill of Lading quantity an allowance for water and sediment equal to the allowance for water and sediment for the cargo in question pursuant to Clause 10 of the Agreement less the average allowance for water and sediment given to buyers generally of the grade of BP's UK crude oil for which the BNOG delivery in question had been substituted pursuant to Clause 6(a)(iii) of the Agreement.
6. The freight payable for tonnage service provided by each party to the other shall be calculated at the level of Worldscale 100 by applying the freight rates published in Worldscale applicable at the date of commencement of loading to the Bill of Lading quantity adjusted as aforesaid. Invoicing and payment shall be as follows:-
 - (a) in the case of crude oil deliveries ex ship by BNOG, invoices shall consist of one price for the shipment being the sum of the following three elements:-
 - (i) crude oil f.o.b. price element being the f.o.b. price as agreed pursuant to Clause 9 of the Agreement;
 - (ii) freight element as aforesaid;
 - (iii) an insurance element to take account of insurance costs borne by BNOG which shall be no higher than the insurance cost that would have been borne by BP had such delivery been a delivery of the grade of BP's UK crude oil for which the BNOG delivery in question had been substituted pursuant to Clause 6(a)(iii) of the Agreement and freight had been provided by BP;
 and payment shall be made as prescribed in Clause 11 of the Agreement;
 - (b) in the case of tonnage service replaced by BP under the terms of this Appendix II, invoicing and payment shall be in accordance with the Charter Party terms and shall be based on the Bill of Lading quantity for the shipment in question plus deadfreight if applicable.

QUALITIES OF UKCS CRUDE OIL

APPENDIX III

The characteristics set out in this Appendix III are those which, at the date of the Agreement to which this Appendix III is attached and forms part ("the Agreement"), the parties consider to be salient. It is understood that other characteristics may from time to time become salient, and that in that case each such other characteristic shall be added to those specified in the said table and the addition of such characteristics may if relevant be a significant change falling within the scope of Clause 6(a)(v) of the Agreement. It is also understood that in assessing the comparability for quality of any two grades of crude oil such assessment is made having regard to the overall quality of each grade, and that on occasions some of the individual characteristics of a grade which has been assessed as being comparable with another grade may be significantly worse than the same characteristics of a third grade which has been assessed as not being so comparable.

GRADE	CHARACTERISTIC								
	API	S.G. at 60° F	Sulphur % wt	Viscosity at 70° F C.S	Pour Point °C	Vanadium ppm	BS + W % vol.	Salt lb/1000 bbl	RVP psi
FORTIES	36.6	.842	.32	7	-3	3	0.2	15	(10)
BRENT	37.8	.836	.35	5*	+3	2			
BRENT MIX 1	37.4	.838	.37	9.5 ca	+6				
BRENT MIX 2	37.4	.838	.37	9.5 ca	+6				
MONTROSE	40.0	.825	.21	5.2	-3	2	0.1	4	
BERYL	40.0	.825	.34	5.1	(-54)	2		(1)	
THISTLE	37.5	.837	.35	4.95*	+6	3			
CORMORANT	34.9	.85	.6	5.4*	+12				
DUNLIN	34.9	.85	.44	5.3*	+3				
NINIAN	34.4	.853	.42		+6	6			7
NINIAN MIX 1	34.6	.852	.46			7			7
NINIAN MIX 2	34.5	.852	.44			7			7
HEATHER	35.0	.85	.57	(11)	+9	11			7
PIPER	37.1	.839	.95	(7)	-3			10	11.6
CLAYMORE	29.0	.882	2.0	(11)	+6			10	9.7
FLOTTA	33.4	.858	1.44	(11)	+3			10	

Notes 1. *Viscosity at 100° F C.S.

The components of the mixes (in 1000 b/d) are:

- Ninian Mix 1:- 100 Ninian/50 Heather
- Ninian Mix 2:- 310 Ninian/50 Heather
- Brent Mix 1:- 100 Brent/18 Corran and 70 Dunlin/100 Thistle
- Brent Mix 2:- 200 Brent/32 Corran and 23 Dunlin/100 Thistle

CRUDE OIL AGREEMENT 1982-1989

between

THE BRITISH PETROLEUM COMPANY LIMITED

and

THE BRITISH NATIONAL OIL CORPORATION

CRUDE OIL AGREEMENT
1982 - 1989

AN AGREEMENT dated the 1st day of June 1977 made between THE BRITISH NATIONAL OIL CORPORATION (hereinafter called "BNOC") of the one part and THE BRITISH PETROLEUM COMPANY LIMITED whose registered office is at Britannic House, Moor Lane, London EC2Y 9BU (hereinafter called "BP") of the other part.

WHEREAS

- (a) Under an agreement of today's date made between the Secretary of State for Energy for and on behalf of Her Majesty, The British National Oil Corporation, The British Petroleum Company Limited, BP Petroleum Development Limited and BP Oil Development Limited it has been agreed *inter alia* that the parties to this Agreement shall enter into certain option and cross-purchase arrangements in respect of crude oil.
- (b) By an agreement of today's date made between the parties hereto (hereinafter called "the Agreement") the said arrangements have been concluded in respect of the period 1st January 1977 to 31st December 1981 and the parties now wish to conclude arrangements for the sale and cross-purchase of crude oil in respect of the period 1st January 1982 to 31st December 1989.

NOW THEREFORE IT IS HEREBY AGREED AS FOLLOWS:

1. (a) The Agreement shall (notwithstanding the expiry date of 31st December 1981 specified in Clause 2) continue in force for the period commencing 1st January 1982 and ending 31st December 1989 (such period being hereinafter referred to as "the period 1982 - 1989") but subject to the proviso for earlier termination contained in Clause 2 thereof, which proviso shall also apply in respect of the period 1982 - 1989.
 - (b) The terms and conditions of the Agreement shall remain in full force and effect and shall apply in respect of the period 1982 - 1989 save as amended by the provisions of this agreement. Nothing in this agreement shall be construed as amending the provisions of the Agreement in respect of the period 1st January 1977 to 31st December 1981.
 - (c) Reference herein to Clauses and sub-clauses are references to Clauses and sub-clauses of the Agreement as amended, as the case may be, by the provisions of this agreement.
2. Clause 3 - BNOC's Option
 - (a) BNOC shall have the option to purchase and take delivery in 1982 and each year thereafter up to and including 1989 of up to fifty-one per cent of BP's U.K. crude oil produced in each such year respectively in accordance with the terms and conditions of Clause 3, save that BNOC is hereby deemed to have exercised in full its said option in respect of each of the years 1982 to 1989 inclusive and the provisions of sub-clauses (a)(ii) and (c)(i) and (ii) of Clause 3 shall not apply in respect of the said option.
 - (b) BP shall notify BNOC in accordance with the provisions of sub-clause (b) of Clause 3 for each of the years 1982 to 1989 inclusive and the first such notification shall be given not later than 30th September 1980 in respect of the year 1982.

3. Clause 4 - Cross-Purchase

The terms and conditions of Clause 4 shall apply in respect of the period 1982 - 1989 and any reference therein to the years 1979, 1980 and 1981 shall be read as a reference to the years 1982 to 1989 inclusive.

4. Clause 5 - Retained Oil

- (a) Subject to (b) below and to Clause 4(a) BNOC shall have in respect of each of the years 1982 to 1989 inclusive the option not to sell to BP but to retain in such year up to the quantity of crude oil represented by the following percentage of BP's U.K. crude oil in the year in question:

Year	Percentage
1982	16%
1983 - 1989 incl.	12.75%
- (b) BNOC is hereby deemed to have exercised in full its said option in respect of each of the years 1982 to 1989 inclusive in respect of each of the commercial oilfields in question and the provisions of sub-clauses (a)(i) and (ii)(a) and (b) of Clause 5 shall not apply in respect of the said option.
- (c) The percentage figures set out in sub-clause (a)(i)(b) and the proviso thereto of Clause 5 shall be replaced by the figures "16%" and "12.75%" respectively.

5. Clause 6 – Quality

The terms and conditions set out below shall apply in lieu of the provisions of Clause 6:

- (a) The grades of UKCS crude oil deliverable by BNOC to BP pursuant to Clause 4(a)(iii) shall be either the same grades of BP's U.K. crude oil (e.g. Forties for Forties) or other grades of UKCS crude oil comparable in quality and in location in proportions to be agreed from time to time for each commercial oilfield.
- (b) The grades of non-UKCS crude oil deliverable by BP to BNOC pursuant to Clause 4(b) shall be representative of the total non-UKCS crude oil available to BP, except that BP shall have the option to exclude BP's Abu Dhabi or Nigerian crude oils or other crude oils having an API above 35° or a sulphur content below 1%. In putting together the crude slate to be offered to BNOC BP shall have regard to the reasonable requirements of BNOC, on the basis that there will be some flexibility within the range of crude oils which could be available to BP provided that this could be satisfactorily reflected at the time when BP and BNOC agree prices in accordance with Clause 9.

6. Clause 7 – Delivery

- (a) The words "Except in the case of deliveries provided for in Clause 6(a)(iii) hereof" shall not apply.
- (b) The provisions of sub-clause (a)(ii) shall not apply and there shall be substituted the following: "in the case of deliveries by BNOC of grades of UKCS crude oil other than a grade of BP's U.K. crude oil (which first-mentioned grades have been agreed in accordance with Clause 6 as being comparable in quality and location to the grade of BP's U.K. crude oil in question) at the loading installation appropriate to the grade in question".

7. Clause 8 – Freight

The parties shall review the provisions of Clause 8 to consider if they should continue to apply in respect of the period 1982–1989 and if so, in what form, but unless both the parties otherwise agree Clause 8 shall not apply.

8. Clause 9 – Prices

The terms and conditions set out below shall apply in lieu of the provisions of Clause 9, subject to (d) below:

- (a) Unless otherwise agreed the price per barrel for each grade of crude oil shall be a price f.o.b. loading terminal expressed in US dollars and equal to Market Price for the grade in question.
- (b) The parties shall consult as appropriate but in any event prior to 1st January 1982, to agree the terms and conditions to apply in respect of matters relating *inter alia* to the duration for which prices shall apply, the circumstances in which prices shall be reviewed and changes in Market Price and/or Seller's Cost.
- (c) The parties agree that any dispute on matters relating to price shall be referred to an expert for determination. The parties shall therefore consult as appropriate but in any event prior to 1st January 1982 to agree the terms which should govern such references.
- (d) If the parties fail to reach agreement pursuant to (b) and (c) above the provisions of Clause 9 shall continue to apply in respect of the period 1982–1989 until such time as the parties shall reach agreement pursuant to (b) and (c) above.

9. Clauses 10 and 12 and Appendices I, II and III

Clauses 10 and 12, including the operational arrangements established in accordance with Clause 12, and (notwithstanding the amendment of Clause 6) Appendices I, II and III shall be reviewed by the parties and amended as necessary for the period 1982–1989.

10. Clause 13 – Change in Circumstances

- (a) The provisions of (b) of Clause 13 shall be amended by the addition of the following: "If within 30 days of the date of BP's said notice the parties fail to reach such agreement, the matter shall be referred to an expert in accordance with Clause 16 as if it had been a reference under Clause 13(d)(i)".
- (b) The provisions of (c), (d) and (e) of Clause 13 shall not apply.

11. General

The parties shall consult together in sufficient time before 1st January 1982 to consider in good faith how the Agreement is operating and to agree whether any, and if so which, of the Clauses thereof need to be amended, or further amended, in respect of the period 1982-1989 but nothing is to be taken as implying that there is not a contract in existence between the parties hereto in respect of the sale and cross-purchase of crude oil for the period 1982-1989. If the parties fail to agree as aforesaid, the terms and conditions of the Agreement, as amended by the provisions of this agreement, shall apply in respect of the period 1982-1989.

IN WITNESS WHEREOF THIS AGREEMENT has been entered into the day and year first above written

Signed for and on behalf of
THE BRITISH NATIONAL OIL CORPORATION

.....
Kearton

Signed for and on behalf of
THE BRITISH PETROLEUM COMPANY LIMITED

.....
D.E.C. Steel

AGREEMENT FOR DOWNSTREAM
CO-OPERATION

between

BP OIL LIMITED

and

THE BRITISH NATIONAL OIL CORPORATION

This Agreement made the 1st day June 1977 between BP OIL LIMITED of BP House, Victoria Street, London SW1E 5NF (hereinafter called "BPO") of the one part and THE BRITISH NATIONAL OIL CORPORATION (hereinafter called "BNOC") of the other part.

WHEREAS

- (a) The Secretary of State for Energy for and on behalf of Her Majesty, BNOC, The British Petroleum Company Limited, BP Petroleum Development Limited and BP Oil Development Limited have today entered into an agreement providing for the participation by BNOC in certain areas of the BP Group's activities in the United Kingdom and the United Kingdom Continental Shelf.
- (b) Having regard to BPO's knowledge and expertise in the fields of the refining of petroleum and the distribution and marketing of petroleum products, the said agreement provided *inter alia* for BPO as a member of the BP Group and BNOC to enter into a further agreement to provide for the training of BNOC employees in the said fields by BPO and for certain other matters as hereinafter appearing.
- (c) The said agreement further provided that BPO and BNOC would seek to establish a long term basis for co-operation downstream in the United Kingdom in both refining and marketing.
- (d) BNOC does not intend to undertake refining and/or downstream marketing before 1980 but this does not in any way restrict BNOC's right to undertake refining and/or downstream marketing prior to 1980.

NOW IT IS HEREBY AGREED AS FOLLOWS:

ARTICLE 1 - DEFINITIONS

Where used in this Agreement the following expressions shall have the respective meanings assigned to them:

- (a) "Information" shall mean all information, whether reduced to writing or not, data (howsoever recorded) and drawings, including but not by way of limitation customer information, marketing and other plans and forecasts pertaining to the business of either BPO or BNOC, and any such material belonging to third parties which is properly in the possession of BPO or BNOC, as the case may be.
- (b) (i) "Trading" shall mean the entry by BNOC or by any subsidiary of BNOC into operations in the United Kingdom, whether independently or jointly with or through any third party, for the refining or treating or buying or selling of petroleum or petroleum products. Notwithstanding the foregoing the following operations do not constitute Trading:
 - (a) the buying and selling of crude oil (including the treatment of crude oil prior to primary distillation) Provided that any sale thereof is not to end users for use as fuel;
 - (b) the buying and selling of natural gas Provided that the sale thereof in the United Kingdom is either to the British Gas Corporation or for use as chemical feedstock;
 - (c) the buying and selling of LPG and condensate for export from the United Kingdom;
 - (d) the buying and selling in the United Kingdom of LPG and condensate Provided that:
 - (aa) such LPG and condensate do not require primary distillation to make them of marketable quality;
 - (bb) such condensate is sold only for use as a light crude or as chemical feedstock;
 - (cc) such LPG is sold only to a refiner or for use as a chemical feedstock;
 - (e) acting as agent for Her Majesty's Government in managing the Department of Energy's pipeline and storage system and turning over the associated stocks;
 - (f) operations under contracts existing or under negotiation at the time of signature of this Agreement;
 - (g) treating other than as part of refining, including settlement, storage and transportation, where such treating is connected with any of the operations specified in (a) to (f) above.
- (ii) BPO acknowledges that the above list is not exhaustive, that other operations could be added to it and also that some operations that would come within the above definition of Trading could be disregarded for the purpose of this Agreement because they are on too small a scale, are one-off transactions, or that for some other reason BNOC's involvement in them would not materially prejudice the commercial interests of BPO. BNOC acknowledges that there could be instances where operations outside the United Kingdom might reasonably be regarded as causing sufficient prejudice to the commercial interests of the BP Group to make it inappropriate for BNOC to continue to be entitled wholly or partially under Article 5(a) hereof.
- (iii) As BNOC's operations develop BNOC will inform BPO of its intention to undertake any operation referred to in (ii) above and the parties will thereupon consult as necessary with a view to agreeing what action (if any) should be taken.
- (c) "Training" shall mean the training of certain employees of BNOC in accordance with the provisions of Article 3(a) hereof. Training shall unless otherwise agreed between the parties be provided only in the United Kingdom.

- (d) "BP Group" shall mean The British Petroleum Company Limited ("BP") and every company which for the time being is controlled by BP; for the purpose of this Agreement a company is controlled by BP if it is a subsidiary of BP or if BP alone or with any subsidiary of BP is by any means able to control the policy of the company.
- (e) "crude oil" shall mean crude liquid petroleum which has been stabilised and, if necessary, otherwise treated to render it suitable for transport by conventional crude oil tankship.
- (f) "employee" shall mean in the case of BNOC any person employed exclusively by BNOC or by any wholly owned subsidiary of BNOC and any person on long term secondment to BNOC or to any such subsidiary. For the purposes of this definition "long term" shall mean a period exceeding twelve (12) months and "any person on long term secondment" shall, unless otherwise agreed, exclude any person on secondment from another oil company.
- (g) "LPG" shall mean propane and/or butane.
- (h) "subsidiary" shall have the meaning specified in s.154 of the Companies Act 1948.
- (i) "wholly owned subsidiary" shall have the meaning specified in s.150(4) of the Companies Act 1948.

ARTICLE 2 - DURATION

This Agreement shall come into force upon signature hereof by both parties and shall continue thereafter for an initial period expiring on 31st December, 1981 unless prior thereto the agreement referred to in Recital (a) hereof shall have been terminated in accordance with its terms, whereupon this Agreement shall likewise terminate. The parties shall in the final quarter of 1980 review arrangements hereunder and the need for such arrangements to continue and may by mutual consent renew or extend this Agreement beyond the initial period upon such terms and conditions as shall then be agreed. Either party shall be entitled to serve notice of termination having immediate effect if the other party shall commit any material breach of this Agreement which is not capable of remedy or being so capable is not remedied within 21 days of notice by the party not in breach requiring the same to be remedied. The right to terminate this Agreement shall be in addition to and not in substitution for any other remedy which the party not in breach may pursue or assert.

ARTICLE 3 - TRAINING

- (a) BPO and BNOC shall forthwith consult to establish and agree procedures for BPO to train employees of BNOC in the generality of petroleum refining processes, with specific reference to the BP Group's refineries in the United Kingdom, including the production of LPG, gasolines, distillates and fuel oils, the basic features in manufacturing bitumens, lubricants and waxes, special products (such as solvents), and feedstocks for chemicals insofar as they constrain and affect crude oil programming and product output, together with the basic features of the marketing and distribution of such products in the United Kingdom. Provided always that BPO may exclude from the provision of Training hereunder detailed specifications relating to any such process or product if their inclusion would or might prejudice the commercial interests of BPO or any member of the BP Group. Such procedures shall include *inter alia* provision for assessing and meeting training priorities, payments by BNOC to BPO for Training and the use by agreement of training facilities from third parties.
- (b) Subject to (a) above BPO will provide Training to a reasonable level but will not be bound to provide Training to such an extent or to such numbers of BNOC employees that BPO's own operations would or might thereby be prejudiced or that such demands in terms of time or effort would or might be made upon BPO personnel who will be responsible for the provision of such Training as to necessitate an increase in the numbers of BPO personnel.
- (c) BPO shall in the provision of Training give training in what it considers to be good current practices in the refining of petroleum and the distribution and marketing of petroleum products but BPO makes no representations nor gives any warranties as to the adequacy or suitability of such practices for the purposes of BNOC's own business.
- (d) BNOC employees whilst receiving Training shall remain in the employment of BNOC and BNOC shall be responsible for making such arrangements in respect of its employees as may be required to enable them to complete Training. BNOC shall be liable for all acts or omissions of its employees done or omitted to be done whilst such employees are receiving Training and BNOC hereby agrees to indemnify and keep indemnified BPO its employees and each of them against any and all actions, proceedings, claims, damages, demands, losses, costs and expenses (including legal fees) arising out of the performance of or in connection with the provision of Training or other facilities under this Agreement. Provided always that BNOC shall not be liable for any such act or omission, and the said indemnity shall not apply to any such action, proceeding, claim, damage, demand, loss, cost or expense to the extent that the same is caused by the negligence of BPO or any of its employees.

ARTICLE 4—LONG TERM CO-OPERATION

BPO and BNOC will seek to establish a long-term basis for co-operation in the United Kingdom in the fields of refining and marketing.

ARTICLE 5—DOWNSTREAM COUNSELS

- (a) It is affirmed that BPO will retain full management responsibility for all its operations. Subject thereto and as hereafter in this Article 5 provided, BNOC shall notify BPO in writing of the names and designations (which notifications may from time to time be changed by BNOC) of up to three employees and an alternate employee for each. Such employees and alternates shall be entitled to represent BNOC at meetings of BPO's Managers at which matters referred to in Article 3(a) hereof will be considered and to participate fully in discussions at such meetings except to the extent that such participation would or might delay or otherwise prejudice BPO's commercial operations. BPO and BNOC shall agree upon acceptable procedures for giving effect to such right of representation.
- (b) No BNOC employee who has attended meetings with any other oil company as a BNOC representative pursuant to arrangements similar to those between BPO and BNOC under this Agreement shall be entitled to attend any meeting with BPO unless such employee no longer represents BNOC under such arrangements or such arrangements have terminated nor shall BNOC cause or allow itself to be represented at any meeting with any other oil company pursuant to arrangements similar to those between BPO and BNOC under this Agreement by an employee who has attended any meeting with BPO hereunder within a period of twelve months prior to any such meeting with such other oil company.
- If notwithstanding the provisions of this (b) BPO considers that the attendance of a representative of BNOC pursuant to (a) above would expose BPO and BNOC to a direct conflict of interest BPO may so advise BNOC in order that the parties may make appropriate arrangements.
- (c) (i) BNOC shall notify BPO in writing of the opening of negotiations by BNOC or any of its subsidiaries with any third party in connection with the commencement of Trading and shall keep BPO informed from time to time of the status of any agreement expected to result from such negotiations. Following such notification and if BPO is reasonably satisfied that the continued exercise by BNOC of its entitlement under this Article 5 during the continuance of such negotiations would or might prejudice the commercial interests of the BP Group or any member thereof then BPO shall have the right to suspend BNOC's entitlement under this Article 5 either in whole or in part until such time as the said negotiations have been concluded or otherwise terminated.
- (ii) If BNOC shall notify BPO that BNOC has, or if BPO after consultation with BNOC shall to its reasonable satisfaction consider that BNOC has, commenced or has agreed to commence Trading BPO shall have the right to terminate BNOC's entitlement under this Article 5 either in whole or in part with immediate effect.
- (d) Nothing in the provisions of this Article 5 shall entitle BNOC or any of its employees to participate in discussions on any aspect of BPO's business which is carried out in partnership or co-operation with a third party not being a member of the BP Group unless BPO and that party so consent.

ARTICLE 6—CONFIDENTIALITY

- (a) (i) All Information received hereunder by either BNOC or BPO shall be kept confidential by the recipient and shall not be disclosed to any person other than full or part-time directors (in the case of BPO) or full or part-time members (in the case of BNOC), to persons employed exclusively by the recipient or on long term secondment to the recipient or to such directors, members and persons so employed by or seconded to a wholly owned subsidiary of the recipient or a company of which the recipient is a wholly owned subsidiary.
- For the purposes of this (a)(i) "long term" shall mean a period exceeding twelve (12) months and "persons on long term secondment" shall exclude any person on secondment from another oil company, other than a member of the BP Group.
- (ii) BNOC hereby undertakes that each of its members and every other person to whom Information is disclosed hereunder shall keep the same confidential. BNOC hereby further undertakes, but not so that this undertaking shall apply to any disclosure by BNOC to any member of BNOC, not to disclose any such Information to the persons specified in (i) above without first obtaining from the intended recipient thereof an undertaking that the said Information will be kept confidential. In the event of BNOC not obtaining the undertaking as aforesaid, the provisions of (iii) below shall apply.
- (iii) Save as provided in paragraphs (i) and (ii) above, neither BNOC nor BPO may divulge Information received hereunder to any person without the prior consent of the other, such consent not to be unreasonably withheld. If the party seeking consent to disclose Information is requested by the party supplying the same to obtain from the intended recipient an undertaking enforceable by the supplying party to keep such Information confidential but

- fails to do so then the supplying party may (without prejudice to any other right which it may have so to do) withhold consent to such disclosure and such withholding shall not be deemed unreasonable.
- (iv) BNOC undertakes not to use Information received hereunder in a manner which would or might prejudice the commercial interests of the BP Group or any member thereof.
 - (v) The provisions of this (a) shall remain in force during the currency of this Agreement and for two years after termination or expiry thereof.
- (b) BNOC may in the course of discharging its statutory duty to tender or provide advice to the Secretary of State utilise Information received by BNOC hereunder Provided that such Information shall not without BPO's prior consent be utilised by BNOC in such a manner as to attribute the Information to the BP Group or any member thereof and Provided further that specific details of any such Information shall not without BPO's prior consent be tendered or provided to the Secretary of State in the form in which it is received from BPO but such details may only be used as a basis for the advice so tendered or provided.
- (c) The obligations contained in (a) and (b) above shall not apply:
- (i) to Information which is or becomes public knowledge; nor (unless such Information is made available by a third party who in so doing is in breach of any obligations to BNOC or BPO)
 - (ii) to Information which can be shown to have been obtained by or otherwise to have been in the possession of the recipient at the time of its receipt hereunder and which was not subject to restrictions upon disclosure; nor
 - (iii) to Information which subsequent to the time of its receipt hereunder is made available to the recipient by a third party without restrictions upon its disclosure being imposed by the said third party Provided that in using such Information the said recipient shall at all times give due consideration to the commercial sensitivity likely to be attached to that Information by the party which supplied the same hereunder and where appropriate in the light of that consideration shall consult with such party before using such Information.
- (d) In using Information received hereunder BPO or BNOC, as the case may be, shall at all times have due regard for the spirit of the co-operative arrangements existing between The British Petroleum Company Limited, BPO and BNOC.

ARTICLE 7 - ASSIGNMENT

Neither party shall assign or transfer its rights or obligations under this Agreement Provided that BPO shall be free to arrange for such of its obligations hereunder as can be as well or better performed by any other company in the BP Group to be carried out by such other company subject to BPO remaining primarily responsible in the event of any failure by such other company to perform such obligations in accordance with this Agreement.

ARTICLE 8 - GENERAL

- (a) (i) Having regard to the spirit of the co-operative arrangements existing between The British Petroleum Company Limited, BPO and BNOC and to the rights of BNOC under this Agreement and its consequent ability to observe and gain a special appreciation of the capabilities of individual BPO employees and to the like ability of BPO in respect of BNOC employees it is agreed that, before either BNOC or BPO initiates discussions or negotiations with any employee of the other with a view to such employee terminating his existing employment and entering into the employ of BNOC or BPO, as the case may be, the party initiating such discussions or negotiations will consult with the other for the purpose of ensuring that the commercial operations of that other will not be prejudiced by the early termination by the relevant employee of his existing employment.
- (ii) If during the course of consultations pursuant to (i) above BNOC or BPO, as the case may be, notifies the other that the relevant employee cannot adequately be replaced within the normal time period and that commercial operations as aforesaid would thereby be prejudiced, no offer of employment shall be made to the relevant employee which is capable of being taken up within six months from the date of the commencement of consultations between BNOC and BPO in respect of the relevant employee.
- (iii) Neither BNOC nor BPO shall be prevented by the provisions of (i) above from entering into discussions or negotiations with any employee of the other if the same have been initiated by that employee and for the purposes hereof but without limitation, an employee shall be deemed to have initiated such discussions or negotiations if the same take place as a result of response to any advertisement placed by BNOC or by any company which is for the time being controlled by BNOC or BPO or any other company in the BP Group in a national or local newspaper, trade journal or other trade publication.

- (b) The construction, validity and performance of this Agreement shall be governed by the laws of England.
- (c) Any notice or other communication by either party to the other shall be in writing and shall be sufficiently made if sent by pre-paid first class post or by telex or by delivering the same by hand to the address of the other party specified for this purpose below and shall, except in the case of delivery by hand and save for evidence to the contrary, be deemed to have been made on the day on which such communications ought to have been delivered in due course of postal or telex communication.
- (d) Unless otherwise specified by not less than 15 days' notice by the party in question, the addresses to which notices and communications shall be sent shall be:

To BNOC by post -- Stornoway House,
13 Cleveland Row,
St. James's,
London, SW1A 1DH.
by telex-- Telex No. 919474
To BPO by post -- BP House,
171 Victoria Street,
London, SW1E 5NJ.
by telex-- Telex No. 8811151

IN WITNESS WHEREOF BPO and BNOC have caused their respective Common Seals to be affixed hereto.

THE COMMON SEAL of)
BP OIL LIMITED was)
hereunto affixed in the)
presence of)

C.S.

D.G. Milne Director

R.G. Eldon Secretary

THE COMMON SEAL of)
THE BRITISH NATIONAL OIL)
CORPORATION was hereunto)
affixed in the presence of)

C.S.

Kearton



DEPARTMENT OF ENERGY
Thames House South, Millbank, LONDON, SW1P 4QJ

Telephone: Direct Line 01-211

Switchboard 01-211 3000

The British Petroleum Company Limited
Britannic House
Moor Lane
London EC2Y 9BU.

1 June 1977

Dear Sirs,

Thank you for your letter today about my intentions should I issue any direction to BNOC under Section 4 of the Petroleum and Submarine Pipelines Act 1975 which is also the subject of Article 18 of the Participation Agreement and Clause 15 of the Crude Oil Agreement.

You will appreciate that I cannot fetter the use of powers granted to me by statute. However I can confirm that the understanding set out in the letter is correct. I must add that, although your letter states my intentions correctly, I cannot guarantee that the effect of any such direction would not in practice bear solely on BP. As for publicity, although the arrangements would normally be those you illustrate in para 2 (iii) of your letter, there may be certain exceptional cases in which, as you will realise, it would put national security at risk to make public the existence of such directions.

I am sending a copy of this letter to Lord Kearton at BNOC.

Yours faithfully

Tony Benn

Secretary of State

Energy

Covering CONFIDENTIAL

Qa 04377

MR LANKESTER
MR WOLFSON

R.

The Privatisation of BNOG

1. Following our conversation I have dictated the attached. As time was short I have not had a corrected draft. May I leave it for you to use in any way which you think fit.
2. I am sending a copy of this minute and attachment to Sir Robert Armstrong.

KB

KENNETH BERRILL

11 December 1979

Att

CONFIDENTIAL

The Privatisation of BNOC

1. The paper by the Secretary of State for Energy (E(79)80) recommends endorsement of the proposals to separate BNOC into two companies (Trading and Operating) and put the Operating Company into the private sector by selling some 75 per cent of the shares on the market.
2. E(79)80 does not cover the need to continue with a unified BNOC in terms of its efficiency as an oil trader both for the effective sale of North Sea oil and for the potential undertaking of Government-to-Government deals with OPEC countries. This last is of rapidly growing importance and could be a means by which BNOC could help BP (and Shell) over OPEC's shift away from the oil majors.
3. This apart, the main worry over E(79)80 is that the paper and the tables do not set out at all clearly the figures, the options, and the arguments for and against selling 75 per cent of BNOC Operating as against 49 per cent or raising money to help the PSBR in the next two years by alternative means.
4. Mr Howell is anxious for an early decision so that Parliamentary drafting can take place for a potential slot in the Legislative Programme in the Spring (which may not in the event be there if the Parliamentary timetable slips). But it has to be emphasised that the Department of Energy's unwillingness to process their paper interdepartmentally in the normal way has led to this position where Ministers do not have the options thoroughly and clearly set out before them.
5. The main areas of unclarity in E(79)80, Annex 1, are with its (i) failure to set out adequately the advantages and disadvantages of the 'selling 49 per cent' option. It is not made clear that the figures in paragraphs 3(c) and 4 do not include the receipts from sales of the 49 per cent (perhaps £600m.) in the two years 1980/82; and (ii) the options only cover selling various proportions of the shares of BNOC Operating. There are other potential ways of raising money to help the PSBR in the coming few years by the sale of shares in BNOC royalty oil which could well give the maximum assets to the Chancellor in the years immediately ahead without raising some of the political and marketing difficulties inherent in the sale of shares.

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6. Privatisation of BNOC would achieve the political objective of increasing the number of shareholders in the United Kingdom (on the experience of the BP sales the number might be some 70,000 shareholders but most of these would not be shareholders for the first time). Against this, however, the needs in modern conditions for the United Kingdom to have an effective nationalised oil company are clear enough and the Chancellor's needs for the maximum help to the PSBR are strong. Unfortunate though it would be to risk losing the legislative slot in February, there is a strong case for having the issues, options and figures clearly set out for Ministers for decision. A working group under the Treasury with the Department of Energy, the CPES and BNOC, ought to be able to produce a paper for Ministers very quickly.

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PRIME MINISTER

BNOC: Future Structure and Private Sector Participation
(E(79) 80)

BACKGROUND

This will be a continuation of the discussion at the meeting on 26th November (E(79) 15th Meeting) about Mr. Howell's proposals for BNOC. Summing up that discussion, you said that the Committee's first impressions were favourable and invited Mr. Howell to discuss his proposals further in detail with Ministers concerned, and to report back.

2. Mr. Howell favours splitting BNOC into two companies, BNOC (Production) and BNOC (Trading) and selling 75 per cent of the shares in BNOC (Production) to the public, over a 3-year period. BNOC (Production) would become a private sector company with a Government shareholding (held on behalf of Government by BNOC (Trading)).

3. There are really two questions. Does it continue to make sense to pursue the reorganisation of BNOC on the lines proposed by Mr. Howell and hitherto favoured by colleagues? If so, how much of BNOC (Operating) should be sold to the public?

4. The first question has been thrown into doubt by Sir Ian Gilmour's minute of 3rd December questioning the extent to which the proposed arrangements for BNOC (Trading) are proof against challenge from the EEC. Mr. Howell dismisses this worry in his paper subject to the comments of the Attorney General (which were not available when his paper was written). The Attorney will be present and will be able to advise the Committee.

5. There is however a further point (which Sir Kenneth Berrill may make) about the possible role of a unified BNOC both as an instrument for the effective sale of North Sea oil and for the potential undertaking of Government to Government deals with OPEC countries. This last is of rapidly-growing importance (and in the papers before your meeting last Friday on the IEA Mr. Howell argued for permission to explore the possibilities of such deals).

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Provided there are no legal snags (and again the Attorney can advise) they could be a means by which BNOC could help BP (and Shell) over OPEC's shift away from the oil majors. Of course if colleagues were to be convinced that circumstances had changed enough to militate against the splitting of BNOC the contribution it might otherwise have made to the PSBR will have to be found in other ways, e. g. from the sale of physical assets.

6. If colleagues confirm the general framework of Mr. Howell's proposals the question then arises whether the aim should be a sale of 75 per cent of BNOC (Operating) - as Mr. Howell prefers - or of 49 per cent, thus retaining clear Government control. The argument will revolve around option (b) in Annex 1 (75 per cent sale) and option (c) (49 per cent sale). The choice depends both on political attractiveness and on the effect on the Government's finances. The former is a matter of opinion. The second is a matter of arithmetic.

7. Mr. Howell's case for a 75 per cent sale rests on the calculations in the Annex. Although complex in appearance, what they really say is that the more of BNOC is sold the bigger the immediate cash gain and the larger the longer term cash loss. The cash benefits are allegedly compared in paragraph 4 of the Annex and those describing the relative impact of option (a) as against option (b) are soundly based. The comparison with option (c), however, is distorted by the technicality that if only 49 per cent of BNOC (Operating) is sold, the receipts from sale do not reduce the PSBR but increase the funds available to finance it. Mr. Howell, therefore, omits them from option (c) whereas they are included in option (b). The 'missing' receipts could amount to about £600 million over a 3-year period. Bring them into the account and the advantage of option (b) over option (c) becomes clearly negative in net present value terms.

8. Colleagues may feel that despite Mr. Howell's efforts they need further clarification of the financial implications before coming to a decision. If so a working group under Treasury chairmanship with members drawn from Energy, the CPRS and possibly BNOC ought to be able to produce a quick and clear display of the options.

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9. Timing. Mr. Howell's proposals will require legislation, which would be controversial. You will want to enquire whether, in the present crowded timetable, it is realistic to expect the legislation to be introduced and passed in this Session.

HANDLING

10. You might open the discussion yourself by pointing to the two basic issues described above - whether to follow Mr. Howell's route at all and, if so, to what extent.

11. You might then ask Mr. Howell to introduce his paper, and seek comments from Lord Carrington, Sir Michael Havers and Sir Kenneth Berrill before inviting others to take part.

12. If the Committee have serious doubts about the wisdom of proceeding by Mr. Howell's general route at the present time the rest of the points at issue fall. The problem then will be to set in hand further work to resolve the doubts or to find a new way forward. The right course would probably be to commission a full-scale inter-departmental study under CPRS (or possibly Treasury) chairmanship. We could let you have specific proposals for this after the meeting.

13. If on the other hand the Committee want to press ahead on the lines indicated by Mr. Howell, there will be one major and several minor issues outstanding. The major point will be the proportion of BNOC (Operating) shares to be sold. Unless a very clear preference emerges you might like to propose an official working group on this issue on the lines of paragraph 8 above.

Additional points which will need to be covered are:-

- (a) How much access should BNOC(Trading) have to BNOC (Operating)'s oil? This is discussed in Annex B of the paper. Mr. Howell does not seek a decision, but asks for colleagues' views. You might take some discussion on this, but leave the position open for subsequent correspondence. But you should note that if BNOC (Trading) are given a 100 per cent option on BNOC (Production) oil then it may well leave the Company inside the PSBR net (see 3(d) of Annex B). And it would reduce the price obtainable.

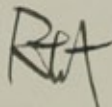
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- (b) What detailed legislative proposals should be agreed? These were discussed in Annex 5 of the previous paper (E(79) 67). They include some tidying up clauses, as well as the main requirements. Colleagues might be asked to deal with these in correspondence.

14. Equally unless the Committee is able to provide a clear view on the timing of legislation you may want Mr. Howell to explore this with the Chancellor of the Duchy of Lancaster and let you have a note on the possibilities and prospects.

CONCLUSIONS

15. These will very much depend on the course of discussion. Paragraphs 12, 13 and 14 above provide a checklist.



(Robert Armstrong)

11th December 1979

BNOC

David Wolfson and I have been over the figures in Annex I of Mr. Howell's paper, and it is pretty clear to us that from a purely financial point of view option (b) - selling off 75% of the shares - is much the worst of the three options considered.

Paragraph 4 of the Annex is the one to look at. This shows the benefit to - or where there are brackets, the worsening of - the PSBR if we go for option (a) or option (c) as compared with option (b). The two lines (i) and (ii) represent higher and lower capital spending by BNOC respectively. Lines (ii) reflect BNOC's latest spending plans and are therefore the more relevant.

Option (a) - i.e., status quo - is worse for the PSBR than option (b) by £140 m. in 1980/81. Thereafter, except for a tiny (£5 million) negative effect in 1982/83, option (a) is far better.

Option (c) - selling off 49% of the shares - appears to be about the same as option (a) except for rather smaller benefits in later years. In fact, the figures are misleading because they do not take account of the proceeds from selling the 49%. Strictly speaking, Mr. Howell is correct because selling shares in a company which is to remain in the public sector does not count, according to the Treasury rules, as a reduction in the PSBR. However, selling these shares would be a great help in financing the PSBR - i.e., they reduce the amount of gilts we have to sell and the markets would recognise this. If the proceeds of the 49% share sale were included in the figures in paragraph 4 of the Annex, they would be improved by nearly £600 m. over the first 2-3 years.

Taking into account the Chancellor's need for finance in 1980/81, option (c) thus looks the best.

This paper also fails - like its predecessors - to cover the point that there are increasing signs that OPEC countries prefer to do business on a government-to-government basis. BNOC (Trading), which will be 100% government owned, might be able to fulfil this role; but we know that some producers want help on the operating side in return for access to oil. This would be an argument for retaining a unified BNOC with the government holding at least a majority stake in BNOC (operating).

Finally, if the object of the privatisation exercise is to raise money, we know that there are other ways of achieving this besides selling shares in BNOC (Operating). One such method which BNOC has proposed and which has never been mentioned by D/Energy is to sell shares in BNOC's royalty oil. According to BNOC, this would raise far more money at smaller future cost to the Exchequer than selling shares in BNOC (Operating).

We think there is a strong case for asking for an inter-departmental assessment of the various sale options. Energy have been unwilling to process their paper interdepartmentally; this is why it has failed to set the facts out properly.

T.

11 December 1979



Energy
file HB

10 DOWNING STREET

From the Private Secretary

3 December 1979

B/E 10.12.79
↓

BP/BNOC OIL SUPPLY ARRANGEMENT

The Prime Minister was grateful for your Secretary of State's note of 30 November in which he explained that the BP Board are not seeking to re-open the oil supply arrangement recently agreed in principle between BP and BNOC. She looks forward to receiving the further note setting out the facts and arguments about pricing. In the latter connection, the Prime Minister feels that it is essential to consider the implications of selling North Sea oil at around \$26 per barrel, and buying crude oil on the spot market at over \$40 per barrel: if this is really happening, the Prime Minister feels that it is a nonsensical situation.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), Martin Hall (H.M. Treasury), Bill Beckett (Law Officers' Department) and to Martin Vile (Cabinet Office).

J. P. LANKESTER

W J Burroughs Esq
Department of Energy.

9B

cc Mr Wilson

COMMERCIAL IN CONFIDENCE

PRIME MINISTER

BP/BNOC OIL SUPPLY ARRANGEMENT

David - We will have Prime Minister to consider at some time the implications of selling oil at 26 d.p.v. and buying crude oil at 41 d.p.v. We should make sure for us. and 207.

In the light of Mr Laidlaw's critical remarks, at your briefing meeting on Wednesday evening, about the cost to BP of the oil supply arrangements with BNOC, I checked with Sir David Steel yesterday whether the BP Board was seeking to re-open the arrangement agreed in principle between BP and BNOC as recently as the 1st November. I now have Sir David's assurance that this is not the case.

The oil flows between BP and BNOC under the existing arrangements and the re-negotiated arrangements are complicated. I will let you have a separate note shortly setting out the facts and commenting on the argument about pricing. *KLH*

They will also let us have a copy of the contract. JL

The EEC implications of the principles agreed between BP and BNOC for future supply are currently being examined by the Attorney General and will come before us collectively shortly in OD(E).

I am sending a copy of this minute to the Foreign Secretary, Chancellor of the Exchequer, the Attorney General and Sir Robert Armstrong.

DA.

D A R HOWELL
SECRETARY OF STATE FOR ENERGY
30 NOVEMBER 1979

Attached are BP's 3rd quarter results - They have done pretty well! (Though on a LIFO basis, the figures ~~especially~~ don't look quite so good). JL

30 NOV 1978



In the light of the Board's critical review of your trial...
...the Board has decided to grant you a full and complete...
...the Board has decided to grant you a full and complete...
...the Board has decided to grant you a full and complete...

The all those...
...the Board has decided to grant you a full and complete...
...the Board has decided to grant you a full and complete...

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...the Board has decided to grant you a full and complete...

BP net income soars to £1.2bn at nine months

THE SHARP rise in oil prices had a material effect on the level of group income of British Petroleum in the first nine months to September, 1979, through the application of the LIFO method of stock valuation.

Net income in the third quarter was boosted from £85.6m to £61.7m to give a nine-month total of £1.18bn compared with £292m in the same period last year.

The prices of crude lifted or purchased by the group rose by some 60 per cent during the first nine months and have risen further in the fourth quarter, the directors say.

The dollar exchange rate against sterling moved only marginally during the third quarter and exchange factors in consequence are not material compared with the level of group income in the quarter.

Total income in the third quarter rose from £3.62bn to £4.68bn and pre-tax income was £1.47bn against £530.3m. The nine-month figures were £13.25bn (£10.71bn) and £3.2bn (£1.66bn) respectively. Net income per ordinary share for the nine months was hoisted from a restated 18.8p to 76.5p.

Applying the LIFO method, the group's earnings would be reduced by £675m for the nine months, £350m of which relates to the current quarter.

The reported net income of the group for each of the first three quarters of 1979 after deduction of the estimated LIFO effect approximates £140m, £157m and £212m respectively.

For the third quarter of 1978 it is estimated that the use of LIFO would have increased net income by about £60m but would not have had a significant effect on the cumulative figures for the nine months.

With reduced quantities of crude oil supplies available from Iran, and, in the third quarter the loss of access to Nigerian crude, sales of crude oil by BP to third parties are now at a very low level.

Product sales have been maintained with the group supplementing its own sources and contracted supplies with purchases in the open market.

Improved results have been recorded by refining and marketing operations in Europe, with downstream margins now at levels which provide a substantial contribution to group profitability on a historic cost basis.

Elsewhere the improvement, while not as great as that recorded in Europe, but has nevertheless been satisfactory, the board states.

The contribution for the first nine months from Sohio is £295m against £98m last year. During the third quarter Sohio's

share of Alaskan production inclusive of royalty oil averaged 688,000 barrels per day and in consequence the group's shareholding increased to its maximum level of 53 per cent.

Production from the North Sea averaged 490,000 barrels per day for the first nine months from the group's share of the Forties and Ninian fields compared with 457,000 barrels per day over the corresponding period of 1978.

The improvement in chemical operations reported at the half year has continued over the third quarter with sales and production exceeding forecasts.

The profitability of the group's coal interests in Australia suffered from reduced market recoveries at a time of rising costs, by the maintenance of a Government export levy and by labour problems which have restricted the volume of exports.

The amounts required to finance the group's capital reinvestment programme and to support its working capital requirements continue to increase. Total capital investment, including in 1979 acquisitions of £351m in the first nine months amounted to £1.14bn (£759m).

	Nine months	
	1979	1978
	£m	£m
Sales and operating revenue	16,246.1	12,906.8
Customs duties and sales taxes	3,240.5	2,353.1
Net sales and operating revenue	13,005.6	10,552.7
Other income	241.7	155.8
Making	13,247.3	10,708.5
Cost of sales	8,004.1	7,237.0
Distrib., selling, admin. and other expenses	1,213.7	1,008.7
Deprecn. and amounts provided	526.4	447.2
Interest and financing	304.4	356.9
Making	10,048.5	9,049.8
Income before tax	3,198.7	1,658.7
Tax	1,705.7	1,263.0
Minorities	309.5	103.7
Net income	1,183.5	292.0

CONFIDENTIAL F6

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Energy



10 DOWNING STREET

From the Private Secretary

29 November 1979

Dear Sir.

1) BF 6.12.79
2) 13.12.79

As you know, the Prime Minister has seriously questioned the recently renegotiated contract between BNOC and BP for the supply by BP to BNOC of crude oil from the Middle East. This came up at the meeting which the Prime Minister held last evening with Messrs. Laidlaw and Baxendell which was also attended by your Secretary of State and Sir Jack Rampton.

11
21
The Prime Minister would be grateful for a note on this contract together with a copy of the contract. She is of course aware that the renegotiated deal was approved by her earlier, but she would now like to be able to consider the matter in great detail. On the basis of the discussion last night, her view - as you know - is that there is a case for reopening the deal so as to reduce the apparent financial burden that BP continue to bear. You promised to set in hand some work on this with a view to letting us have something within the next two weeks; you also said that Mr. Howell was intending to write to Sir David Steel to ask him whether BP in fact wished to reopen the agreement so recently negotiated.

in

Tim Laidlaw

Bill Burroughs, Esq.,
Department of Energy.

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NOTE FOR THE RECORD

Mr. Baxendell of Shell and Mr. Laidlaw of BP called on the Prime Minister at 1700 hours yesterday. The Secretary of State for Energy and Sir Jack Rampton were also present. The purpose of the meeting was to go over the briefing on energy for the Dublin Council, and a number of points in the briefing were clarified.

But there was also a lengthy discussion of the back-to-back deal whereby BP sell Middle East crude to BNOC instead of selling 51% of their North Sea production to BNOC as they would normally have to do under the participation agreement arrangements. Mr. Laidlaw explained that the original contract had been renegotiated during the course of the summer, but the new contract still placed a very substantial financial burden upon BP. This was because BP was still obliged to supply a given value of crude to BNOC based upon official Middle East prices. But in reality, they were having to purchase much of this on the spot market. Since they were selling their North Sea crude at official prices, this meant that they were suffering a substantial financial loss on the operation. In the renegotiation, the amount of crude which they were liable to BNOC for had been reduced; but, the amounts were still excessive, given the changed market circumstances.

The Prime Minister said that she had the greatest sympathy for BP. She thought that the contract as described by Mr. Laidlaw was quite unjustifiable and since the Government was a shareholder in BP, it was damaging to the tax payer too. She wondered whether, in the changed market circumstances since the back-to-back deal was originally negotiated, it would stand up in a Court of Law. She had, it was true, approved the renegotiated deal as reported to her by the Department of Energy; but she had never seen the details, and had she seen it was as Mr. Laidlaw had explained it to be, she would not have approved it.

Mr. Howell said that BP had negotiated the back-to-back deal in their own interests, and substantial concessions had been made to them in the course of the summer. If they were buying on the spot market, this was largely to supply their overseas affiliates - rather than to fulfill their obligations to BNOC. But in any case,

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/ the Government

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- 2 -

the Government and BNOB had to have regard to the security of supply argument. If BNOB were to give up its rightful 51% share of BP's North Sea production, they had to be compensated for this.

The Prime Minister said that she would want to see the contract and have a further discussion with the Secretary of State for Energy about it. (I have commissioned this separately).

In addition, Mr. Baxendell gave a very pessimistic report on the world oil scene. He thought it was unlikely there would be any agreement in OPEC on 17 December; instead, prices would continue to go up in an uncoordinated way and there could well be cut backs in supply. For example, the Saudis would almost certainly cut back production by 1 million barrels per day and shove up the price. Their attempt last year to keep prices down had patently failed, and they were likely to react accordingly. Output from Kuwait was also likely to fall, as it was also from Iran because of failure to maintain plant and equipment. It would fall much more if Saudi Arabia "blew up": the effect of this on the world economy would be frightening. The Japanese seemed likely to increase their purchasing on the spot market, and spot market prices would therefore increase.

R.

29 November 1979

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P.0158

Mr Lankster

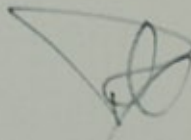
MR VILE

cc: Mr Mountfield

FUTURE OF BNOC

Mr Liverman of the Department of Energy has just phoned to say that a taxation problem has arisen over the proposals on BNOC being considered by E Committee this afternoon. The details are being pursued between Energy, Treasury and the Revenue but the essential problem is a fear that, under the PRT rules as they stand, the hiving off of BNOC's producing assets into BNOC (Operations) could result in a loss of tax allowances to the new Company. The effect would be that ^{BNOC} "operating" would pay more PRT with a consequent reduction in the realisable value of its shares. If confirmed, and unaltered, this situation would reduce the inflow of funds from privatisation and push further into the future the beneficial effects on the PSBR.

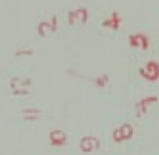
2. Both the Chancellor of the Exchequer and the Secretary of State for Energy will be briefed on the point this afternoon. They may also know by then whether the tax rules could be changed to avoid this quirk - in the next Finance Bill - without having unacceptable consequences elsewhere.
3. All in all, a further reason for treating this afternoon's discussion as a preliminary to, rather than an occasion for, decision-taking.



P Le CHEMINANT

26.11.79

26 NOV 1979



PM/79/95PRIME MINISTER

1. I have just learned that E Committee on 26 November, which Ian Gilmour will attend, will be looking at a memorandum by David Howell on the future structure of, and private sector participation in, BNOC.
2. Although we have had some previous discussions on the future of BNOC, this will be the first time we have had a chance to look at the precise proposals in David Howell's paper. As an annex indicates, there are important Community legal considerations on which we will have to form a judgement. More generally, I have been concerned recently about the extent to which the Government is coming under criticism abroad - on both sides of the Atlantic - because it is held responsible for BNOC's activities while we do not always in practice exercise the full extent of the powers laid down in the constitution of the Corporation. I hope that questions about our North Seal oil policies are not going to cause us needless difficulties at the Summit, but the issues in any case go rather beyond that.
3. I believe, therefore, that the discussion on Monday should be in the nature of a first reading of David Howell's paper and that we can also take a broad look at the issues I have mentioned. I have no wish to hold up the introduction of private capital but we do need to consider how the responsibilities of Government will be discharged thereafter.
4. I am sending copies of this minute to Members of E Committee and to Sir Robert Armstrong.

(CARRINGTON)

Foreign and Commonwealth Office23 November 1979

CONFIDENTIAL

Ref. A0737

PRIME MINISTER

BNOC - Future Structure and Private Sector Participation
(E(79) 67 and 68)

BACKGROUND

17.7.79 24.7.79
The Committee agreed in July (E(79) 5th and 6th Meetings) to a considerable curtailment of BNOC's powers, although it decided to keep the Corporation in existence. At that time it was still the intention to sell a substantial part of the Corporation: oil field assets. In September (as the Secretary of State's paper says) the Committee agreed (E(79) 7th Meeting) not to sell physical assets, but to a forward sale of oil yielding £500 million (since increased to £600 million). At the same time, the Secretary of State secured agreement that he should bring forward separate proposals for private sector participation in BNOC's production operations.

2. Unfortunately, it has taken him two months to formulate these proposals and discuss them with you. You saw him on 14th November. Until he had your approval, he had been reluctant to talk to BNOC at all. He has thus had less than a week to discuss his proposals with the Corporation, get figures from them, agree them with the other Departments, and circulate a paper. As a result, the paper is late, deficient (the original financial annex had to be withdrawn and recirculated) and in some respects unclear.

3. The proposal, which is not very different from the one you saw last week, is to divide the Corporation in two ('trading' and 'operating' subsidiaries); to retain the 'trading' operation in the public sector so as to give the Government an instrument for influencing the supply of North Sea oil in the United Kingdom; to keep all the existing up-stream assets in the 'operating' company; to dispose of 75 per cent of the shares in 'operating' over the next two years; to hold open the option of a 'British Columbia' style free issue of the second tranche of shares; to remove Government from the management of 'operating'; and to make a number of other changes in the present statutory framework for North Sea operations.

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4. The CPRS paper identifies the three main questions on which they suggest Ministers should focus: ^① the potential cost to the PSBR; ^② the problem of getting the best price; and ^③ the risk that the split will make BNOC's operations harder to defend against the Commission. It ends by recommending that Ministers need more time to consider these proposals.

5. Mr. Howell's timetable, however, is to get a decision in principle now; to consult other colleagues on detail during December and January; to bring a Bill to Legislation Committee early in February; and to introduce it and get a Second Reading before Easter. If this timetable slips much, the option of legislating in the present Session may be lost (because of the congestion at the end of the Session) if indeed it is still realistically available.

6. This would not have mattered, on the original Treasury plans for next year (they assumed that there would be a further £500 million worth of disposals, none from BNOC). But if the public expenditure figures for 1980-81 are to be reopened, as seems likely now, a flotation of shares in BNOC could be a useful supplement. Ministers might prefer to forgo the longer-term benefits of holding on to BNOC (to which the CPRS draw attention) in order to reduce the number of very nasty decisions they would otherwise have to take next year. You will want to weigh up these factors at the end of the meeting.

HANDLING

7. You might say at the beginning that you intend to focus discussion on the three questions raised by the CPRS. You might then ask the Secretary of State for Energy to introduce his paper, and then call for comments from the Chancellor (or Chief Secretary); from the Lord Privy Seal (in the absence of the Foreign Secretary); and from Sir Kenneth Berrill.

8. You might then divide the discussion under the three headings proposed by the CPRS.

- (a) The potential costs to the PSBR. The essential choice is between jam today and jam tomorrow. There are two sorts of jam. First, the proceeds from the sale of the shares where the question is whether realisation price of BNOC at this stage will fully reflect its future

CONFIDENTIAL

earning power (a similar point to that which arose over the sale of BP shares). Second, the cash flow of BNOG which under present arrangements comes to the Exchequer whenever it is surplus to their requirements, whether or not a dividend is declared. There is room for argument about the point at which privatisation affects this latter flow. The technicians would argue that the Company stays in the public sector until its shares are more than 50 per cent in private hands. But even before this point is reached the private participants might well object to BNOG's spare money being provided to the Exchequer. The Committee will not wish to get bogged down in these technicalities. But they will want to be sure just what trade-offs there are between present and future gains to the Exchequer. Annex 1 provides some information but (despite being the second effort) is still far from clear. The comparison between options 1 and 2 in the Annex should be made by comparing line "(a) PES capital expenditure programme" in option 1 with the final line of the table in option 2. (The essential differences between these numbers and those quoted in the first table of option 1 are that they are at "survey" rather than "outturn" prices and that they exclude the tax take which is constant in each case.) It is also worth noting that the apparent lack of proceeds from privatisation in option 3 is a technicality. There are proceeds, but they would be counted as a contribution to financing the PSBR rather than a reduction in the PSBR itself.

- (b) How to get the best price. Mr. Shelbourne's memorandum, at Annex 3, sets out the options in great detail. Although the Treasury has been involved, with the CPRS, the Bank of England has not yet been brought in. There is obviously a lot of detailed work to be done. Essentially, Shelbourne proposes a two-stage operation by two successive underwritten Offers for sale, in successive years. The second could include the 'British Columbia' option, but you have made it very clear to Mr. Howell that you do not favour this course - which is complex,

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bureaucratic and expensive. (Paragraph 16 of his paper suggests that he himself is now less enthusiastic). He also suggests that it could have a wider application than BNOC. You will not want the Committee to chase this hare which could, if necessary, be remitted to E(DL) for further study - though whatever it merits it is too late in the disposals operation to change the way in which e. g. BA or BAe shares are to be sold. Certainly E itself cannot, and should not try to settle issues of this kind at this meeting.

- (c) How to minimise EEC interference. The CPRS worry is that the division of BNOC into two will make the operations of the 'trading' company more transparent and thus more liable to attack. (There is a subsidiary objection too: that the trading company will be a much less viable operation without the profits of the operating end to cushion it against fluctuations). The legal advice is summarised, very opaquely, in Annex 2. The FCO were only consulted yesterday, and have considerable doubts about all this. They already feel that they were not properly consulted about the forward oil sale and the subsequent arrangements with BP, both of which risk running foul of the Treaties; and are anxious not to repeat this mistake.

OTHER ISSUES

9. As the CPRS says, other Ministers may wish to raise other points on these proposals. For example, if the Committee decides to take its profits in the short term, and dispose of part of BNOC, why not sell the lot instead of retaining 25 per cent? Or (as I think the Chief Secretary may propose) why not simply turn the whole BNOC operation into a Companies Act company, and sell 49 per cent of the shares, retaining control? These and other options could be explored in more detail if time allowed. There are also a number of subsidiary changes to the law, listed in Annex 5, which have apparently not been discussed with Departments in any detail.

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10. In the light of this part of the discussion, you may want to take stock, towards the end of the meeting, and decide whether the timetable allows more leisured considerations. If so, the options are:-

- (i) Invite Mr. Howell to go away, discuss the issues with the other Ministers concerned, and report back to the Committee just before or just after Christmas with either an agreed proposal or a properly worked out display of the options.
- (ii) To remit the issues to E(DL); (this will not help much: because calls on the Chancellor's time in the next few weeks are almost as great as those on your own).
- (iii) To agree in principle now on the split of BNOC, on the need for large realisations in 1980-81, and on the need to minimise the EEC complications, and instruct Mr. Howell to devise a scheme which meets these objectives, agreeing the details with Ministers involved, and bring a complete Bill to L as quickly as possible (this is his own preferred course).

11. I doubt there will be sufficient consensus at this meeting to allow of course 3 which gives Mr. Howell almost a free hand. In that case, I think that course 1 is the best, even at the risk of setting back the legislation slightly.

CONCLUSIONS

12. In that event, your conclusion might simply be to invite Mr. Howell, in consultation with the Ministers concerned, to formulate worked out proposals, or options, in the light of the Committee's discussion, and to bring a fresh paper to the Committee just before Christmas. [This means a meeting after your return from the United States on 18th December.]

REA

(Robert Armstrong)

23rd November 1979

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THE PRIVATISATION OF BNOC

Note by the Central Policy Review Staff

~~Lin~~
A rough list
draft.
22/11.

Introduction

1. The Secretary of State for Energy sets out in his paper on this subject four objectives which he wishes to achieve with his proposals for the privatisation of BNOC:

- (a) to ensure maximum security of national oil supplies by the best method available;
- (b) to achieve wider private sector involvement in BNOC's upstream operations, bearing in mind effects on the PSBR (see Annex 1);
- (c) to ensure the continued development of a major British oil company on the UK Continental Shelf, based on BNOC's upstream operations;
- (d) to reduce the public sector

2. The CPRS supports all these objectives. It, however, believes two further objectives are important;

- (a) to produce the maximum reduction in the PSBR. This will facilitate the Government's strategy of cutting taxation;
- (b) to obtain a good bargain for the nation.

Recommendation

3. For the reasons indicated below the Secretary of State's proposals for the privatisation of BNOC would seem to run counter to some of the above objectives and only make a limited contribution to others. Alternative proposals have been put forward which would seem to go considerably further to meeting these objectives. Until these proposals have been properly considered inter-departmentally and the advice of the Secretary of State's Merchant-Bank ^{ADVISER} has been obtained on them the CPRS believes that it would be imprudent for Ministers to take even a decision of principle on the Secretary of State's proposals. Too much money is at stake.

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Meeting the Objectives

4. (a) to ensure maximum security of national oil supplies by the best method available.

The Secretary of State's proposals would seem likely to reduce our existing security of supply arrangements. Recent Department of Energy figures suggest that only % of UK North Sea oil production in 1980 is secure in times of shortage or emergency. ENOC's crude availability accounts for about half of this secure oil. Some of the arrangements it has made to secure this oil are or are likely to be in the future open to attack by the EEC, which is currently questioning a number of facets of our UKCS regime and has successfully attacked one of them. By creating a 50 strong ENOC Trading Company, whose raison d'etre will essentially be to get round the spirit of the Treaty of Rome, if not the letter, the Government would be greatly enhancing the chances of a successful EEC attack on our security of supply arrangements.

- (b) to achieve wider private sector involvement in ENOC's upstream operations, bearing in mind effects on the PSBR

There is a direct conflict between achieving the widest possible spread of ownership and making the maximum reduction in the PSBR. The former can only be achieved by giving away shares to all adults (some 40m) or households (some 20m) along the lines of the recent British Columbia scheme. Given the overriding need to reduce the PSBR the Secretary of State does not now advocate such an approach. His present proposals are unlikely to make a major contribution to wider share-ownership. As his Merchant Bank advisers point out "we do not consider that an offer for sale (as now advocated by the Secretary of State) would achieve anything approaching a wide distribution of Operations Ordinary Shares". It should be noted that the £5⁷⁰~~00~~m ~~plus~~ 1977 BP issue only added 70,000 new British shareholders and 20,000 new US shareholders.

- (c) to ensure the continued development of a major British oil company on the UK Continental Shelf, based on ENOC's upstream operations;

The Secretary of State's proposals will achieve this objective. But so would the alternative proposals referred to below as would preservation of the status quo.

- (d) to reduce the public sector

Again the Secretary of State's proposals would meet this objective. But so would the alternative proposals below.

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(e) Maximum reduction in the PSBR

The figures in Annex I (to be revised) indicate that while the PSBR will benefit substantially in 1980/81 and 1981/82 on the assumption that BNOG shares are sold in those years taking the period 1980/81 to 1984/85 as a whole the PSBR would lose some £ m (or £ m on a NPV basis). BNOG have stated that just as they have successfully concluded deals which will reduce the PSBR by £600m this year (as opposed to the £500m they were asked to produce) so they will be able to produce an extra £200m in 1980/81 and 1981/82.

(f) to obtain a good bargain for the nation

As only a very small percentage of the population (perhaps 100,000 or 200,000) are likely to become longterm holders of BNOG shares it is important that the Exchequer and hence the nation as a whole should derive the maximum financial benefit from the sale of BNOG shares. The disposal of up to 75% of BNOG (Operating)'s share in 1980/81 and 1981/82 is not likely to result in a good bargain for the nation. *While* there is a case for selling 25% of BNOG shares in 1980/81, ~~there is however~~ a very strong case for spreading any subsequent sales over a considerably longer period than proposed by the Secretary of State. *So as to maximize the receipts,* This would give BNOG time to become established in the market and build up a track record. Given the quality of its assets, the fact that (unlike BP) they are all in a secure area and the probable real rise in the price of oil BNOG shares are likely to out-perform the market in the next 5 years - and out-perform BP. Ministers will recall that the Labour Government sold a block of BP shares in 1977 for £570 m which are now worth some £400 m. *more.*

In sum the Secretary of State's proposals could be very costly to the Exchequer while failing to meet some of his other objectives. Before Ministers accept them in principle they should have an opportunity to consider alternative approaches which have not yet been adequately studied:

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- (a) maintain the general framework of the Secretary of State's proposals, but spread the sale of BNOC shares over 4 or 5 years.
- (b) place some of BNOC's assets (eg x% of Ninian, y% of Dunlin and z% of Stratfjord) in a BNOC First Investment Trust and sell the shares of that Trust in 1980/81. Repeat the operation with BNOC Second Investment Trust in say 1982/83 and so on.
- (c) sell 49% of the voting shares in BNOC over a period of time as advocated by the BNOC Board as well as perhaps issuing oil production stock units (Ops). This would give majority private participation in BNOC, but not majority control
- [(d) Morton's Royalty Scheme]

As a result of the fact that the BNOC Board only had an opportunity^{put} to some of these proposals forward on 20 November it has not been possible to consider these latter proposals or the Board's view referred to in paragraph of E (79) that BNOC (Trading) would not be a viable Company from a management point of view.

New issue statistics

Set out below is a summary of the effects on the share register in the case of two large public issues.

<u>I.M.I.</u> (£68m)	<u>000's</u>
Number of shareholders at December 1976	12
Number of new allottees arising from ICI offer for sale in November 1977	71
	—
	83
Number of shareholders at February 1978 (earliest balancing date after offer)	76
	—
Net fall during December-February after offer (10%)	7
	==
<u>B.P.</u> (£564m)	
Issue in June 1977	
Number of shareholders before issue	100
Number of allottees	200
	—
	300
Number of shareholders on first balance of register after issue	170
	—
Net fall after issue (65%)	130
	==

NB: Multiple applications were not rejected.

The British National Oil Corporation

Stornoway House Cleveland Row St James's London SW1A 1DH 01-839 7080 Telex: 919474

21st November, 1979

C.E. Henderson Esq.
Department of Energy
Thames House South
Millbank
London SW1

*Copy: Sir H. Baird
M. Handley -
JK
24/11*

Dear Charles,

Further to your provisional discussions with Stephen Palmer I now enclose a management view of our cash flow and profits to 1984/85. You will see that we have reduced our capital expenditure forecast for 1980/81 to what we estimate will go on the projects to which we are or are nearly committed - no unspecified investment! A more modest contingency re-emerges in 1981/82 (£30 million) rising to £180 million (50% of the estimate) in 1984/85 and so on.

On this basis we forecast, before dividends and Britoil repayment, but after payment of tax (which anyone would pay) cash generation to reduce the PSBR of £1.85 billion in the next five years, starting from a positive £170 million inflow next year. All this is excluding the forward sale proceeds.

We see a positive cash flow continuing above £500 million per annum into 1985/86 at about the same level - but somewhere about 1986 we expect to start paying corporation tax and our net of tax contribution to the PSBR will drop in 1986/7 to something around £250-300 million, we estimate.

You are aware that these forecasts assume 2% real price increase per annum for oil and \$2.10 to the pound throughout. If the price rises faster or the pound sinks, BNOC's cash flow increases.

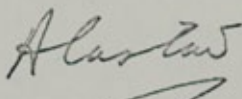
Turning to the P & L, one must provide for PRT and CT according to accepted standards and one can only pay dividends less than the resulting profit after tax. Thus, starting March/April 1981, one might distribute (from the attached) £800 million by April 1985 on a 100% basis. In practice, consider the following:

<u>£ million</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
Contribution to reduce PSBR	170	440	405	340	505
less dividend to 50% private shareholders say	-	(20)	(45)	(70)	(100)
Net to PSBR with BNOC inside	170	420	360	270	405

<u>or</u> £ million	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
Dividend to 35% state shareholder (BNOC outside) proceeds of sale of 65% (say 25,25,15)	-	14	30	48	70
	375	450	300	-	-
Net to PSBR with BNOC outside	375	465	330	50	70

As you will see, the net benefit over three years of selling BNOC out of the PSBR is £220 million (virtually all in 1980/81) after which the net harm to the PSBR in the following three years will be £900 million and continuing. I can assure you we will bring in £200 million next year to fill in that hole in 1980/81 if Mr. Howell so wishes.

Yours sincerely,


R.A. Morton

cc. Mr. J. Guinness - CPRO
Mr. N. Wicks - Treasury

SOURCE AND APPLICATION OF FUNDS

(E-m Outturn)

	1980/81	1981/82	1982/83	1983/84	198
588	1004	1244	1462	17	
(56)	(103)	(130)	(153)	(1)	
(50)	(88)	(116)	(157)	(1)	
(35)	(27)	(23)	(17)	(
7	8	7	8	(
(9)	(10)	(11)	(12)	(
445	784	971	1131	13	
6	34	20	18		
-	-	194	427		
439	750	757	686	8	
270	310	350	350	3	
170	440	405	340	5	
calendar	1980	1981	1982	1983	1984
	250	270	295	220	170

SOURCE OF FUNDS

Equity Sales
 Royalties
 Operating Costs
 Financing Costs
 Margin on non-equity Trading
 General & Admin Expenses

Inflow from OperationsAPPLICATION OF FUNDS

Working Capital Increase
 PRT Payments

Funds Available

* Capital Expenditure (rounded)

** NET FUNDS GENERATED (rounded)

*BNOC Management estimate 20/11/79 incorporating expenditure on known projects

**No allowance made for possible dividends, ACT or Britoil payments

PROVISIONAL PROFIT AND LOSS ACCOUNT

£-million (outturn)

	1980/81	1981/82	1982/83	1983/84	1984/85
Profit Before Tax	320	570	740	925	1020
Deferred PRT	(200)	(310)	(370)	(430)	(470)
Deferred CT	(70)	(150)	(200)	(290)	(380)
Profit after Tax	50	110	170	205	280

* Excludes dividends and ACT

* Calculation of PRT provision is still provisional

* Basis assumes a fiscal year; in practice any dividends would be paid out of calendar year year profits

NDS:jh

20 November 1979

The British National Oil Corporation

Stornoway House Cleveland Row St James's London SW1A 1DH 01-839 7080 Telex: 919474

22nd November, 1979

C.E. Henderson Esq.
Department of Energy
Thames House South
Millbank
London SW1

Dear Charles,

Overnight I have reviewed my letter of the 21st about our forward cash estimates and the PSBR. It seems to me I should elaborate on the last sentence to ensure there are no misapprehensions.

We have in mind, if asked to raise about £200 million in 1980/81, that BNOC would create a "royalty-type" interest in its revenues and then sell that to the public. BNOC itself or the prospective "BNOC Upstream Ltd." (U Ltd) would contract with a new, 100% Government-owned company "Royalties Ltd" (R Ltd) to pay, say, 2½% of BNOC's sales revenues net of Government royalty to R Ltd - i.e.

<u>U Ltd.pays R Ltd.</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
£ million	13.3	22.5	27.7	32.7	39.0


R. Ltd. will pay Corporation Tax from the beginning (whereas U Ltd. will not pay until 1986) - a small benefit to HMG. More important R Ltd. can be capitalised at a multiple of after-tax earnings and the 100% ownership of R Ltd. sold to the public - qualifying the sales proceeds as a reduction of PSBR. We have reason to believe the above income stream net of tax would fetch £200 million. It is an exercise that could be repeated.

Of course, having negotiated the £600 million forward sales for 1979/80, with repeat in 1980/81, we could top it up by a third in 1980/81 if that is a preferred route.

Yours sincerely,

R.A. Morton

cc. Mr. J. Guinness, CPRO
Mr. N. Thornton, Treasury



*With the compliments of
the Attorney-General*

*Attorney General's Chambers,
Law Officers' Department,
Royal Courts of Justice,
Strand. W.C.2A 2LL*

01 405 7641 Extn. 3201

- CONFIDENTIAL -



ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn 3201

The Rt Hon David Howell MP
Secretary of State for Energy
Thames House South
Millbank SW1

7 December 1979

12
11/2

Dear David,

BNOG: FUTURE STRUCTURE AND PRIVATE SECTOR PARTICIPATION

I refer to Ian Gilmour's letter to you of 3 December. In the second paragraph of his letter Ian asks two questions of a legal character on this subject.

Both questions are concerned with "participation" but this is an imprecise concept and the arrangements entered into between BNOG and different licensees have as you know varied from case to case. Most of them have included "sale back" facilities, and it is on arrangements of this character that most legal advice has so far concentrated. They have been seen as creating a risk of contravention of the Articles prohibiting constraints on exports (Articles 34 et seq.) and the Articles prohibiting constraints on competition (Articles 85 and 86). I think it would be true to say that Ian Gilmour's words "liable to successful challenge" are apt to cover this particular concept of participation, so that my answer to his question (i) would therefore be a qualified "yes". It was thought that on balance the risk of successful challenge was greater in relation to Articles 85 and 86 than in relation to Article 34.

However, as I understand it, the arrangements between the proposed operating company and the trading body are not to take this extended form but will be limited to a simple option, with no sale back provisions or similar conditions. This arrangement does not seem to me to add to the degree of risk under Article 34 (since no new factor affecting exports would be introduced) or under Article 86 (since no greater share of the market would be involved).

But the conclusion of an agreement between the operating company and the trading body would obviously be a new element. This could attract Article 85 and to that extent some additional risk would be involved. However, I would assess the degree of risk on this count as being much less than that in the case of the wider type of participation agreements (with ~~sale~~ sale back) described above. So my answer to Ian Gilmour's (ii)(a), while also "yes", should be taken as being qualified by these remarks,

/and

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01-405 7641 Extn 3201

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

- 2 -

and the suggestion made in paragraph 4 of Annex 2 to your recent paper to E Committee would also help to some extent, although it would be unwise to assume that it could provide a complete solution.

This letter is copied to the Prime Minister and members of E Committee, to Sir Kenneth Berrill and Sir Robert Armstrong.

Yours ever,
Michael

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11 DEC 1979

6 11 21
5 10 22
4 9 23
3 8 24
2 7 25
1 6 26



Energy

NBOM yet

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
02 211 6402

de h. Watson

R
G.

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury,
London
SW1

6 December 1979

Dear Sir

BNOG: RESTRUCTURING

It was noted at E Committee 15th meeting that the calculations of the impact on the PSBR of disposing of a majority stake in BNOG's upstream operations were complicated by taxation effects. I think you have been briefed about the problem, but in essence it seems that under the existing PRT legislation the new BNOG subsidiary company whose shares were to be issued to the public would not be able to enjoy the full PRT reliefs which would apply if BNOG was retained in its present form. This would have the effect of increasing the new company's tax charge and depressing its valuation and hence the proceeds of privatisation. The figures circulated in Annex 1 to my paper did not take account of this.

As I understand it the Corporation Tax legislation expressly provides for the carrying over of full C.T. reliefs in the case of bona fide reconstructions; and similar provisions were not included in the PRT legislation simply due to shortage of drafting time. I also understand that the United Kingdom Oil Industry Taxation Committee has asked for this anomaly to be rectified, and that the loss of tax revenue from making such a change would, BNOG apart, be negligible.

There would thus seem to be a case on general grounds for making the necessary changes although I gather that due to the likely length of the necessary provisions, it would be preferable to postpone taking action at least until the 1981 Finance Bill.

However I suggest that the BNOG situation puts a new light on this. If no remedial action is taken in the 1980 Bill, then restructuring of BNOG will, as noted earlier, leave the privatised company without a substantial part of its PRT reliefs. An estimate of the net effect on the company's tax charge is set out in the attached table. This will depress the proceeds of



- 2 -

privatisation; a rough calculation suggests these could be of the order of £225m. lower if 75% of the company were sold. But the effect could well in practice be much more damaging than that since investors would be confronted with an organisation apparently subject to exceptionally penal tax provisions. And there could be conflicts towards the end of each field's life when BNOC with its unsafeguarded tax position could judge continuing production to be uneconomic well before its partners (with the benefit of the safeguard).

In my view while it is important we should have in mind the possible PSBR impact of making the change, the consideration which should be uppermost in our minds is whether this is indeed an anomaly that should be rectified. Prima facie there seems a strong case for making the change. If we do make it then in my view it would make no sense to take the rectifying action after BNOC had been restructured. I understand that it has been found necessary to make specific provisions to ensure that the successor companies to British Airways and British Aerospace are put in the same position with regard to Corporation Tax as the present corporations are now in. This seems to support the case for taking similar measures with respect to PRT in the case of BNOC. I would therefore strongly urge that we do plan to make the change in the 1980 Finance Bill. I hope you agree.

I am copying this letter to the Prime Minister and to members of E Committee.

D A R HOWELL

Jan a
Dair

BNOC : RESTRUCTURING : PRT IMPACT

Under the existing legislation, if BNOC transfer its upstream assets to a subsidiary company it will lose important PRT allowances which in the worst case would increase the PRT charges compared with its expected liability under the existing structure as follows:-

<u>1980/1</u>	<u>81/2</u>	<u>82/3</u>	<u>83/4</u>	<u>84/5</u>	<u>85/6</u>	<u>86/7</u>	<u>87/8</u>	<u>88/9</u>	<u>89/90</u>	<u>90/91</u>
120	240	160	130	10	40	55	42	35	41	89

There would be a corresponding but lesser reduction in corporation tax which we estimate as:-

0	0	0	-180	-170	-10	-19	-28	-22	-11	-14
---	---	---	------	------	-----	-----	-----	-----	-----	-----

Giving a net increase in taxes of:-

120	240	160	-50	-160	30	36	14	13	30	75
-----	-----	-----	-----	------	----	----	----	----	----	----

These calculations are based on BNOC's stakes in 9 known fields which are either under development or near to a development decision. The figures in the second half of the eighties are particularly uncertain since other developments at present not foreseen may occur. The extra PRT charges through the '90s are likely to be higher than those shown in the late '80s as the safeguard begins to bite.

The figures in Annex 1 to the Secretary of State's paper to E Committee did not allow for these higher PRT charges. If the legislation is left as it stands the valuation of BNOC (Operating)'s assets shown in the paper (£1500m. at 1 January 1980) would be reduced by some £300m; the proceeds of 75% privatisation would thus be some £225m. less.



-6 DEC 1979

Energy

Foreign and Commonwealth Office

London SW1A 2AH

4 December 1979

*Dear Private Secretary,**12
4/12*

I regret that there was a typographical error in the letter which the Lord Privy Seal sent to Mr Howell yesterday. Part (ii) of the second paragraph (bottom of page 1) should be amended to read as follows:

'(ii) would the proposed splitting of BNOG into an operating and trading company make a legal challenge (a) more or less likely to succeed and (b) more probable.'

I am sending copies of this letter to the Private Secretaries of recipients of the original letter.

*Yours sincerely,
Miles A. Wickstead*

M A Wickstead
Assistant Private Secretary to
the Lord Privy Seal

PS/Secretary of State for Energy
Thames House South
Millbank SW1



Prime Minister *cc Mr Duguid*

cc Mr Wolff

26
3/12

Foreign and Commonwealth Office
London SW1

3 December 1979

Mr David,

BNOG: FUTURE STRUCTURE AND PRIVATE SECTOR PARTICIPATION

I see from the minutes of the meeting of E Committee on 26 November that you will be having further discussions with the Ministers concerned and will report again to the Committee during December. I understand that there will first be a meeting of officials, at which the FCO will be represented. I am particularly concerned that the arrangements proposed may provoke a legal challenge which would endanger our security of supply, and it may be helpful if I summarise the argument as I see it.

As far as the EEC is concerned, two separate questions can be identified:-

(i) are the arrangements by which BNOG enjoys access to participation oil and contributes to United Kingdom security of supply liable to a successful challenge on the grounds that they are contrary to the EEC Treaty?

(ii) a) would the proposed splitting of BNOG into an operating and trading company make a legal challenger more probable:

and b) would this challenge be more or less likely to succeed?

The first question and part a) of the second are legal ones on which Michael Havers will wish to advise before we reach a decision. Unless we are satisfied that the answer to the first question is no,

The Rt Hon David Howell MP
Secretary of State for Energy
Thames House South
Millbank SW1

or that the split of the company into two will make a challenge substantially less likely to succeed, we shall have to consider very carefully our answer to part b) of the second question, which is a political one.

My own answer to it would be yes. Such a substantial change in the structure of BNOC would be likely to attract publicity. Our proposals would probably be attacked by the Opposition on the grounds that we were giving up control of an important national asset; and you might wish to emphasise in reply that the trading company remained wholly government-owned and that it would retain a substantial shareholding in the operating company. Such exchanges would serve to draw attention to the status and functions of the trading company, which might be represented abroad as having no purpose other than to frustrate the operation of a free community market in oil. Even if there were no pressure from EEC member governments to enquire into the new arrangements, there is a possibility that the Commission would take action either on its own initiative or because of a question in the European Parliament.

In short, I think there is a significant risk that the proposed re-structuring would result in a legal challenge which would not otherwise be made; and in one which might well succeed, with serious implications for the arrangements we make to ensure security of supply. We rely at present not so much on the strength of our legal position as on the willingness of our partners and of the Commission to let sleeping dogs lie. We should not therefore make changes unless the balance of advantage is very clear. I recognise that the maintenance of BNOC as a single company with a minority private shareholding would not benefit the PSBR, though it would raise revenue. But it would expose us less to a Community challenge, and the pros and cons should be carefully weighed.

Finally, on a related point, I would welcome an opportunity to discuss with you to what extent it may be desirable and possible to exercise the powers of control which we have over BNOC. As you know,

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foreigners tend to hold us responsible for the pricing and disposal policies of the company, and they do not regard as satisfactory an answer to the effect that these are matters for the commercial judgment of the company. We should perhaps give further thought to this aspect of the matter before taking decisions on the future structure of BNOG.

I am sending copies of this letter to the Prime Minister and members of E, the Attorney General, and to Sir Kenneth Berrill and Sir Robert Armstrong.

gus *er*
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Energy 2



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

*cc Mr Hodgson
Mr Walker.*

PRIME MINISTER

[Handwritten signature]

BNOG

Prime Minister

This came in too late for this morning's meeting. These points can be taken up bilaterally at official level.

David Howell sent me a copy of his minute to you of 8th November in which he outlined his thinking on the future of BNOG.

*TL
14/4*

2. First, can I say in answer to the point in the last paragraph of his covering minute, that we in the Treasury will give him every co-operation in carrying through and presenting to the public in the most effective way whatever plans we agree for the future of BNOG. Indeed, Treasury officials are already participating in the groups which David Howell has established to consider various aspects of his proposal.

3. I want to make only one comment on the ideas in his paper at this stage. One of the reasons why we agreed in September not to pursue the sale of BNOG assets in this financial year was that we were persuaded that asset disposal would not represent a good bargain for the Exchequer. Indeed, David Howell pointed out in his paper (E(79)36) that BNOG had emphasised to him that it regarded any disposal as a bad business decision, as it did not expect to realise values reflecting the very large cash inflows which would accrue to those assets in future years. He also presented figures to demonstrate that the valuation of certain of BNOG's fields was lower than the loss of cash flow from those fields in the PES period if those fields were sold.



4. The figures in the annex to David Howell's draft paper setting out the PSBR consequences of various privatisation options, show a rather different picture with the possibility of substantial receipts in the short term which are not counter-balanced at least over the next 3 or 4 years by revenue foregone by the public sector (because the Exchequer no longer has the benefits of all BNOC's profits). These figures therefore suggest that the benefits to the Exchequer of introducing private sector participation into BNOC are greater than through the disposal of assets. This may indeed be the case, but before endorsing such a conclusion, I have asked my officials to discuss with the Department of Energy the precise basis of the estimates in Annex 1 of David Howell's paper. Meanwhile, I want to reserve judgement on the advantages to the PSBR of the course proposed in his paper.

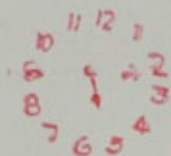
5. I am sending a copy of this minute to David Howell.

A handwritten signature in black ink, appearing to be "G.H.".

(G.H.)

14 November, 1979

14 NOV 1979





File cc HM7
CPRS
CO
Energy
RE HOWELL
RE HOWELL

10 DOWNING STREET

From the Private Secretary

14 November 1979

Dear Sir,

BNOC

Your Secretary of State called on the Prime Minister this morning to discuss the future of BNOC. Sir Robert Armstrong and Sir Kenneth Berrill were also present. They had before them Mr. Howell's minute of 8 November.

Mr. Howell said that he would be grateful for the Prime Minister's reactions to his proposals on future structure and private sector participation in BNOC, as set out in the draft paper accompanying his minute. He also sought a steer on the question of how the widest possible ownership of shares in the proposed BNOC operating company might be achieved. On the latter, he felt there were major political arguments in favour of a free distribution of shares on the lines of the British Columbia precedent. The idea would be to give every elector in the country an equity stake in North Sea oil. This would be politically attractive, and help to encourage share ownership generally. A scheme of this kind would not be without its difficulties: for example, there would be the administrative costs of issuing shares on such a vast scale. Some people might not understand what they were getting, and means would have to be found to ensure that people who were on more than one electoral role did not receive shares twice over. But given the will, he was reasonably confident that such problems could be overcome. A scheme of free distribution would not of course help to reduce the PSBR; but it could be combined with a sale of one-third of the shares, with the Government retaining perhaps a stake of 25 per cent. In this way, the privatisation of BNOC would make a considerable contribution to getting the PSBR down and to spreading share ownership in the UK in a really radical manner.

The Prime Minister said that she was generally content with the proposed structure for BNOC. But she had serious doubts about Mr. Howell's proposals on privatisation. She did not think that the free distribution idea would be politically attractive. Too many people, if simply given shares in the North Sea, would not appreciate them. The small size of each shareholding - apparently £12 per head on Mr. Howell's proposals - was unlikely to act as a major encouragement to share ownership generally. The difficulties mentioned by Mr. Howell seemed to her to be very serious and, furthermore, the Government would need all the revenue it could obtain in the next three years if the size of the PSBR was not to be unmanageable.

/The Prime Minister

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The Prime Minister went on to say that her preference would be to sell two-thirds of the shares in the operating company; to spread the sale over a three year period in order to avoid the risk of selling all at once at an unjustifiably low price, and because the Government would need help with the PSBR not just in 1980/81; and to give preference to small applications so as to maximise the spread of the sale amongst potential shareholders.

Mr. Howell said that he was disappointed that the Prime Minister had not been able to go along with his proposals on wider ownership. But he took note of her views and would bring forward proposals to colleagues accordingly. Two points would need to be considered further. First, there was the question of whether the operating company would continue to count as part of the public sector if private shareholders were not to have a majority position until the third year. Although the figures would need to be looked at carefully, it seemed that from the point of view of the PSBR, it would be better if the company could be taken out of the public sector as soon as possible. Second, his Department would need to take advice on whether it was possible to announce a sale over three years in three equal instalments.

I am sending a copy of this letter to Tony Battishill (HM Treasury), Gerry Spence (Central Policy Review Staff) and Martin Vile (Cabinet Office).

Rev. Mr.

Tim Lambert.

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

CONFIDENTIAL

Qa 04342

To: MR LANKESTER ✓
From: SIR KENNETH BERRILL

Ron Austin

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13/1

*(Ken Bink and Robert
Armstrong will be joining
the meeting).*

The Future of BNOC

1. You sent me a copy of Mr Howell's minute of 8 November to the Prime Minister and his attached draft E paper. You asked for my comments. I attach a copy of a 9 November letter of my own to Mr Howell (copied to the Chancellor) which was sent before I received his minute and attached paper. You will see some of the doubts which we in the CPRS have about his proposals.

The Future Role of BNOC

2. Quite rightly, in my opinion, Mr Howell takes security of oil supply to the United Kingdom as a major (perhaps the major) objective in deciding the future of BNOC. Every oil producing country finds a national oil company essential for its own national interests and we are no exception.

3. On the UK Continental Shelf we need BNOC primarily to channel North Sea production to meet the needs of the UK refineries in the first instance and into the refineries of our EEC partners provided there is enough to spare. Elsewhere in the world we may need a BNOC to establish our claims in, say, Antarctica or, more likely, to do deals with other Governments or national oil companies. OPEC producers are trying to lessen their historic dependence on selling to the 'big majors' and are dealing more and more with small companies and other nationals.

4. Mr Howell's preferred proposals for the future of BNOC recognise all this in that -

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(i) he is providing for BNOG (Trading) to have a lien on 100 per cent of the output of BNOG (Production);

(ii) he is proposing no bar on either BNOG (Trading) or BNOG (Production) operating anywhere in the world - though BNOG (Trading) would need the Secretary of State's permission to extend its activities.

This seems to me right though BP and Shell might want to argue differently.

5. BP in particular have been worried about BNOG taking on a world-wide role and becoming the UK 'chosen instrument' (as against BP) in parts of the world in which they might be in competition.

6. BP's fears that Mr Howell might propose an 'umbrella' company with a common Board over both BNOG trading and BNOG operations which could lead to a future Kearton having grand designs to make another world 'major' will be assuaged in that there is no proposal for an umbrella Board. The worldwide competence which is proposed for the two new BNOG companies could worry them, although BP might see advantage in BNOG doing trading deals with OPEC countries which would no longer sell to BP and letting BP supplies benefit indirectly.

7. As indicated above, I personally think Mr Howell is right and HMG needs to allow for the possibility of such worldwide competence even though we cannot foresee at the moment just where we would like to operate.

Sales of parts of BNOG

8. I expect that Mr Howell will wish primarily to take the Prime Minister's mind on two issues: (a) how to introduce the widest possible private shareholding in BNOG's exploration and production activities; and (b) what proportion of these activities should be sold and when?

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Wider Public Ownership

9. Mr Howell gives very little detail in his E paper on how he proposes to make a sale of BNOC (Operating) shares an occasion for a great leap forward in share ownership in the United Kingdom. In part this is, I believe, because he does not want Treasury Ministers to start sniping at detailed proposals before he has discovered whether he has the Prime Minister's support in principle.

10. In my letter to Mr Howell I said that a normal sale of shares (a la BP) means only a small increase in the number of citizens who own a share for the first time in their lives. A British Columbia type 'give-away' to all adult citizens is a major leap forward and a BNOC share certificate for, say, £20 for all may be better than 1p. (or $1\frac{1}{2}p.$) off the standard rate of income tax.

11. But if Mr Howell is thinking not of £20 for all but widening ownership by selling say 25 per cent of BNOC on extremely favourable terms to selected persons then (i) the increase in share ownership is very much smaller; and (ii) how do you justify 'giving away' part of the nation's heritage to a minority.

Sale of BNOC shares

12. On this I have little to add to my letter to Mr Howell. As you can see we in the CPRS consider that his proposals do not constitute a good bargain for the nation and we have put forward an alternative approach for progressive privatisation to yield better returns to the Exchequer. I would hope that Mr Howell would encompass such alternative approaches in his E paper.

Procedure

13. The Prime Minister will have her own views on how much encouragement she will wish to give to Mr Howell on democratic shareholding and 'give-away' programmes involving BNOC shares. It is obviously difficult to comment until Mr Howell says just what he has in mind.

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14. But before Mr Howell puts a paper to E he might be encouraged to -

X 1

- (a) clarify his proposal on wider share ownership;
- (b) try to clear his lines with the Chancellor, to whom he copied his minute;
- (c) consult the FCO (and perhaps the Law Officers) about the EEC implications of his proposals. Will they make our security of supply arrangements markedly more vulnerable to EEC attack?
- (d) consult BNOC itself - so far Mr Howell has only had an informal discussion with the new Chairman. Proper consultations are essential if only to produce reasonably accurate figures for the PSBR effects of the various options;
- (e) consult BP (and possibly Shell) on BNOC's world role.

15. I am sending a copy of this minute to Sir Robert Armstrong.

Other questions - i) would it be possible to phase the sale of shares over 2-3 years in order to maximise the proceeds?
ii) Does it ^{KB} make sense to have control over BNOC production/exploration? Privatisation will probably mean faster depletion.

12 November 1979

On x. I understand that the Chancellor was rather keen on the Sam Brittain idea - i.e. hand out shares to everyone in the country. But this of course would not help the PSBR, and he may therefore have second thoughts against the gloomy PSBR prospect.

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13/11

CONFIDENTIAL



Foreign and Commonwealth Office
London SW1

12 November 1979

David

1. Mr Alexander
2. C.F.
R
M/11

BP/BNOC NEGOTIATIONS

I was glad to see from your minute of 5 November to the Prime Minister that the negotiations between BP and BNOC have made good progress, and that the two companies have now agreed the principles of new trading arrangements between them. I note also, however, that it is intended that BNOC will in certain circumstances have the right to terminate part of its commitment to BP Trading in the interests of national security of supply; that HMG will to some extent be a party to any such decision; and that you recognise that the arrangement involves potential EEC risks. Finally, I understand that the Department of Energy official who was present at the negotiations between the companies formally reserved the position of Ministers.

I assume that we shall now be asked to give our formal blessing to the arrangements between the two companies and, in particular, to the degree of governmental involvement which is envisaged. I think that it would be sensible for us to consider at the same time precisely what EEC risks may be involved; what weight we should accord to them, and what steps we might take to minimise or avoid them. We also need to consider our position in the IEA. Unless you feel that these questions might best be looked at again by officials, I should welcome it if you would prepare a paper which could form the basis of a discussion at a forthcoming meeting of OD(E). I assume that the

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy

CONFIDENTIAL

companies will want to get on with their detailed drafting as soon as possible, so we should perhaps aim for an early meeting.

I am sending copies of this letter to our colleagues on OD(E), to Sir Robert Armstrong and to the Private Secretary at No 10.

yes ✓

lan.

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U.S. AIR FORCE
HEADQUARTERS
WASHINGTON, D.C.



D.

CABINET OFFICE

Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: Sir Kenneth Berrill KCB

Qa 04339

9 November 1979

COMMERCIAL - IN CONFIDENCE

Dear Secretary of State

The Privatisation of BNO

The purpose of this letter is to raise with you one or two basic issues on the privatisation of BNO. As I understand it, present thinking comprises -

- (i) the division of BNO's activities into two companies (a trading company and an operating company);
- (ii) the new operating company to own all the upstream production rights of BNO in the North Sea; and
- (iii) the sale to the public of some 75 per cent of the shares in this operating company as soon as possible, probably all in the course of the next financial year.

This is certainly one way of proceeding which Ministers will want to consider but, as you will see from this letter, we in the CPRS have doubts about this approach.

As we see it the decision on the amount of BNO's assets which it would be best to sell and the timing of any such sale should be largely determined by the need to obtain the best results for the nation as a whole over the next few years.

as possible
If the prime objective is to give as wide a section of the British public an individual 'stake' in the North Sea, then the operation might have to take on more the form of giving assets away rather than selling them. I believe that the last sale of BP shares created a net addition to the list of their British shareholders of 70,000 names (plus 20,000 in the United States). Even if the BNO sale were twice this size it would not lead to a very big increase in the number of UK citizens who hold shares for the first time. A really major impact would require some

The Rt Hon David Howell MP
Department of Energy
Thames House South
SW 1

COMMERCIAL - IN CONFIDENCE

version of the British Columbia scheme for giving rather than selling shares to every household (every British Columbian citizen received a gift of shares worth about £15). As there are some 40m. adult UK citizens each of them might get a BNOG share certificate worth, say, £20.

Whether a BNOG share certificate for £20 under the mattress is a more effective way of creating incentives than a reduction in the standard rate of income tax by, say, 1p., is obviously a political judgement of some difficulty and importance. But assuming that the 'best bargain' for the nation is in terms of selling the shares rather than giving away share certificates, the main objective is to sell the shares at the best price and with the minimum adverse effect on the PSBR in subsequent years.

When Ministers in E Committee discussed the sale of BNOG North Sea assets and the sale of BP stock, it was clear that they were unhappy at selling public sector holdings which seemed to have such excellent chance of capital appreciation and that they were delighted when forward sales of North Sea oil greatly reduced this requirement. We in the CPRS fully sympathise with this desire to minimise the sale of hydrocarbon assets which are much more likely to appreciate in price over the years immediately ahead than, say, British Airways or British Aerospace. It is now barely 30 months since the last tranche of the Government's BP stock was sold and over that time the price of the shares has risen by some 70 per cent (over £400m.) while the FT Indices have fallen by some 10 per cent. This despite the very heavy knocks which BP has taken in Iran and Nigeria. I would expect the same sort of thing to happen to the market value of hydrocarbon assets in the years ahead. Indeed, BNOG shares which currently have no market track record, could well out-perform BP, given BP's continued involvement in 'dangerous' areas such as Kuwait while BNOG oil is all 'safe' in the North Sea.

In sum then, the prospects for capital appreciation argue strongly against maximising sales of North Sea oil assets in the next financial year. But capital values apart, the likely income from the assets also seems to point in the same direction.

The point here is that in the years immediately ahead BNOG is likely to have a positive cash flow. In PSBR terms, therefore, it is, like British Gas, an advantage, not a disadvantage, to have it counted as part of the public rather than the private sector. When more than 51 per cent of the BNOG operating company's shares are sold this advantage is lost (we still await authoritative figures from BNOG on how great that loss would be).

COMMERCIAL - IN CONFIDENCE

There is a further PRT point which is of importance. The Government will benefit from PRT payments regardless of the degree of privatisation of BNOc. But we must accept that PRT is a far from perfect method of obtaining for the Exchequer the very large windfall profits made in the North Sea. The PRT receipts from a private sector company are likely to be lower and the scale of any loss would rise steeply with the rise in the price of oil.

In the CPRS view then there are strong arguments of capital appreciation and income losses (PSBR and PRT) for going slowly on the sale of BNOc assets in the years immediately ahead.

Against this background, we would also like to float the idea of selling off tranches of BNOc assets over the years to come on a rather different basis. Sales decided upon for next year would consist of stock in a 'BNOc First Assets Trust' which would own say, x% of its Ninian holding; y% of Dunlin, and z% of Stratfjord. This would be a private sector company: BNOc would not have a majority on the Board but would have a contract to act as the operator of the company for at least an initial period. Time should be given for these shares to be fully established in the market, say two or three years. A BNOc Second Assets Trust could then be launched on the basis of the price performance of the First Trust.

As we see it, such an approach would be likely to give both a much better capital return to the Exchequer over the years to come and allow considerable flexibility in the size and composition (by fields) of different Trusts. It would also allow the positive cash flow of BNOc to help the PSBR and stop PRT avoidance. It would, too, allow flexibility in BNOc's operations for exploration purposes which may be in the national interest but difficult to justify on entirely commercial criteria (e.g. to secure our sovereignty for disputed parts of the UK/Continental Shelf and Antarctica). Such operations and fields would not be included in assets to be sold until, if and when, they do strike oil in commercial quantities.

I am sending a copy of this letter to the Chancellor of the Exchequer and Sir Robert Armstrong.

Jan Smiley

Kenneth Berrill

~~KENNETH BERRILL~~

113 NOV 1979

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*by Mr. Haskyans
with [unclear]*

Prime Minister 2

Mr. Haskyans is coming
to discuss this with
you on Wednesday.
I will ask Ken Bennet,
who is joining the meeting,
for comments. 2

PRIME MINISTER

BNOC

I shall shortly be bringing forward to colleagues my proposals for the future of BNOC. But in the meantime it may be helpful to you to have an outline of my thinking. 9/11

The key issues are:

- i) to separate out the BNOC's existing activities between its trading operations (which we have already decided to retain) and its North Sea production operations and to settle the framework within which this should be done;
- ii) to enable the general public to achieve a wide interest in these North Sea assets as well as providing support for the PSBR.

On the first issue I attach at Annex A, a provisional draft of a paper to colleagues. The central feature is the retention of 100% control of BNOC's trading activities and the separation off of the upstream operation as a largely free-standing commercial enterprise in which Government would retain at least 25% of the equity.

On the second issue, I strongly believe that we have a major opportunity here not merely to raise substantial sums to help the PSBR but also to carry forward significantly the course of popular capitalism.

There are various ways in which this might be done and these are being considered with merchant banking advice. But the essential and immediate point is whether we as a Government are determined in principle to achieve this. I hope I can persuade you of the valuable long-term political impact on our society which a policy of this kind could have. It does not, of course, go as far as the North Sea equity idea floated by Samuel Brittan (copy attached) but it certainly carries us a long way forward in that direction.

← Finally, alongside decisions on the future structure of the Corporation I need to strengthen the Board and adapt it to its future role. Utiger has now taken over as Chairman, and I should like to add a full-time Deputy Chairman before long in addition to the part-time Deputy Chairman Lord Croham. For this post I have in mind David Montagu, with a view to his taking over from Utiger next summer. I also have in mind to appoint a full-time member with executive responsibility for the offshore operations, and would like Matt Linning (formerly in charge of BP's Forties Field development) to take this on. I would like to strengthen the part-time membership, in the first place by adding Alcan Copisarow (formerly of McKinsey's); to reappoint Ian Clark as a full-time member for a normal term, and possibly to make one other Board appointment from the Corporation's present executive management.

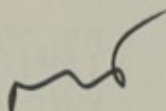
I shall aim to secure the Board's help, and particularly their technical help, in working out the proposals for the Corporation's future, and I am keeping in close touch with Utiger for this purpose.

Generally I should add that the preparation of the necessary legislation to give effect to our plans is a matter of urgency. It will be a complicated and difficult exercise and we need to settle the framework as soon as possible.

I am copying to the Chancellor of the Exchequer. Officials of Treasury and of CPRS have joined in discussions with mine about the proposals in Annex A but it is not an agreed paper, and as I have said there are aspects which I am considering further before consulting colleagues. Should you feel that we are on the right lines on the wider-ownership aspect then I would also value Cabinet Office and Treasury co-operation in carrying through and presenting our plans to the public in the most effective way.

SECRETARY OF STATE
8 NOVEMBER 1979

JA.
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1-8 NOV 1979



BNOC : FUTURE STRUCTURE AND PRIVATE SECTOR PARTICIPATION

1. Colleagues agreed at E Committee on 11 September, that following the decision not to proceed for the time being with BNOC asset disposals, I would bring forward proposals for private sector participation in BNOC's upstream operations.

2. This paper sets out the broad approach which I propose to adopt towards such participation. It deals with questions of policy concerning structural relationships between the Government, BNOC's trading operation and its upstream operation. Once these are settled, detailed privatisation plans can be prepared and a start made to prepare legislation for introduction later this session.

Structural relationships

3. My main objectives in a structural re-organisation are:-
 - a. to ensure maximum security of national oil supplies by the best method available;

 - b. to achieve the widest possible spread of ownership by the British public in BNOC's upstream operations, bearing in mind effects on the PSBR (See Annex 1);

 - c. to ensure the continued development of a major British oil company on the UK Continental Shelf, based on BNOC's upstream operations;

 - d. to reduce the public sector.

These objectives require separation of the two operations so that the Government may retain 100% control of the trading side, while relinquishing a part of its stake in the upstream side. The former - BNO (Trading) - will be the existing public corporation; the latter - BNO (Operating) - almost certainly a Companies Act company, in which any public sector stake would be held by the public corporation. (NB. I give these names for sake of convenience. BNO (Operating) might more suitably be given quite a different name e.g. British Oil Exploration and Development Co. Ltd). The dividend from this stake could materially assist the public corporation to maintain proper financial viability - despite the relatively high risk nature of its trading operations.

Size of public sector stake in BNO (Operating)

4. I believe there is clear advantage - both in terms of our political commitment to the nation and to ensure commercial and operational efficiency - in BNO (Operating) being a free-standing commercial company unequivocally under private sector management and control. Abnegation of public sector control will also bring substantial benefits to the PSBR in the year of disposal from the proceeds of privatisation although as Annex 1 shows there would be some losses to the PSBR in later years.

5. A public stake of 51% or more would permit Government intervention in the company's management and so would be inconsistent with this approach, and a deterrent to private sector investment. I do not believe a BP-type formula on the lines of the Bradbury/Bridges letters would alter this position since it is the long history of non-intervention rather than these letters in themselves which engenders investor

confidence in BP.

6. I therefore favour retention of a lesser stake. A minimum 25% stake would be needed to block changes in the Memorandum or Articles of Association of the Company. This would enable us to ensure that the company maintains, as a primary objective, exploitation of the UKCS, and thus would remain as a major British presence here. I therefore recommend that at this stage we retain a 25% stake : it will be open to us to dispose of the balance at a later stage if we so decide.

Government powers over BNOC (Trading) and BNOC (Operating)

7. The rationale for retaining BNOC (Trading) is to be able to improve the UK's security of oil supplies, and the emphasis should be concentrated on this. Accordingly I recommend that the initial activities of BNOC (Trading) should be essentially those of an oil trader, and holder of the public sector stake in BNOC (Operating). Any extension of these activities, upstream or downstream, should not take place without my prior consent, and the powers of consent currently afforded by the Petroleum and Submarine Pipe-lines Act 1975 should be widened accordingly. (NB. Colleagues will also wish to note at Annex 2 certain EEC considerations I have also taken into account in this connection).

8. I also recommend that we should take powers to control BNOC (Trading)'s transactions in shares in the upstream subsidiary, both to ensure that without the consent of Government its holding does not fall below 25% and that it does not repurchase shares but has the powers to take up rights issues.

9. These changes apart, I see no reason to change the Government's

relationship with BNOC (Trading) from that prescribed in the 1975 Act, except to sever the connection with the National Oil Account, to abolish the statutory advisory duty and perhaps to remove the statutory obligation to have two Civil Service Members. (I suggest that this should be a discretionary rather than mandatory matter, according to the merits of the case).

10. I do not consider we should retain powers over BNOC (Operating) except indirectly through the exercise by BNOC (Trading) of its rights as shareholder. A Government veto, or the right to appoint directors would be inconsistent with the commercial independence I envisage. But the Government would appoint the initial Board (prior to privatisation) and should ensure that any BNOC (Trading) appointees are subject to Government approval.

Scope of BNOC (Operating)'s operations

11. I see no reason to impose any constraints on the scope of this company's operations, apart from ensuring that its primary objective is exploitation of the UKCS. There will of course need to be oil options in favour of BNOC (Trading).

BNOC (Trading)'s access to BNOC (Operating)'s oil

12. The purpose of retaining full control over BNOC (Trading) is to maximise our ability to influence BNOC (Trading)'s disposal in the national interest. This points to retention by BNOC (Trading) of the maximum quantities of oil, and thus to rights over 100% of BNOC (Operating)'s UKCS oil. On the other hand a commercial role for BNOC (Operating) and successful privatisation demand ability to retain and

trade in crude oil and products.

13. If BNOC (Operating) was able to retain 49% of its own UKCS oil, like other companies, this would emphasize the private sector status of BNOC (Operating) and so increase its attractiveness to investors; it would allow some 3 to 4m tons per annum in the early 1980's out of the public sector net, which would be a reasonable basis for BNOC (Operating) to establish a crude oil downstream operation, but would cut overall amounts under control of the Government and BNOC (Trading) by that amount.

Conclusions and recommendations

14. I invite my colleagues to agree to the approach described in this paper, including specifically that

- (a) The public sector through BNOC (Trading) should retain a stake in BNOC (Operating) of ~~25%~~ 25%;
- (b) BNOC (Trading)'s functions should be those provided in the Petroleum and Submarine Pipe-lines Act 1975 , but my consent should be required for upstream operations and for any downstream operations other than crude oil trading;
- (c) BNOC (Operating) should not be subject to any constraints

except oil options to BNOC (Trading).

- (d) Government should have no special powers over BNOC (Operating) but should have the power to approve BNOC (Trading)'s appointees.

Legislative Implications

15. Legislation will be needed to implement the above proposals; and to reform the National Oil Account so that BNOC's connection with it is completely severed (although the account itself will be retained to handle royalty and licensing monies). I also intend to take the opportunity of such legislation to make some tidying-up amendments to the Petroleum and Submarine Pipe-lines Act 1975 which have been found to be necessary as a result of its operation in the last 4 years. [Include reference to Gas Storage provisions if current uncertainties are resolved in time]. A summary of the legislative provisions thus envisaged is given in Annex 3. I invite my colleagues to agree that these should form the basis of instructions to Parliamentary Counsel.

Timetable

16. I would hope to be in a position to introduce the legislation in February : it is likely, however, that its passage will not be completed until the end of the session. In the meantime work will be carried forward to prepare detailed plans for privatisation, with a view to proceeds being received in 1980/81 or as soon as possible thereafter.

Parliamentary Announcement

17. As soon as the route for privatisation has been settled I will make a statement to Parliament in terms agreed with my colleagues.

BNO
PSBR CONTRIBUTION OF ALTERNATIVE CASES

	80/1	81/2	£m outturn 82/3	83/4
1. BNO STATUS QUO				
(a) Net financing (ie. net inflow from operations less capital requirements.	(122)	(10)	20	74
(b) Dividend - amount kept within public sector .	34	58	60	61
(c) Tax (PRT) - amount kept within public sector.	35	138	291	359
(d) Privatisation.	-	-	-	-
TOTAL	(53)	186	371	494
2. BNO (Operating) 51% PUBLICLY OWNED - COUNTED AS "PRIVATE SECTOR"				
(a) Net financing. (Public sector has no receipts from operations; capital expenditure not counted towards PSBR)	-	-	-	-
(b) Dividend - amount received by public sector.	17	29	30	30
(c) Tax (PRT) - amount received by public sector.	35	138	291	359
(d) Privatisation.	500	-	-	-
TOTAL	552	167	321	389
3. BNO (Operating) 25% PUBLICLY OWNED - "PRIVATE SECTOR"				
(a) Net financing (as in 3 (a)).	-	-	-	-
(b) Dividend - amount received by public sector.	9	14	15	15
(c) Tax (PRT) - amount received by public sector.	35	138	291	359
(d) Privatisation.	750	-	-	-
TOTAL	794	152	306	374

NOTES. (i) In cases 2 and 3 it is assumed that capital expenditure is financed from private sector borrowing and does not count against the PSBR.

(ii) This table includes estimates of PRT payable during the period (on Ninian, Thistle, Dunlin, Murchison, Statfjord and Beatrice). It does not assume any provision for deferred PRT.

(iii) Dividend is assumed to be 50% of post tax profit : (this is excluded from line (a)).

(iv) Year-by-year breakdown based on the simplifying assumption that all the proceeds of privatisation are received in 1980/81.

EEC Implications

Article 90 of the Treaty of Rome confers on BNOC, as an undertaking entrusted with the operation of services of general economic interest, an exemption from certain of the competition provisions of the Treaty. On the other hand, Article 37 prevents the Government from using BNOC (as a body over which it may exercise powers of control) as a means of directly or indirectly influencing exports or imports between Member States so that (in theory at any rate) a transfer to BNOC (Operating) of upstream operations might even be advantageous in this respect. In any event, it has to be recognised that the activities of BNOC (Trading), with a diminished role, would be more easily scrutinised by EEC authorities, so any arrangements whereby it undertook non-trading activities or maintained control over BNOC (Operating) might help to mask the trading activities. The more restricted the scope of BNOC (Trading)'s activities the greater the risk of successful challenge of a policy for disposal which appeared to contravene the Community's requirements. On the other hand, EEC interest in BNOC (Trading) will in any case centre on the trading activities. It is a matter of judgement what real protection we can expect to achieve by masking the trading activities, and to what extent EEC considerations would in fact inhibit us from pursuing as fully as we might wish an oil disposal strategy directed towards ensuring our national security of supply.

DRAFT

SIR K BERRILL

c Mr Downey
Mr Hartley

12
2/1

FUTURE OF ENOC

1. I attach a short Dept of Energy paper on this subject. [ATTACHED]
2. At Mr Liverman's meeting on 12 October, which discussed the paper, he said that the Department had considered the option of selling 49% of the shares and of selling 75%. The Secretary of State definitely favoured the latter option.
3. Depending on what the Government is trying to achieve I believe that 75% is either too high or too low a figure.
4. What is HMG trying to achieve? My understanding is that the general case for privatisation is:
 - (a) a political commitment to reduce the public sector and introduce wider ~~public~~ ^{PRIVATE} ownership either by selling chunks of the public sector back to the private sector or by introducing (? the maximum) private sector participation in existing nationalized industries/firms.
 - (b) funds are needed to reduce the PSBR;
 - (c) the introduction of private capital into nationalized industries/firms will make them more commercial and more competitive.

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5. How do these criteria apply to BNOC?

- (a) There are clearly some nationalized industries or firms in the public sector which cannot be sold at any worthwhile price, eg the NCB, BL or RR. There are others which can be sold in toto, eg the National Freight Corporation. From a market point of view there is no doubt that the whole of the equity of BNOC (Operations) could be sold.
- (b) The sale of BNOC's shares will undoubtedly help reduce the PSBR (or rather help finance the PSBR). Mr P Shelbourne estimated 75% of the shares might be worth some £750m, ie BNOC is by far the largest potential source of funds apart from the remainder of the Government's and the Bank's holding of BP (£2500m) or perhaps BGC, on which no price has yet been set. Both under this criterion (and under (a)) there is a case for selling 100% of BNOC, not only 75%.
- (c) The North Sea and the British domestic oil market are both highly competitive environments. BNOC is already a highly competitive and commercial organisation. Indeed the basis of BP's current complaints are that it is too commercial and too aggressive, ie it does not sell BP oil on non-commercial terms "in the national interest". My own view is that BNOC would become little more competitive/commercial if it is privatized than if it remains just as it is.

6. If the Government wants to sell its oil assets there is a case for arguing that it should sell the remainder of its BP shares first. BP is a well-established company and its shares have a n easily ascertainable market price. BNOC has good prospects, but few past achievements. It has no easily ascertainable market price. It is thus a much more speculative investment than BP. A lower initial share price

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is likely to reflect this fact. In 3 or 4 years time it will be a much more attractive investment than it is today and will command a correspondingly high price. As the market wakes up to the fact that BP is now a crude deficit company its shares are likely to perform less well on the market. Maximisation of return to HMG points to selling BP first and then ENOC. The Burmah case and the Government's statement in the context of the current sale of BP shares might, however, restrict its ability to sell further BP shares in the next 12 or 24 months.

7. Are there any special reasons why oil assets as opposed to other assets should not be sold off? A case for exceptional treatment might rest on the following propositions:

- (a) of all the assets in the Government's portfolio the oil and gas assets are probably the best long term investments. For a variety of reasons (on which I could expand if necessary) ENOC shares have more growth prospects over the next 5-10 years than BP shares.
- (b) whereas immediate sales of ENOC (or BP) shares/assets benefit the PSBR in the short term it has quite the reverse effect in the medium to long term, when the present Administration expects still to be in power. It was this fact that strongly influenced Ministers to go for forward oil sales rather than sale of ENOC assets.
- (c) given that all taxes (including PRT) are leaky, ENOC and BGC provide a better vehicle for HMG obtaining the economic rent from the North Sea than through relying on PRT/Corporation Tax/Royalty alone.
- (d) from the Government point of view it is cheaper in the long run to finance the PSBR by selling depreciating gilts at fixed interest rates rather than appreciating oil assets. In any case it is better to sell low-growth stocks, eg British Aerospace, before high growth assets.

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8. In sum, on economic/financial grounds it is doubtful whether it is wise to be selling oil assets as opposed to other assets (including more gilts). Insofar as it is wise there is a strong financial argument for selling BP shares before BNOG shares, although there is probably a case for selling a small proportion of BNOG shares, say 20%, to establish a market in them.

CASE FOR A NATIONAL OIL COMPANY.

9. The national interest and the commercial interest of oil companies is likely to be different in respect of a number of facets of the development of UKCS oil. For example:

(a) the present Government attaches a high priority to achieving security of the UK's oil supplies, notably in times of emergency. The oil companies would prefer to apply a policy of equality of misery to the UK, regardless of the fact that it is a major producer.

(b) the Government uses a social time preference rate of 5%, whereas the oil companies use a 15% discount rate.

10. The privatisation of BNOG along the lines proposed will not adversely affect to any significant degree the security of supply objective. The case for retaining a National Oil Company rather rests on the consequences of HMG and the oil companies having different social time preference ^{discount} rates. For example:

(a) On the basis of a 5% discount rate there is a strong case for using all the depletion control mechanisms available to HMG to reduce the rate of production. Ministers are consequently being recommended to adopt a robust depletion control policy. A 15% discount rate points to precisely the opposite conclusion, ie oil companies should be bringing forward the opposite conclusion, ie oil companies should be bringing forward production from the 1990s into the 1980s.

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(b) there are a number of marginal fields which oil companies would not consider it economic to develop using 15% or even 10% discount rates, but which would be economic at a 5% rate.

(c) more oil could arguably have been obtained from Forties had BP installed a fourth production platform. Such a decision would have been justified using a 5% discount rate, but not using a 15% rate.

11. The Government might wish to ask a National Oil Company to undertake a number of tasks, which it could only ask a fully commercial company to undertake for a fee:

(a) to drill exploration wells in disputed areas, eg Rockall, or Antarctica, to as to enhance our chances of having our sovereignty over such areas accepted internationally and/or by a Court.

(b) to develop so-called marginal fields, ie fields give a positive NPV at 5%-10% discount rates.

(c) to develop techniques for exploration in deeper/more difficult waters. DEn tried to persuade private oil companies to take part in drilling a well in deep water in the Rockall Trough. They refused. BNOG agreed to undertake this task. Seven private sector companies then agreed to take part in the project.

(d) to act as an agent for the Government depletion's policy, ie to be prepared to accept depletion control measures which a private company would resist strenuously even if the Government had full powers to impose such a control.

(e) to develop new equipment in Britain rather than overseas.

12. Admittedly HMG could pay commercial oil companies to undertake all these tasks. But the fees would probably be very substantial in some cases, eg development of marginal fields. In other cases a company might not be willing to undertake the

task even for a substantial fee, eg BP, which has major interests in France and Ireland, would probably be very reluctant to act as HMG's stalking-horse for strengthening our claim to sovereignty against these States. The fact that we were having to pay a company to undertake such work (as opposed to them paying HMG for the privilege) might well undermine the impact of such activity in international law.

13. It is also for consideration whether a set-up along the lines envisaged would not be too transparent (a) to prevent the EEC undermining the Government's security of supply policy and (b) to hamper BNOC (Trading)'s ability to undertake Government-to-Government deals in the Middle East, if such a trend becomes wide-spread.

14. Retaining only 25% of BNOC (operations) would prevent the Government from pursuing via BNOC any of the policies outlined in paragraph 11 above except on a fee-paying basis. Similarly it could only ask BP to undertake such activities on a fee-paying basis. If Ministers are willing to decide now that neither now nor at some later stage during the present Administration do they wish BNOC to undertake such activities and that they are willing to run whatever EEC risks flow from their decisions, then other policy objectives would best be secured by selling 100% of BNOC Operations, but probably only after all HMG's shareholding in BP has been disposed of, if the Exchequer is to get the best price for the assets.

15. Earlier this year Ministers decided not to sell a greater proportion of HMG's holding of BP shares or to sell BNOC assets. Why?

15a. As far as BP shares are concerned the specific reasons seem to have been that a 5% sale would still leave HMG with a 25% holding in the unlikely event of its losing its case against Burmah, which would entitle it to retain 2 Directors

on the Board and to veto decisions by the Board - even though this veto has never been exercised and it is difficult to envisage circumstances in which it would be used.

15b. In the case of ENOC a major consideration would seem to be Ministers' doubts whether the assets could be sold by 5 April 1980, thus calling into question the £1000m sales target. A further consideration was that while a sale of assets would contribute to the reduction of the PSBR in the short term, it would exacerbate the problems of the PSBR over the greater part of the next Decade, which is the horizon adopted for the Government's current strategy. The Government would in effect be consuming its own ~~seed-corn~~^{RV}.

15c. In addition there would seem to be two further considerations which influenced Ministers:

(a) the Government would be open to criticism for selling long term growth assets for low prices;

and (b) the Government would be accused of endangering our national security of supply at a particularly tense period in international energy discussions.

The fact that at least the latter accusation is not well-founded does not necessarily undermine its political impact.

16. If ENOC shares are sold Ministers attach importance to

(a) their going to small investors;

(b) their going to British investors.

While both objectives can be achieved initially, it is difficult to achieve either on a permanent basis. One can issue shares to applicants for small amounts, but the usual pattern (c.f. the recent British Columbia Resources issue) is for the small investor to sell out rapidly to the large institution. In any case is it right for HMG to sell shares to the small investor in what is rather a speculative investment - and one that is under threat of subsequent confiscation? As far as

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foreigners are concerned there is no way that they can be stopped buying shares unless we introduce similar restrictions to those applied to some resource companies in Canada and Australia. Such restrictions in any case would not apply to EEC countries.

Conclusions

17. The Government are committed to introduce an element of private sector capital into BNOC. On the incomplete evidence currently available economic/financial considerations point to the sale of only a limited number of shares in BNOC Operations in the near future, say 15/20% of its capital. Indeed there could be a strong economic and financial case as well as an energy policy case for restricting the privatisation of BNOC to this level sine die.

18. If, however, Ministers decide that they wish to privatize BNOC further than 50% there is a strong case for selling 100% of shares in its Operating subsidiary or an amount approaching ^{that} figure, but preferably only after HMG has disposed of its total holding of BP shares, if this is practicable.

BNOC : FUTURE STRUCTURE AND PRIVATISATION

21.76 Rev.
Not ill.Annotated agenda for meeting to be chaired by Mr. Liverman

1. Starting assumptions BNOC (Trading) - wholly owned by Govt. - handling participation oil and equity oil purchased from BNOC (Operating) - no other initial activities.
- Govt Govt deals,*
- No share hld.* BNOC (Operating) - with all BNOC's upstream assets. Private sector participation but some public sector stake retained.
2. Structural relationships ; BNOC (Trading) holds public sector stake in BNOC (Upstream) and undertakes privatisation.
- Why not while 6.*
- OPERATING*
3. Scope of operations of two companies, and Govt. powers over them
- (i) BNOC (Trading) - aim of Government, no less control than at present - keep full range of oil industry powers (in PSPA), but control extension outside pure crude trading by consents. Financial controls to replace NOA, but must maintain control over cash surpluses.
- MEANING*
- (ii) BNOC (Operating) - armslength relationship with Govt. (important to reassure private sector shareholders and helps PSBR). Initial appointments decided by Govt. But no continuing provision for Govt. appointees, or veto rights; Govt. might secure right to approve BNOC (Trading) appointees; the number of BNOC (Trading) appointees should be specified in Articles of Association. No constraints on its operations apart from oil options to BNOC (Trading)
- (iii) Oil options - Security of supply objectives suggest BNOC (Trading) should secure options over 100% of BNOC (Upstream)'s UKCS oil : commercial role for BNOC (Upstream) suggests it should retain and trade in some UKCS crude.
- Their in trading, not upstream*
4. Financial / Manpower implications - BNOC (Trading) - small staff responsible for trading and oversight of BNOC (Operating) share stake; profits from trading small, jobbers turn on large throughput; dividend income from BNOC (Operating).

BNOC (Operating) - takes on bulk of BNOC staff; initial capital structure will involve some debt (take over the Britoil liability); financial performance similar to that predicted for BNOC - a net generator of funds (before dividend) by 1981/82.

5. Objectives of Privatisation

- (a) Spread of ownership.
- (b) Underline commercial role and the armslength relationship between Govt. and upstream operations.
- (c) Assist PSBR.

6. Privatisation schemes

How much will it be worth?

Simple scheme - dispose of between 51% and 75% of shares in BNOC to public - individuals, institutions, oil companies.

- Consider
- (a) whether this will attract wide enough spread of ownership?
 - (b) What measures could be taken to attract individuals not accustomed to holding stock exchange securities? Tax incentives? free distribution of shares? Ability to purchase in small lots through post offices or banks? ✓
 - (c) Whether other instruments of participation might attract a wider spread of investors?
 - (d) What impact various schemes might have on the overall proceeds of sale?
 - (e) How involvement of overseas investors can be minimised?

Energy

MFJ



cc FCO
HMT
LPO
LPS
MAFF
DOT
LOD
CO

10 DOWNING STREET

From the Private Secretary

7 November 1979

Dear Bill,

BP/BNOC Negotiations

The Prime Minister has read your Secretary of State's minute of 5 November on the above subject. She has noted that BP and BNOC have now agreed the principles of new oil trading arrangements for the years 1980-82.

I am sending copies of this letter to Private Secretaries to members of OD(E) and to Martin Vile (Cabinet Office).

Yours sincerely,

Tim Latham.

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

[Handwritten mark]

Prime Minister

2

BP seem to be satisfied,
albeit after a tough
negotiation.

TZ 6/14

PRIME MINISTER

BP/BNOC NEGOTIATIONS

You will be glad to know that BP and BNOC have now agreed the principles of new oil trading arrangements in 1980 - 82. These involve substantial new supply commitments from BNOC to BP, leading to breakeven in 1982 in the net supply position. For its part, BP will dedicate its UKCS production to the UK to the extent necessary to insulate its UK refineries from any shortfall in international supplies and has further undertaken to commit any remaining balance of its UKCS production to other UK requirements in the event of a UK supply shortfall. BNOC has met BP's wish to confine its trading relationships with BP to BP Oil, the UK refining company, and BP Trading, the international supply company. BP has agreed to make an advance payment of £300 million to BNOC in the current year - a substantial contribution to the target of £400 - £500 million which we have agreed BNOC should raise by these means.

Much work remains to convert these principles into binding contracts, but we can be well satisfied with the achievement of this agreement in principle (which the BP Board has now endorsed). It will provide a basis for a much better relationship between the two organisations.

My Department has been associated with the negotiations and HMG is necessarily a party to some parts of the arrangements. We are involved in a forward commitment of royalty oil to BP and, at BP's request, will be consulted in the event that BNOC needs to exercise its right to terminate part of its commitment to BP Trading in the interests of national security of supply. The contractual form of this last arrangement will need to be drawn with care to minimise the potential EEC risks and this has been very much in the minds of the negotiators on both sides. Indeed, BP had to satisfy themselves that the total package works sufficiently to the advantage of the Group as a whole to justify the new elements of UK security of supply which it contains. For my part, I am satisfied that a good job has been done in reconciling the objectives of substantially improving the supply position of BP, raising cash by forward sales and safeguarding national security of supply.

I am sending copies of this minute to our colleagues on OD(E) and to Sir Robert Armstrong.

DH.

SECRETARY OF STATE FOR ENERGY
5 November 1979

6 NOV 1979

12 1 2 3 4 5 6 7 8 9 10 11

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard,

31 October 1979, columns 522 - 524

"Written Answers: National Finance"

Signed Wayland Date 19 September 2009

PREM Records Team

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SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

M Alexander Esq
No 10 Downing Street
LONDON SW1

30 October 1979

Dear Michael,

BNOC FORWARD OIL SALES

My Secretary of State thinks the Prime Minister may like to know before she sees Chancellor Schmidt tomorrow that as part of their programme of forward sales of oil to reduce the PSBR in 1979/80 BNOC last night reached agreement with VEBA - a company in which the German Government is the largest single shareholder - under which VEBA will make a pre-payment of £70m in return for a nine-month extension (from its present termination date of 30 June 1980) of their current oil supply of 15,000 barrels a day. There is no commitment thereafter, but BNOC expect to remain supplier to VEBA at about the same level. The price of the oil will be the term-price ruling on the date of delivery. This is likely to exhaust the advance payment before end September 1980, after which VEBA will resume payments in arrears as previously.

This will be BNOC's only export prepayment deal and represents under 10% of the quantities which will be covered by these deals generally. It covers oil which would in any event have been likely to go to VEBA. So UK security of supply is not prejudiced.

I am sending copies of this letter to Tony Battishill in the Treasury, Paul Lever in the FCO and Martin Vile in the Cabinet Office.

Yours ever,

Denis

DENIS WALKER
Private Secretary

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6

SECRET



10 DOWNING STREET

From the Private Secretary

30 October, 1979.

This is to confirm that the Prime Minister this evening agreed that the sale price of the BP shares, which is to be announced tomorrow, should be 363p.

J. P. LANKESTER

A.M.W. Battishill, Esq.,
HM Treasury.

SECRET

9B

Handwritten: The handouts Annex

Handwritten: This is helpful.

Handwritten: N.C.W.
3-12

BP'S SHARE PRICE

(i) BP's share price closed at 376p yesterday. A 5 per cent discount gives a sale price of about 357p, which in turn would give gross receipts of about £286m.

(ii) Changes in the discount from recent market prices of 1 per cent change receipts by about £3m. 1p on the sale price is worth £800,000.

(iii) On 16 October, when the size of the sale was announced, the price rose from 332p to 362p, since when the price has gone up to 406p and never fallen below 368p.

(iv) The following table shows the highest and lowest middle-market quotations for the Ordinary Shares for the periods specified, based on the Daily Official List published by The Stock Exchange:

	:1979	
	Highest	Lowest
	p	p
Jan/March	294xd	223
April/June	322	272
July/August	319	281xd
September	322xd	288
1 to 26 October	400xd	322xd



1912 OCT 14 1912



Life Mr Hore

SECRETARY OF STATE FOR ENERGY

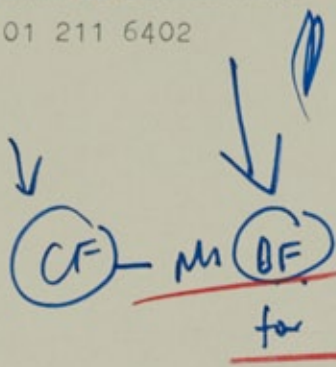
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

T P Lankester Esq
Private Secretary
10 Downing Street
LONDON SW1

Prime Minister

BNOC and BP are quite likely, so I understand, to reach agreement tomorrow (see X below). If not, we will press Energy further. (We are fixing a meeting with Mr Hore to discuss the future of BNOC).
29 October 1979



R 30/10

Dear Tim,

Thank you for your letter of 24 October conveying the Prime Minister's concern about BP's oil supply position. The Secretary of State is watching this situation very closely. There is a clear interest for HMG to see that BP's interests are protected, so far as UK security of supply and the financial obligations put on BNOC are not prejudiced. But beyond a certain point there can be no further reconciliation of these objectives and a choice has to be made. My Secretary of State is clear that at that point UK security of supply must be given primacy.

X

The Prime Minister may like to know that a negotiating meeting was held on 22 October at which the Head of our Oil Division was present. The mood following this meeting was much improved and both sides agreed progress had been made. The next meeting is on 31 October. We shall again be represented and I will advise you if difficulties arise.

The Prime Minister suggested that in order to balance their books BP might sell spot some of the oil they buy from BNOC. The Tokyo Summit communique contained a commitment to discourage spot market transactions but, even leaving that aside, BP's shortage of oil means they would have to buy other volumes to replace those sold and these could only be obtained in turn on the spot market. BP would thus be no better off volumetrically or financially.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), Tony Battishill (HM Treasury) and Martin Vile (Cabinet Office).

Yours sincerely,
Bill

Tim
Keep an eye on it
out.

W J Burroughs
Private Secretary



29 OCT 1979

112133
987654

Prime Minister 51



Treasury Chambers, Parliament Street, SW1P 3AG is likely to be
01-233 3000

29th October, 1979

E Committee agreed that
the sale should be under-
written, and 5% (or
maybe a slightly lower) discount
the best that
can be negotiated
with the under-writers.

I will need to clear
this with you at
6 p.m. tomorrow before
you go to the Palace.

Dr T...

M...

BP SHARE SALE

R

29/10

As you know, the BP share sale will be announced on
Wednesday, 31st October ("impact day"). The sale price
ought to be agreed by 7.30 p.m. tomorrow evening so that
the documents can be printed overnight.

The Bank are meeting the underwriters tomorrow afternoon
and will report the outcome of their discussions to the
Financial Secretary and the Chancellor probably some time
between 5.30 and 6.00 p.m. Tony Battishill will let you
know very quickly after that directly Treasury Ministers
have formed a view on the proposed price.

The price will obviously depend very much on the BP
share price at close of business tomorrow. In 1977 the
sale price was some 5 per cent below the market price and
all the indications are that barring upsets in the markets,
the discount this time will certainly be no higher.

Yes ev,

MK

(M.A. HALL)
Private Secretary

T.P. Lankester, Esq.,
Private Secretary,
10, Downing Street

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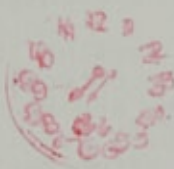
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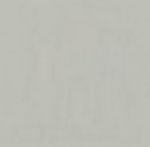
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29 OCT 1979



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COMMERCIAL - IN CONFIDENCE

Qa 04319

To: MR LANKESTER ✓
From: SIR KENNETH BERRILL

Mr. Hoskyns

*You may wish to see
these papers. Ms.
return to C.F.*

BP/BNOC Relationships

1. I have just read your minute of 24 October to Burroughs in the Department of Energy on BP/BNOC oil trading. The Prime Minister might like to be aware that we in the CPRS have been keeping fairly close to these negotiations through our contacts at BP and BNOC. *26/10*
2. I dictated yesterday the attached note of a talk I had had at BP. This was not dictated for the Prime Minister and it is probably not appropriate for it to be put to her (it presents the world through BP's eyes without any of the offsetting facts and arguments), but it may help to keep you in the picture.
3. In view of the Prime Minister's concern, we will continue to monitor this issue and keep you informed.
4. I am sending a copy of this minute and attachment to Sir Robert Armstrong.

KR

26 October 1979

Att

COMMERCIAL - IN CONFIDENCE



26 OCT 1979

COMMERCIAL - IN CONFIDENCE

Qa 04318

NOTE FOR THE RECORD

BP/BNOC Relationships

1. I had, today, lunch at BP with Mr Robert Belgrave and Mr Peter Gillam. Our conversation was mainly a continuance of previous discussions on the relations between BP and BNOC. They handed me the attached note of BP's latest proposal to BNOC on their trading relationships for the years immediately ahead. In this there are five separable elements:

(a) selling oil forward - this seems the easiest. BP are prepared to provide £150m. and this is probably more than BNOC need (for this year at least), given the likely amounts from other North Sea companies.

(b) the volume of oil which BP will get from BNOC. BNOC claim that it has firm commitments in 1980 and 1981 which limit the extent to which it can help BP. This means that BNOC will still need from BP $4\frac{1}{2}$ m. tonnes in 1980; 2 m. tonnes in 1981; nil in 1982. BP hope to squeeze a little more out of BNOC in next week's negotiations but they admit that there is probably not much more to give. They claim that there could have been more if BNOC had not been committed themselves all through the summer after Steel had put BP's problems to Kearton and Kearton had said he would help.

(c) the EEC element. BP understand completely the Government's desire to use oil for EEC countries as a bargaining counter. If the Government wants they are willing to dedicate oil to the EEC

COMMERCIAL - IN CONFIDENCE

straightaway (the German market is the probable destination of most if it anyway). But once this dedication is made openly it would be difficult for HMG to withdraw it in times of crisis. BP suggest that it would be wiser from HMG's point of view for BP to guarantee that the EEC would receive any amount not required in the UK at any time that the Secretary of State should want such dedication made public.

2. The last two elements are -

(d) the volume of dedicated oil; and

(e) the extent to which BNOC becomes intertwined in BP's operations.

From the point of view of BP these two are interlocking in the sense that they naturally wish to minimise BNOC's intertwining with BP (they do not want a large volume of oil being passed first to BNOC and then back to BP again). To avoid this they are willing to go to the very limit in dedicating the whole of their North Sea production to HMG - thus putting themselves on the same footing as Shell, Exxon, etc. They believe that the Department of Energy would find such 100 per cent dedication attractive and hope that in return HMG would try to persuade BNOC not to insist on a system of maximum intertwining.

BNOC's new corporate structure

3. The next part of the discussion was concerned with the possible shape of the new corporate set-up for BNOC. The most important point which emerged was that they hoped strongly that the trading and production sections of BNOC would be completely distinct and not be under a common Chairman and common umbrella Board.

COMMERCIAL - IN CONFIDENCE

4. They argued that there were virtually no economies of scale from having such links between the two halves (they discounted the argument that the production section could help the trading section with specification details about the oil to be traded). The reasons for their worries are two -

first, they were worried lest the Chairman of the umbrella Board might have Kearton-type ambitions and wish to inflate BNOG into a world power in oil operations;

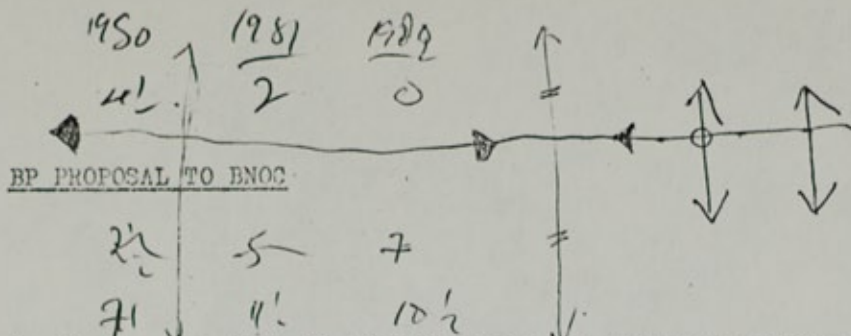
second, they were worried lest this world operation of BNOG on the production side might bring them into competition with BP on an unfair basis. By that they meant that if there were two British companies competing for contracts in, say, the Indian Ocean, BNOG might be the 'chosen instrument' of the British Government and of the British post in Delhi.

BP's relations with HMG

5. Finally, we discussed BP's difficulties in having its point of view effectively understood in Whitehall. They asked me why parts of Whitehall seemed so suspicious of BP.

6. I said that it was because (until recently) BP had (a) wanted nothing more than to be left completely alone, and (b) sometimes gave little evidence of being a 'British company' as distinct from being a multinational. This certainly happened in 1973 and the argument that as a multinational they were committed to 'equal misery' for all their customers was commonly put forward before this summer.

7. In BP's new position they could no longer afford to strive for such an arms length multinational relationship and if they were to realise this and to convince Whitehall that they both needed a new relationship with HMG and were prepared to be a much more 'British' company in consequence I thought the situation would soon improve.



1. We propose that BP should enter into arrangements by which all of BP's North Sea production is dedicated to the UK in the sense that it will be available to the UK in a supply crisis and until the IEA sharing system is triggered and in operation.

Dedication using 1980 as Example

million tons

(a) BP's total North Sea production	27
(b) Royalty sold back by HMG to BP Oil	3
(c) BP sell to BP Oil the 49% equity crude	12
(d) BP Oil buy from BNOC part of BP participation oil	5
(e) BP Oil 100% covered and ring fenced	20
(f) Balance of BP participation oil sold by BNOC to BP Trading on contracts that allow the oil to be pulled back to the UK in a crisis	7

HMG would only claim crude in a crisis if BNOC were treated equally. If crude is so pulled back BP would require the UK downstream margin from the refiner who received crude taken from BP. The conditions applying to this 100% ring fence would be that BP will be able to exchange UKCS for foreign crudes provided UK received satisfactory volume cover.

2. The Foreign Crude sold to BNOC under Leg 3 to be sold back 100% to BP Trading. However BP will assist BNOC with foreign crude under exchange.
3. We are prepared to provide £150m as front end payment for crude.

- *Handwritten*

- *Handwritten*

- *Handwritten*

22nd October, 1979

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

24 October 1979

The Prime Minister has read your letter of 19 October about BP/BNOC oil trading.

Although the Prime Minister understands that negotiations between BP and BNOC are continuing, she is very concerned about the difficulties which BP are finding themselves in. While she appreciates that any further accommodation by BNOC may put at risk the plan to sell oil forward, she is nonetheless most concerned that BP's obligations under its participation agreement may effectively be forcing it into the spot market. The Prime Minister wonders whether, in order to balance their books, BP might themselves be able to sell on the spot market some of the oil which they are getting from BNOC. In any case, the Prime Minister believes that the whole arrangement between BNOC and BP needs to be looked at again urgently, and modified further if possible.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), Tony Battishill (HM Treasury) and Martin Vile (Cabinet Office).

T. P. LANKESTER

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

CONFIDENTIAL

File Energy
BF 23/10/79

AB

PRIME MINISTER

BP/BNOC OIL TRADING

You asked about the terms of BP's participation agreement.

Under most participation agreements, oil companies operating in the North Sea have to sell 51% of their North Sea crude to BNOC. An exception was made for BP. BP do not supply 51% of their North Sea oil. Instead, they use part of their North Sea oil for supplying their affiliates abroad, and they make up the difference by selling Middle East crude to BNOC. At the time when this was negotiated, it was to the advantage of both parties: BP were glad to have some extra high quality crude for their overseas affiliates, and BNOC were interested in having some lower grade crude to balance their overall supply position as well. BP's commitment to sell Middle East crude to BNOC is now causing them difficulties because of lack of supply, and because they otherwise have to buy in the spot market (spot prices of over 50 dollars have been reported recently). But Mr. Howell thinks that BNOC can not go any further in accommodating BP: if they were to do so this would endanger the plan to raise £400 ~~million~~ million by forward sales, and it would also - in his view - endanger our security of supply.

I think this arrangement must be looked at again. The circumstances have totally changed & the government should be made aware of this. It is the COIL I bought oil on the spot market which is highly dangerous. Can we not come to some agreement with BNOC on this? Or can we sell BNOC oil on the spot before we buy it? books?

23 October 1979

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

22 October 1979

BNOC: Interest in the Beatrice Field

The Prime Minister has read your Secretary of State's recent minute about BNOC's purchase of a further 5 per cent interest in the Beatrice field.

The Prime Minister understands that BNOC have already been given the go ahead to make this purchase. However, you should be aware that she is far from happy about it: she regards the purchase as a clear contradiction of the Government's decision that BNOC should be slimmed down, and she is also concerned about the public expenditure implications.

I am sending a copy of this letter to Tony Battishill and Alistair Pirie (HM Treasury).

T. P. LANKESTER

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

CONFIDENTIAL

TR

Energy

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(2)

SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

Prime Minister

CONFIDENTIAL

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

Am I right in thinking that on 1st Oct BP had no purchase agreement with B.P. had no purchase agreement - certainly amount of crude for this month has been in excess of 100,000 tons?

19 October 1979

Dear Tim,

BP/BNOC OIL TRADING

My Secretary of State minuted the Prime Minister on 26 September about the approach BP made to him on their negotiations with BNOC on crude oil trading for next year. Your letter of 28 September asked that you should be kept in touch on this subject and this letter is to bring you up to date on developments since then.

BP and BNOC have, as requested, negotiated further. BNOC has considerably increased the quantity of oil on offer, while BP have also moderated their position in some respects. BP is, however, still asking for 5 million tonnes more oil than BNOC have offered and there is still no agreement. Yesterday Sir David Steel again approached my Secretary of State to ask him to intervene on behalf of BP.

My Secretary of State has examined carefully BP's proposal to see whether it would be possible for BNOC to accommodate it. He has come to the conclusion that BNOC's existing commitments do not permit any increase in the already large quantity of oil offered to BP except at the cost of impairing the achievement of the forward oil sales which the Corporation has been asked to negotiate.

My Secretary of State has accordingly written to Sir David Steel this evening in the terms of the attached letter. A further negotiating meeting between BP and BNOC is scheduled for Monday.

I am copying this to the private secretaries to the Foreign and Commonwealth Secretary, Chancellor of the Exchequer and Sir John Hunt.

*Yours sincerely,
Bill*

W J BURROUGHS
PRIVATE SECRETARY



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

Sir David Steel
Chairman
British Petroleum
Britannic House
Moor Lane EC2Y 9BU

19 October 1979

Dear David

I have looked carefully at the further proposal for your oil trading arrangements with BPOC next year which you tabled at our meeting yesterday. I regret that I still cannot find in it any grounds for my intervention and I recommend that you continue negotiations with BPOC which I hope can be brought to a speedy conclusion.

D A R Howell

Yours ever

David

~~cc Mr Walker~~
Mr Dupont

Prime Minister

2

Mr Howell has already written to Bnoc saying they can do this. So this is merely "to note".

M.H.

PRIME MINISTER

BNOC: INTEREST IN THE BEATRICE FIELD

TZ
19/10

You should be aware that in March this year BNOC negotiated with Deminex (the State controlled German oil company) terms on which it might elect to purchase 5% of its interest in the Beatrice field; this option expires in November and BNOC has sought my agreement to the exercise of it. BNOC's existing stake is 23%. The cost to BNOC in 1979/80 of the additional 5% will be £6m. Development expenditure in subsequent years will add between £14m and £18m.

16/10

Such an acquisition may be seen as a contradiction to our decision that BNOC should be slimmed down; but we have made it clear that it is in the exploration area that reductions are needed (and BNOC is already taking steps to this end), and that no disposals of commercial fields are at present contemplated. Moreover the terms of the acquisition are very favourable and it has the added advantage of bringing under UK control a stake in the UKCS which would otherwise remain foreign owned. For these reasons I have concluded that BNOC should be allowed to go ahead, in spite of the public expenditure involved. John Biffen agrees, but on the basis that this interest should be regarded as a potential candidate for subsequent disposal, if we see the need in the future to seek asset disposals from BNOC. This I accept. And in informing BNOC that we have no objection to its going ahead I am making it clear that the public expenditure implications of the deal made our decision a difficult one and that further acquisitions of this kind cannot readily be contemplated - if anything the reverse.

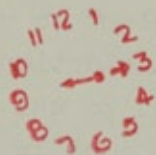
I am copying this letter to Geoffrey Howe and John Biffen.

D.A.

D A R Howell

16/10

16 OCT 1979



CONFIDENTIAL



c. (HMT-FS) CO
CS(HMT) HMT
DI
MAFF
DEnv
DTde
DEngy

10 DOWNING STREET

From the Private Secretary

15 October 1979

BP SHARE SALE

As I told your office on 12 October, the Prime Minister saw your letter to Tim Lankester of 11 October and had no objection to its terms.

I am copying this letter to the Private Secretaries to the Members of E(DL) and Martin Vile (Cabinet Office).

N. J. SANDERS

Mrs. P.C. Diggle,
H.M. Treasury.

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c.c. below + Mr. James

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10 DOWNING STREET

From the Private Secretary

12 October, 1979.

BP Share Sale

This is to confirm that the Prime Minister is content with the draft Press Notice which you enclosed with your letter of 11 October.

I am sending copies of this letter to the Private Secretaries to members of ED(L) and to Martin Vile (Cabinet Office).

T. P. LANKESTER

Mrs. P.C. Diggle,
HM Treasury.

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Russoff

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Prime Minister



The attached statement seems alright, though it still has to be cleared with Mr Howell. (The sale date is not mentioned because this

Treasury Chambers, Parliament Street, SW1P 3AG might depress the 11 October 1979 price).

Tim Lankester Esq
10 Downing Street
LONDON
SW1

Are you content?

Approved by the Law-Minister

JML

told FST's

11x.

office on 12/10

MS

Dear Tim,

BP SHARE SALE

As you know, it is intended to announce the size of the BP share sale soon so that the markets have time to digest the news before the sale date (which of course much be kept strictly confidential until the public announcement). Present plans are for the announcement to be on Monday 15 October. Although there has been some speculation in the newspapers that only some 5 per cent of BP will be sold, official confirmation that the sale is so small may provoke the financial markets to jump to the wrong conclusion that the Government's plans to meet the disposals total of £1bn announced in the Budget are in jeopardy. This could have serious adverse effects on market confidence. The way to meet this point is for the announcement to indicate the amounts to be raised from the other major sales so as to make clear that there is a good prospect of realising the total of some £1bn announced in the Budget.

yes, but is right

The draft Press Notice attached has been prepared with this point in mind and the Financial Secretary would be grateful for urgent comments on it from you and the other recipients of this letter. You will see that it quotes ranges for the estimates of the proceeds to be realised from BNOC forward oil sales and sales of new town assets and other public sector land. The Financial Secretary is sure that it is right to reserve this element of flexibility in any public announcement, but for the avoidance of future misunderstanding, perhaps I ought to say now that it should not be taken as implying Treasury acceptance of any lower figures for disposals than already agreed, ie £100m for NEB assets, £130m for land sales in England and Wales and £500m for BNOC forward oil sales.

I should be grateful, if possible, to have comments on the draft Press Notice by 1230 hours on Friday 12 October so that it can be issued on the following Monday.

I am sending copies of this letter to the Secretaries to the members of ED(L) and to Martin Vile.

Yours,

Paul

P C DIGGLE

Private Secretary



DRAFT PRESS NOTICE

DISPOSAL OF PUBLIC SECTOR ASSETS IN 1979-80

The Chancellor of the Exchequer announced in his Budget Statement on 12 June that the Government intended to reduce the PSBR in the current financial year partly through the disposal of public sector assets to the value of some £1bn. The Government has now determined the broad composition of these disposals, some of which have already been announced. The Secretary of State for Energy has announced forward sales of oil. It is expected that these will raise £400m to £500m. The remaining elements, together with estimates of their proceeds, are:

Sale of approximately 5% of BP shares	[]	*
New Town assets and other Public Sector land	£100m	to	£150m
Other assets, including assets held by NEB	£100m	to	£150m

The BP shares will come from the Government's own shareholding. This will reduce the total of the Government and Bank of England holdings, taken together, to some 46%.

Arrangements are being made for these disposals to be completed during the course of the present financial year. Further details will be announced in due course.

* Mr Lawson has still to decide whether to put £200-300 m or £250-300 m here. At today's market price, the sale would yield £278 million; but a small discount is likely to be needed. R 11/79



11 OCT 1979

CONFIDENTIAL

Qa 04302

To: MR LANKESTER
From: SIR KENNETH BERRILL

File with Tim
Pami Minister
In case Sir David
Steel raises his
with you.

The Future Role of BNOC

Th
12/10

1. I understand that at the lunch on Sunday the Chairman of BP may hope to have a short word with the Prime Minister on the future role of BNOC just to register that BP has a considerable interest in the remit under which BNOC will be working in the years ahead. He would hope that before decisions are taken BP could put their point of view privately at the highest level. (Their main concern is that BNOC's trading operations should not become too grandiose and too worldwide.)

E Committee
on 30 Oct.
R.

2. The Department of Energy is working hard on the future role of BNOC and the issues will be put before Ministers collectively very soon. The aim is to keep BNOC's ambitions within bounds and at the same time to keep available for HMG a vehicle which will help ensure United Kingdom security of supply and which may be needed to trade with Governments which insist on dealing on an inter-government basis. The CPRS is in touch with this work. Sir David Steel could be told that if he wants to express views he should do so quickly and, presumably, to Mr Howell (or to the Prime Minister herself).

3. I am sending a copy of this minute to Sir John Hunt.

KB

11 October 1979

11 OCT 1979



CONFIDENTIAL

Prime Minister

2

ANBOM

R 10/10



*Further background
on this problem is
in the attached
CPAS note.*

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

10 October, 1979

R 10/10

David

BP/BNOC OIL TRADING

Thank you for sending me a copy of your minute of 26th September to the Prime Minister about the negotiations between BP and BNOC on crude oil trading. I have also seen the Prime Minister's response in her Private Secretary's letter of 28th September.

This is indeed a difficult problem and I am grateful for your offer to meet to discuss it. However, I understand that BNOC and BP met recently to carry forward negotiations and that there has been some progress. I welcome this since I entirely agree with your approach that BNOC and BP should be encouraged to negotiate a mutually satisfactory solution. I also agree that UK security of supply is a most important consideration here, though I am sure that we must try to meet this objective in a way which preserves BP's contribution to the UK economy from its international trading activities. It is disturbing to read that they regard the potential cost to them of making no change in the present supply arrangements with BNOC as some \$1bn. I also note that they argue that the alternative to a satisfactory solution would be for them to sell refining and marketing assets in Europe.

I should be grateful if you could continue to keep me in touch with developments. I think a meeting could be useful at a later stage, particularly if BNOC and BP cannot reach an agreement. I should therefore be glad if you could give me the opportunity to comment before final decisions are taken.

I am sending a copy of this letter to the Prime Minister, the Foreign and Commonwealth Secretary and Sir John Hunt.

[Signature]

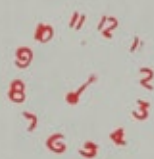
GEOFFREY HOWE

[Signature]

The Rt.Hon.David Howell, M.P.
Secretary of State for Energy.

CONFIDENTIAL

10 OCT 1979



SECRET



4
Energy

10 DOWNING STREET

From the Private Secretary

4 October 1979

BP Share Sale

The Prime Minister has considered the Financial Secretary's minute of 3 October and has agreed the proposals contained therein for the sale of BP shares.

The Financial Secretary's note indicates that we will be given an opportunity to see the announcement of the sale in draft. No doubt you will ensure that the Secretary of State for Energy is consulted on the drafting in view of its implications for the amount of BNO oil which will need to be sold forward this financial year.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

T. P. LANKESTER

Miss P C Diggle
HM Treasury

SECRET

ELK

SECRET



PRIME MINISTER

BP SHARE SALE

You will wish to know that plans are well in hand for the sale of BP shares. I have decided that the sale will be by means of a fixed price offer, as in 1977, and arrangements will be made to provide preferences to small applicants and to UK employees linked to BP's employee shareholding scheme.

The Bank of England advice is that subject to decisions on exchange control and market circumstances, impact day for the sale (ie the announcement of the price) should be on Wednesday 31 October with application lists closing on 9 November. I should be glad to know that you see no difficulty with 31 October. The Chancellor will, of course want to consult you on the afternoon/evening of 30 October about the sale price.

The Bank also advise that it will help the marketing if we announce the size of the sale some 2-3 weeks before impact day to give the markets time to digest this news. I agree. The drafting of the announcement will need some care since although the size of the sale has been rumoured in the press, the markets may still be expecting a rather larger sale and we need to avoid their jumping to the wrong conclusion that the £1bn announced in the Budget is in jeopardy. I will ensure that your office is given advance warning of the announcement.

Could I also say that the Bank suggested to me that it would look rather odd to sell exactly 5 per cent of BP shares since this would amount to 77,303,617 shares. While they recognised that the 1977 sale was for an odd amount, it would be more in keeping with

Prime Minister 3 1

Agree Mr Lawson's proposals?
Yes Sir.

(The employee schemes at X mean that the government's holding could conceivably fall to 24.72% if we lost the Burmah case. The Treasury are confident that, if that happened, they could negotiate the retention of the former blocking vote.)

TL
2/10

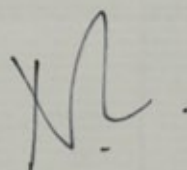
A busy day -
planning
talks +
dinner
for
Hue. But
no doubt
can be
fitted in.
TL

City practice if the sale was for a rounded amount of shares. I therefore agree that 80m shares should be sold. This represents 5.17 per cent of BP and would reduce the Government's holding to 25.70 per cent, making 45.83% altogether including the Bank's holding.

X

I also ought to record that BP's two employee shareholding schemes will in due course reduce the Government's percentage share of the Company. The maximum dilution from BP's SAYE linked scheme, which is aimed at lower paid staff, amounts to 0.17 per cent under the present terms of the scheme. The maximum dilution under their other scheme, the lump sum scheme, which is aimed at more highly paid staff, would be 0.81 per cent, if the trustees of that scheme decided to find the necessary shares from new shares issued by the Company rather than by purchases in the market, which of course do not dilute the Government's holding. (For technical reasons shares for the SAYE linked scheme need to be issued by the Company.) I have asked that Sir David Steel should consult the Treasury before the Company agrees to issue new shares to the trustees of the lump sum scheme so that we could make our views known to the BP Board (who would have the final decision) about the ensuing dilution. He agreed to do this.

I am sending a copy of this minute to Sir John Hunt.



NIGEL LAWSON
3 October 1979

- 3 OCT 1979



[Faint, mostly illegible text, likely bleed-through from the reverse side of the page.]

October 1979

CONFIDENTIAL

Qa 04282

To: MR LANKESTER
From: SIR KENNETH BERRILL

BP/BNOC Oil Trading

1. In his minute of 26 September, the Secretary of State for Energy described for the Prime Minister the problem of BP's shortage of crude oil and the limits to BNOC's ability to help. The Prime Minister might find it useful to have a little background information on this issue.
2. BP's approach to HMG, which is set out somewhat more fully in Sir David Steel's letter of 19 September to Lord Carrington (copy attached), in effect marks a turning point in the relations between BP and HMG. For decades BP has acted as a very independent international oil major doing what it thought best in the company's long term commercial interest. For the most part it has done this with the full blessing of HMG. Even at times of crisis, for example in 1973, BP has applied a policy of equality of misery to British customers as well as to its other customers. This approach reflected (i) BP's intense desire to be seen as a genuinely independent company and not as the United Kingdom national oil company; and (ii) the fact that the United Kingdom represented only a small share of BP's total market and the UK has only become a producer of oil in recent years. So although there have always been close relations between HMG and BP, in some ways they have been less close than HMG's relations with Shell.
3. The events of the past year have changed all this. The UK is now a major oil producer and BP has shifted from a major with a large crude surplus into a crude deficit company (which is the position of Shell, Exxon and Mobil). In his letter, Sir David Steel is seeking HMG's help not only for its UK operations, but also for its worldwide activities.

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4. BP's predicament is serious but probably not as serious as indicated in Sir David Steel's letter or Mr Howell's minute. First, it is unlikely that BP will need to find as much as 36m. tons of crude in 1980. This figure would appear inter alia to be based on estimates by BP's marketing managers throughout the world on what they would ideally like to have to sell compared to their reliable sources of supply. Secondly, leaving aside what they can obtain from BNOC at 'official prices'(see paragraph 6 below), BP are unlikely to have to purchase the remainder of their deficit on the spot market. Some they should be able to purchase at 'official' prices. Thirdly, it is not unlikely that the gap between spot prices and official prices will be less next year than they currently are.

5. In sum, BP's figures (\$500m. cost of operating in the spot market) not unnaturally paint the worst case and should not be taken at their face value. It is, however, fair to point out that it is possible to paint scenarios which would put BP in an even worse position, for example, if it lost all its Kuwait supplies.

6. All parties are agreed that BNOC should help BP. The question is to what degree and on what terms. Nobody is suggesting that BNOC by itself should meet BP's forecast deficit. This would pre-empt the greater part of BNOC's crude availability in 1980 and would totally undermine the Government's policy of using BNOC's oil to achieve security of the UK's oil supplies at a time of great uncertainty. I think the balanced approach proposed by the Secretary of State between the need to help BP and maintain our security of supply is the right one. BNOC have in fact already offered to meet BP's UK refinery deficit for 1980 (some 7½m. tons) and to provide a little more (say 2½m. tons) direct to BP's EEC subsidiaries. If BNOC goes much further it will inevitably reduce its ability to use its crude to ensure our security of supply. This 2½m. tons of net exports to help BP are not as much as they would like but will help close the gap.

CONFIDENTIAL

7. As a quid pro quo BP should undertake to make its own North Sea oil (or an equivalent amount of non-North Sea oil) available to its UK refineries at all times. Shell and Exxon gave such undertakings under their Participation Agreements. BP has never given a parallel undertaking and that indicated in Sir David Steel's letter to Lord Carrington is not as firm as it might be. I would, however, expect this matter to be resolved in BNOG's negotiations with BP.

8. On this basis HMG would be going some way to help a British company (BP) in its new predicament but taking the occasion to specify a new relationship under which BP would give preference to its UK operations in times of shortage and direct any net exports of North Sea oil over and above the needs of BP UK refineries to our EEC partners. A move from which we should be able to extract some credit in Brussels.

9. There is some urgency about these negotiations. If the UK Government sells a large block of BP shares the company is obliged under the rules of the US Securities and Exchange Commission to publish a prospectus. That prospectus will need to include forecasts of BP's oil availability and if these are poor the share price could be affected. Any BNOG arrangements should therefore be included. BP have to complete their prospectus for filing with the Securities and Exchange Commission by 12 October at the latest and preferably by 5 October - a fact that BNOG are currently not aware of, although BP may tell them tomorrow. It is desirable that BP's negotiations with BNOG should be concluded at least in principle by then.

10. I am sending a copy of this minute to Sir John Hunt.

KB

1 October 1979

Att

SIR DAVID STEEL

TELEPHONE
01-920 7062

(SWITCHBOARD 01-000 0000)



BRITANNIC HOUSE, ^{to see} K? 29/ix
MOOR LANE,
LONDON. EC2Y 9BU

and return

19th September, 1979.

STRICTLY CONFIDENTIAL

a

CABINET OFFICE
Qa8.3.10
19 SEP 1979
FILING INSTRUCTIONS
FILE No.

Dear Peter

In the course of our general discussion at lunch on Monday, the question of our crude supplies came up. You asked for a note on the bare details.

Under the "Sunningdale Agreement" we sell to BNOC 51% of our North Sea production. We buy most of that back and have to sell them a substantial volume of our Middle East crudes.

This was not onerous initially, but in the past year we have lost major quantities from our traditional sources, and it has become an almost insupportable burden. In 1980 the arrangement would mean that BNOC in practice would keep 3 million tons of our total production of 25 million tons of North Sea crude and acquire also from us some 9 million tons of Middle East crudes.

Our position for 1980 is that, having reduced our crude oil sales to third parties (other than BNOC) from 70 million tons per annum, to only 5 million tons per annum (these are unavoidable commitments) we will still have to purchase some 36 million tons of crude oil in order to meet our own marketing and refining needs, mainly in the UK and Europe. Much of this oil will have to be purchased on the Spot Market, where we estimate that we will have to pay a premium of the order of \$30 per ton over the official Government selling price. The alternative would be to sell refining and marketing assets in Europe. Meantime BNOC will be selling to other oil companies, at around the official Government selling price, the Middle East oil acquired from us.

We have proposed to HMG and BNOC that the original participation arrangement be modified in the three following respects -

- (a) the 9 million tons of Middle East oil acquired from us should be re-sold to us,

. . . /cont'd

- (b) an additional 5 million tons of North Sea crude from non-BP sources should be sold by BNOC to us rather than to overseas competitors, and
- (c) 3 million tons of North Sea Royalty crude available to HMG should be sold back to us.

This proposal would avoid a loss to BP of some \$500 million per annum and would also avoid a loss of foreign exchange to the UK of a similar sum. This proposal would cost BNOC nothing.

We for our part have proposed that sufficient North Sea crude oil will be dedicated to our UK market so that in an emergency, our UK associate will receive virtually its full requirements.

The foregoing is very much a simplification of some very complicated arrangements and I am of course happy to expand on any of it if you so wish.

A copy of this letter has been sent to David Howell and also to Geoffrey Howe.

Jan *ev* *and*

The Rt. Hon. The Lord Carrington, KCMG, MC,
Secretary of State for Foreign and Commonwealth
Affairs,
Foreign and Commonwealth Office,
Downing Street,
London, S.W.1.

CONFIDENTIAL

tw



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

692m

CONFIDENTIAL

Prime Minister

2

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.

CONFIDENTIAL

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

CONFIDENTIAL

-2-

27 SEP 1979



CONFIDENTIAL

010

Top Copy: Ewan Psl,
May 79, - The Exchange Rate,
Exchange Control Policy.

SECRET



Prime Minister ²
Energy
You told the Chamber
and the Government
you will discuss
this with them
after their return
from Belgrade.

A need
not

PRIME MINISTER

TIMING OF EXCHANGE CONTROL PACKAGE AND BP SHARE SALE

You will be aware that there is a link between the timing of the sale of BP shares and the possible announcement of further steps in dismantling exchange controls.

TR
26/9

The link arises because an exchange control relaxation on portfolio investment might have a marginally depressing effect on the shares of UK companies with high overseas earnings, like BP. If the relaxation were announced shortly after a Government sale of BP shares and the BP price fell, whether on account of the relaxation or for some quite different reason, there could well be complaints from aggrieved shareholders that the Government had deliberately held up the exchange control announcement so as not to affect the share price before the sale.

Such complaints might be expected to be taken to the Council of the Stock Exchange or to the Council for the Securities Industry or to an MP or to the Press. In the last resort legal action could not be ruled out. There could be a special problem with the US Securities and Exchange Commission even though the main sale will be confined to the London market.

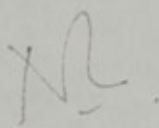
This suggests that any announcement about exchange control relaxations should be made before the BP sale and our preliminary plans reflect this.

The Chancellor intends to consult you early next month about the possibility of a further exchange control package and its timing. We have not come to conclusions on the timing of the BP sale, but we think that it ought to take place as quickly as possible. The

Chancellor will consult you later about the precise date, but it looks as if 30 October would be a convenient date, provided market conditions are right. There would be serious technical difficulties in postponing it for more than a week or so beyond that if the sale is to take place before December. This would suggest that, provided conditions generally are suitable for such a move, the ideal timing for the Exchange Control package would be more or less as soon as Parliament returns on 22 October.

if we
have
one.
R

We will keep you in close touch with developments on both these points, but I thought you might wish to be aware at this stage of the link between the two operations.



NIGEL LAWSON

25 September 1979



SECRETARY OF STATE FOR ENERGY
 THAMES HOUSE SOUTH
 MILLBANK LONDON SW1P 4QJ

The Rt. Hon. Sir Geoffrey Howe, Q.C., M.P.
 Chancellor of the Exchequer,
 The Treasury,
 Parliament Street,
 London, S.W. 1.

29 September 1979

Dea Seamus

INDUSTRY BILL

I refer to Keith Joseph's letter of 19th September spelling out the problems facing us with the Industry Bill.

In the light of our decision in E Committee I have, of course, been considering whether it could be feasible to drop the proposed BNOC clause and I am satisfied that to do so should not put our plans at risk. Indeed, not to do so in the light of our decision not to dispose of any commercial oilfield assets at present could cause needless confusion and criticism.

The only BNOC "assets" which are now likely to be disposed of in the current financial year are interests in certain exploration blocks. As I explained in my recent note to the Prime Minister, the Corporation is prepared to proceed voluntarily in relinquishing these interests, which are of a relatively minor nature; although its decision has obviously been prompted by our belief that it had acquired too many such commitments and had become over-extended. There is the point that the clause might be needed to cover this transaction. But I understand that the Attorney-General has advised informally that he would not regard the clause as necessary to cover these disposals provided that the Corporation has reached its own view that there is a sound commercial basis for them. I believe that it has and that the risk of successful challenge on this ground is acceptably remote. In these circumstances, I do not think that we need the BNOC clause in the present Bill. Nor need we seek to delay BNOC - which is now anxious to proceed - from pursuing its remit.

As you know, legislation will be needed during the current Session to shape BNOC's longer-term future and I will be putting detailed proposals to colleagues in the next few weeks. My prime purpose will be to obtain powers to facilitate re-structuring of the Corporation leading to the eventual introduction of private capital: but we can also consider amongst the many detailed points that will arise whether such legislation should additionally provide

the powers/...



the powers for the outright disposition of the Corporation's major assets that will not be taken in the Industry Bill.

I am copying this letter to the Prime Minister, Keith Joseph, other members of E Committee, the Attorney-General, Parliamentary Counsel and Sir John Hunt.

Yours

Daw

D.A.R. Howell.



DEPARTMENT OF INDUSTRY
Ashdown House
123 Victoria Street
London SW1E 6RB

Tel: 01 212
Switchboard 01 212 7676

PS/PM.

As requested.!

With the Compliments of

Alan



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

19 September 1979

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1


mins
Sec
Mr. Liffett
Mr. Deary
Mr. Kerry
Mr. Farrel
Mr. Ears
Mr. McArthur
Mr. Bellamy
Mr. Costin
Mr. Leaman
Mr. Russell

Dear Geoffrey,

I am very concerned about the problems that we face in securing the early enactment of the Industry Bill. Most of the provisions in the Bill are essential in order to implement aspects of our strategy, or to give statutory effect to important elements of Government policy. There are only one or two provisions which are not of the greatest urgency, and these are not crucial one way or the other to the Bill's likely progress through Parliament.

The most contentious parts of the Bill will be those providing for the sale of public assets (NEB, EIEC, RCC, Market Towers and BNOC) and we must assume that the Opposition will contest them at considerable length. In addition the provisions restricting the scope of the NEB, SDA and WDA are also likely to encounter stiff opposition.

Undoubtedly the most important of these provisions relate to BNOC. As I understand it, David Howell has not yet reached a final decision on whether, in the light of decisions that we took last week, these provisions might now be dropped from the Bill. If they can this would ease some of the pressure. But even so, the NEB disposals (£100m) and possible provisions for the Radio Chemical Centre and Market Towers will still form a controversial group. I have asked the NEB to obtain legal advice on whether they can make some of their disposals within the present law - their previous advice had been that they could. If they were to be so advised again, then I would invite Michael Havers to look at that advice in the light of his earlier opinion. However, I think we would be rash to assume at this stage that the entire £100m might be realised without legislation, although there might be some possibility of disposals for perhaps £25m or so. The disposals of the Radio Chemical Centre and Market Towers were taken into account when we decided on the BP disposals and so feature in your strategy for the current year. However, I do not believe that you have counted on proceeds from possible sales of English Industrial Estates Corporation property this year.



I am advised that it should be possible to introduce the Bill for First Reading immediately the House reconvenes after the Summer Recess, ie, on or about 22 October. I think we must assume that a guillotine will be necessary if the Committee Stage is not to drag on almost indefinitely. However, the business managers have advised me that they are totally opposed to any guillotine motions being moved before the Christmas Recess, since this could have the most serious consequences for the rest of our programme. On this basis we could not look for Royal Assent to the Bill until possibly two months, or more, after the end of the financial year. The Commons Committee Stage would have to continue for an adequate number of sittings after the guillotine motion to give a reasonable amount of time for the remaining parts of the Bill and I am told by colleagues that it would be prudent to assume that the Lords Stages could take up to eight full sitting weeks.

I am also much concerned about the inter-action between the Industry and British Aerospace Bills. I am most anxious to bring the British Aerospace Bill forward at an early date in order that we should have the option to float shares in June 1980. I am advised that if this date were missed the next suitable opportunity, acting within the framework of Stock Exchange requirements, would be towards the end of the year. If we can secure the Bill in time we then have two options available next financial year (June and December) from which to choose the better likely market opportunity. My financial advice is clear that it would be a mistake to miss the June window. To achieve this we need to take the British Aerospace Bill to Committee immediately after Christmas. It would not be feasible to run both Bills in Committee together, and our previous thinking was therefore that the British Aerospace Bill should immediately follow the Industry Bill into Committee.

While recognising the real difficulty of the Chief Whip, I believe that, if we are to feel any real confidence in securing the Industry Bill within the current financial year, it will be necessary to have Commons Report and Third Reading no later than immediately after the Christmas Recess. We might then look for Royal Assent by about 21 March. (This would suffice for the disposal exercise providing that all the negotiations have been completed previously and all that remained was signing of contracts.) But this would mean moving the guillotine motion in the Commons no later than the first week in December. In turn that would mean showing our hand to the Opposition, in prior consultation earlier in the week, when the Committee would have been sitting for only two or three sessions; at best Committee Stage cannot be started earlier than 15 November.

We are thus faced with a real dilemma. Are we to press for an early guillotine motion to try to secure the sales on which your Budget arithmetic depends - at considerable risk to other parts of our legislative programme - or are we to put at risk your PSBR assumptions? I appreciate that this is a matter on

/which ...



which my colleagues will have a range of views. I am therefore sending copies of this letter to Peter Walker, George Younger, Nicholas Edwards, Norman St John Stevas, David Howell, John Biffen, Michael Havers, Michael Jopling and Bertie Denham. Copies also go to Parliamentary Counsel and Sir John Hunt.

Copied to Home Sec 25/9

PM ~~12/~~
25/9

Younger

Keir

25 SEP 1979

12 1 2 3 4 5
6

SECRET



Energy 1

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

17 September, 1979

Dear Secretary of State,

R 17/9

BNOC

Thank you for sending me a copy of your minute of 13th September to the Prime Minister about the draft Press Release announcing E Committee's conclusions on BNOC.

I was rather surprised to read the reference in your minute to your having received a categorical assurance from Lord Kearton that a £400m. reduction in the PSBR in 1979-80 could be achieved by bringing forward payments for 1980-81 disposals. The Prime Minister in her summing up at E Committee made it clear that BNOC should be instructed to make forward oil sales, which together with the proceeds of the sale of the 5 per cent of BP shares, would yield a total of £685m. in 1979-80. The precise amount raised by a 5 per cent sale of BP shares will, of course, depend on the market price, sales discounts and costs, but on the basis of the assumptions in my paper to E Committee (a sale price of £11.50 and a discount of 10 per cent) a 5 per cent sale would raise some £200m. This suggests that in order to meet E Committee's remit, BNOC should be ready to achieve a reduction of say £500m. in the PSBR in 1979-80 by bringing forward payments for 1980-81 disposals, rather than the £400m. referred to in your minute.

I therefore suggest that you ought to have a further word with Lord Kearton to let him know about the higher figure. He should not, of course, be told the reason for the increase. The size of the BP sales is of some market sensitivity.

I am sending a copy of this letter to Members of E Committee, and to Sir John Hunt.

*Yours sincerely,
MJE Hall*

(GEOFFREY HOWE)

The Rt.Hon. D. Howell, M.P.
Secretary of State for Energy.

[Approved by the Chancellor of the Exchequer and signed in his absence abroad]

SECRET



19 SEP 1973



~~Prime Minister~~

Final version of Mr Howell's
statement - Crispe and
deaver.

P.G.

2

Reference No 161
September 14, 1979

IL 14/9

Out of hours : 01-215 7877

BRITISH PUBLIC TO BE OFFERED SHARE IN BRITAIN'S
OIL WEALTH - DAVID HOWELL

Mr David Howell, Secretary of State for Energy, today announced that the Government has decided to press forward with plans to give the British public the opportunity to share in the ownership of the British National Oil Corporation.

The Government has also agreed to proposals that the Corporation should negotiate to receive payment in advance from the sale of some of its oil. This will reduce the Corporation's financing requirements, and so help the Government to meet its Public Sector Borrowing Requirement target.

Announcing these decisions today, Mr Howell said:

"The Government has concluded that the British public should have the fullest possible opportunity to share the benefits of the nation's oil wealth. State ownership of the BNOC has not, in the Government's view, spread these benefits. We are pursuing our objective of giving the public the chance to participate directly in BNOC's oil producing business. The Government has no present plans for BNOC to sell separately its interests in commercial fields.

"As I announced to the House of Commons in July, BNOC's other role, as an oil trader, will be retained and will remain as a wholly Government owned operation.

"We are considering schemes for the introduction of private capital into BNOC's North Sea operation. Legislation as necessary will be introduced later in the session, both for this and to remove certain of BNOC's powers and obligations, as I announced in July.

"BIOC will also be negotiating advance payment for some of the oil that it plans to deliver in 1980/81. This will reduce its calls on the Exchequer in 1979/80."

CONFIDENTIAL

FILE



10 DOWNING STREET

From the Private Secretary

cc: E.C.Hee DSG
 Home Sec
 Foreign Sec
 Ch. Exch.
 Industry Sec
 Hd Pres.
 Employment Sec
 MATT Sec
 14 September 1979
 Trade Sec.
 (Energy Sec)
 Chief Sec, T&Y
 + C.O.

BNOG

The Prime Minister considered your Secretary of State's minute of 13 September and the enclosed draft statement on BNOG last night.

The Prime Minister approved the substance of the draft, but - as I told you on the telephone - she was unhappy about the actual drafting. She asked that your Secretary of State should have another look at the draft with a view to producing something crisper and less convoluted.

On the advice of Mr. Henry James, the Prime Minister decided that the statement should not go out last night, but should be released this morning. She also decided that there was no reason to release to the Press her letter to Mr. Callaghan. I enclose copies of the signed letters which we will be despatching to Mr. Callaghan and to Mr. John Hannam as soon as we have the revised version of the statement.

I am sending copies of this letter and enclosures to the Private Secretaries to the members of E Committee and to Martin Vile (Cabinet Office).

T. P. LANKESTER

Bill Burroughs, Esq.,
Department of Energy.

CONFIDENTIAL

DSG



10 DOWNING STREET

THE PRIME MINISTER

14 September 1979

Dear John,

See Pt 1

Thank you for your letter of 6 September arguing for keeping BNOC's upstream operation intact, and for a public floatation of a shareholding in this part of the business.

I enclose a copy of the press notice which David Howell is issuing today which I think you will welcome.

Yours ever

David Howell

John Hannam, Esq., M.P.



cc: D/Energy
(with covering letter)

286

10 DOWNING STREET

THE PRIME MINISTER

14 September 1979

Dear Sir,

See Pt 1.

In your letter of 7 September you asked about reports that the British National Oil Corporation is to be instructed to sell some of its assets.

I am enclosing with this letter a copy of an announcement to be made today by David Howell on BNOC's future. You will see that the Government has no present plans to direct BNOC to sell off its oil fields.

Yours sincerely
Margaret Thatcher

The Rt. Hon. J. Callaghan, M.P.



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

13th September 1979

Dear Sir,

BNOC : ADVANCED PROCEEDS OF OIL SALES

Thank you for your letter of today seeking the Chancellor's views on the draft press statement attached to your letter announcing the decisions relating to BNOC taken at E Committee on Tuesday. I have also reported to the Chancellor that since the letter was despatched, your Secretary of State has expressed a preference in the 5th line of the statement for the wording "the Government has decided the Corporation negotiate to receive payment".

The Chancellor has the following comments on the draft.

- (i) He recognises the reason why your Secretary of State wishes to alter the 5th line of the statement in the way described above, but much prefers the original version. If the proceeds from the forward oil sale are to be counted as a reduction in the PSBR, the deal must be a commercially motivated one which can be regarded as part of BNOC's normal commercial transactions involving trade credit. To say that the Government decided that the Corporation should carry out the sales departs from this commercial motivation. The Chancellor would therefore want the sentence to remain as set out in the draft that you sent me. Furthermore, although this is a point for your Department, the Chancellor wonders whether it would be prudent to ascribe the forward oil sales to a Government decision. His understanding is that BNOC will confine the deals to UK refiners. EEC refiners may also ask to participate and if your Secretary of State had made clear that the transactions were undertaken by BNOC as a result of Government decision, there could well be diplomatic embarrassment when BNOC refuse to do business with them.

/(ii)

W. Burroughs, Esq.
Department of Energy



- (ii) The Chancellor would like the word "present" in the last sentence of the first paragraph of the quotation from your Secretary of State to be replaced by the word "immediate". He believes that this better reflects the terms of the Prime Minister's summing up of the Committee which refer to no sales of BNOG assets "this year". If your Secretary is asked what "immediate" meant, the Chancellor thinks that in any event he would have to reflect the point on timing made in the Prime Minister's summing up. The Chancellor's own understanding of the conclusions Ministers reached is that the decision not to make disposals of BNOG's commercial fields this year related only to oil fields.
- (iii) The Chancellor has noted your Secretary of State's view that any statement on the BNOG position should cover plans for the rest of the £1 billion and in particular for BP stock sales. The Chancellor recognises that such questions may arise, but he sees no need to deal with them in your Secretary of State's statement. He therefore would like your Secretary of State to omit the last paragraph of the statement entirely (which incidentally would in any event have needed redrafting in certain respects). Treasury press office will be briefed to deal with questions on the BP stock sale and the £1 billion so that there should be no risk of misunderstanding or misconceived press speculation.
- (iv) If this view is accepted, consequential amendments will be necessary.

Finally, the Chancellor hopes that your Secretary of State will confirm with BNOG that a public announcement of the forward oil sale transactions will not make it harder for the Corporation to negotiate the best terms for such deals.

Yours ever,

John B. ...

pp. (M.A. HALL)



SECRETARY OF STATE FOR ENERGY
 THAMES HOUSE SOUTH
 MILLBANK LONDON SW1P 4QJ
 01 211 6402

5806

CHIEF CLERK	13/9
REC.	13 SEP 1979
ACM	Mr W. Jones
COMES TO	PSKST P. F. JONES P. M. JONES P. M. JONES Sir D. Wain Sir L. A. Jones Mr F. Jones Mr M. Jones Mr R. Jones

A M W Battishill Esq
 Private Secretary to the
 Chancellor of the Exchequer
 Treasury
 Parliament Street
 LONDON SW1P 3HE

13 September 1979

Dear Tony

BNOC: ADVANCE PROCEEDS OF OIL SALES

My Secretary of State is anxious to announce the decisions relating to BNOC taken at E Committee on Tuesday as soon as possible. A copy of the statement he has in mind is attached. I should be grateful if you could let me have the Chancellor's views on it. I should mention that the statement is carefully structured to emphasise that we propose to pursue the private capital route, in preference to asset disposals.

The Secretary of State believes that any statement on the BNOC position is bound to invite questions about the Government's plans to realise £1bn by asset sales. The press has been full of the £400m contribution being sought from BNOC, and we can expect it similarly to establish very quickly that BNOC's advance proceeds will bring in a similar sum. There will be questions and speculation about our plans for the rest of the £1bn and in particular for BP stock sales. The Secretary of State therefore believes that it would be sensible to put the BNOC decisions in the context, of your Budget statement even though this is strictly a Treasury matter and the announcement is drafted accordingly. The Secretary of State would prefer this approach to leaving the matter to come out rather more haphazardly and accompanied by possible misconceived press speculation; but he would welcome the Chancellor's views on it.

I hope you will be able to seek the Chancellor's views during the course of the day. This would enable us to put an agreed draft to the Prime Minister tonight, and to make the announcement tomorrow.

Yours sincerely,
 Bill

W.J. BURROUGHS
 PRIVATE SECRETARY

DRAFT STATEMENT

BRITISH PUBLIC TO BE OFFERED SHARE IN BRITAIN'S OIL WEALTH -
DAVID HOWELL

Mr. David Howell MP, Secretary of State for Energy, today announced that the Government has decided to carry further its consideration of plans to give the British public the opportunity to share in the ownership of the British National Oil Corporation.

The Government has also accepted the Corporation's proposals to negotiate to receive payment in advance from some of its oil sales. This will reduce the Corporation's financing requirements and so help the Government to meet its Public Sector Borrowing Requirement target.

Announcing these decisions today Mr. Howell said:

"The Government has concluded that the British public should have the fullest possible opportunity to share in the nation's oil wealth. Narrow state ownership of the BNOC has not, in the Government's view, spread these benefits. Accordingly, our objective is to provide the public with the opportunity to participate directly in BNOC's oil exploration and production business. The Government has no present plans for BNOC to sell separately any of its commercial fields.

DIL

As I announced to the House of Commons in July, BNOC's other role, as an oil trader, will be retained and will remain as a wholly Government owned operation.

Consideration of possible schemes for the introduction of private capital into the North Sea operation is now under way and legislation will be introduced as necessary both for this and for the removal of certain of BNOC's powers and obligations, as announced in July, later in the session.

The Chancellor of the Exchequer in his Budget speech announcing his target for a reduced Public Sector Borrowing Requirement made provision for £1 billion to be raised by the sale of state-owned assets in the current financial year. BNOC will contribute towards this total by negotiating advance payment for some of the oil that it plans to deliver in 1980/81, and so reduce its calls on the Exchequer in 1979/80. This will be in addition to the offer for sale of part of the Government's stock-holding in BP, as announced in the Budget, and the sale of other

2.

public sector assets outside the energy field. Announcements about these will be made later.

CONFIDENTIAL

Prime Minister

BNOG

11.9.79

Following the E Committee meeting yesterday, I have had a further categorical assurance from Lord Kearton that a £400m reduction in the PSBR in 1979/80 can be achieved by bringing forward payments for 1980/81 disposals. The way is therefore clear for an immediate announcement, and I am attaching a draft press release which I would like to go out tonight. As you will see I think it important politically to emphasise our longer term plans to introduce private capital in preference to immediate asset sales. Geoffrey Howe is content with the draft.

You will probably wish to deal with Jim Callaghan's letter simultaneously with the announcement; I am therefore enclosing a short, sharp draft reply for your use, which if you agree, should issue tomorrow morning, with copies being released to the press along with my own press release. Alternatively you may prefer to use the draft statement as the basis of a rather fuller reply to Jim Callaghan which could then be released to the press without the need for a separate statement.

I am also enclosing a draft reply to John Hannam's letter.

I should be glad to have your agreement to proceed.

Copies of this minute go to members of E Committee, and to Sir John Hunt.

D A R Howell

13 September 1979

Dh.
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CONFIDENTIAL

DRAFT STATEMENT

BRITISH PUBLIC TO BE OFFERED SHARE IN BRITAIN'S OIL WEALTH -
DAVID HOWELL

is
Carrying
forward

Mr David Howell MP, Secretary of State for Energy, ^{said} today ~~announced~~ that the Government ~~has decided to carry further~~ its consideration of plans to give the British public the opportunity to share in the ownership of the British National Oil Corporation.

The Government has also agreed to proposals that the Corporation should negotiate to receive payment in advance from some of its oil sales. This will reduce the Corporation's financing requirements and so help the Government to meet its Public Sector Borrowing Requirement target.

Announcing these decisions today Mr Howell said:

"The Government has concluded that the British public should have the fullest possible opportunity to share in the nation's oil wealth. ^(Narrow) State ownership of the BNOC has not, in the Government's view, spread these benefits. We are pursuing our objectives of providing the public with the opportunity to participate directly in BNOC's oil ~~exploration and~~ production business. The Government has no present plans for BNOC to sell separately any of its commercial fields.

As I announced to the House of Commons in July, BNOC's other role, as an oil trader, will be retained and will remain as a wholly Government owned operation.

Consideration is being given to possible schemes for the introduction of private capital into the North Sea operation and legislation will be introduced as necessary both for this and for the removal of certain of BNOC's powers and obligations, as announced in July, later in the session.



PART 2 begins:-

s/s Energy to PM 13.9.79

PART 1 ends:-

TL to PM 12.9.79

END

Filmed at the National
Archives (TNA) in London

February 2010