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Confidential Entry
~~September 1980~~

Power station project: UK package involving GEC, NCB, SHELL and BNOC.

GREECE

September 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
	20.9.80						
	24.9.80						
	26.9.80						
	2.10.80						
	30.10.80						
	7.11.80						
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	4.12.80						
	14.12.80						
	23.12.80						
	29.12.80						

PREM 19/251



Greece

10 DOWNING STREET

From the Principal Private Secretary

29 December 1980

Dear John,

The Prime Minister has seen and taken note of your letter of 23 December 1980 to Tim Lankester dealing with both the offer to sell a coal-fired power station to Greece and the size of the recent miners' pay settlement.

I am sending copies of this letter to John Wiggins (Treasury), Ian Ellison (D/Industry), Robin Ibbs (CPRS) and David Wright (Cabinet Office).

Yours etc,

Alvin Whiston.

J.D. West, Esq.,
Department of Energy

cc Nat. Inds. Pt.
Mineworkers Pay.



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

01 211 6402

Prime Minister

(2)

Tim Lankester Esq
10 Downing Street
LONDON
SW1

Print

23 December 1980

ms

Dear Tim,

I understand from Sir Donald Maitland that at yesterday's meeting the Prime Minister raised the question of the offer to sell a coal-fired power station to Greece. As you know the Greeks have chosen to attribute - in public at least - their rejection of the UK offer to the proposals on coal.

In our view the Greek position does not stand up to examination. The coal offer, arranged with involvement by the private sector in the form of Shell Coal, was in the view of both the NCB and Shell fully competitive on both price and security. The Greeks appear to have used it as a pretext for not accepting the total package, whereas in reality internal political reasons lay behind the rejection. Significantly, when explaining the decision to our Ambassador the Greek Prime Minister said that our Prime Minister would understand his political difficulties.

Not
revisit
opencast

I believe that the Prime Minister has asked in particular about the possibility that the cheap output from an NCB opencast site could be dedicated to the Greek project. It had in fact been recognised immediately the Greeks asked for a mine to be dedicated that it would have to be in a third country because of the practical difficulties with UK opencast sites. In the first place our opencast operations are necessarily very small and short-lived by world standards and, in order to meet the Greek requirement, a constant and rapid turnover of sites would be needed - on average about one new site a year over 25 years. This would pose serious problems both for supplying the coal - it is unlikely that the sites would all be in one area - and for the planning procedure - opposition to opencast working on environmental grounds, often supported by local authorities, has increased in recent years and would be stronger if the coal were not for use in the UK. The Board would also almost certainly be accused of contravening the ECSC Treaty if it cut its prices to the Greeks on a flagrantly discriminatory basis. Most seriously, the dedication of part of our cheapest capacity to the Greeks at cost-related prices at a time when all expectations are that world prices are on a long rising trend would amount to giving the Greeks a blank cheque. I should add that Shell had been working very hard on identifying a mine for dedication to the project and the Greeks were



well aware of this. We understand that in fact a suitable mine had been acquired in the USA just before the Greeks rejected our offer. This would have been very much bigger than anything we have and would have provided cheaper coal for the Greeks than NCB sites (because of favourable geology), while avoiding the disadvantages to the UK.

The rejection of the UK package has caused the NCB and Shell particular disappointment since they put together their very favourable joint package at no little expense in time and money. But we expect other opportunities for our UK-based international coal suppliers - Shell Coal, BP Coal and the NCB - to participate in major UK energy packages and we feel that it is important at this stage in the development of a new type of export deal for the UK, that we do not discourage our coal suppliers and that we do take account of the problems they face. Unfortunately in this instance the Greeks appear to have chosen for their own purposes to create a false impression of the nature of the coal offer.

On another subject, I understand that the Prime Minister also raised yesterday the question of the size of the miners' pay settlement. This is to confirm what my Secretary of State said then, namely that the settlement will increase the total pay bill for mineworkers by 9.7%. You will find the details in paragraph 1 of the note attached to my letter of 16 December to John Wiggins, which was copied to you.

I am copying this letter to John Wiggins, Ian Ellison, Robin Ibbotson and David Wright.

Yours ever,

A handwritten signature in dark ink, appearing to read 'J D West', written in a cursive style.

J D WEST
Private Secretary



Faint, illegible text or markings on the left side of the page.

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22 DEC 1980

COMPTON

CONFIDENTIAL

Greece



Foreign and Commonwealth Office

London SW1A 2AH

*Line previously discussed
with Prime Minister.
Tel offered for despatch to
FCO, informed.*

23 December 1980

*For
Amb, 23/12/80*

Dear Michael,

Greece: Coal-Fired Power Station

You will have seen Athens telegrams Nos 344 and 345 (copies of which are enclosed for ease of reference) reporting that the Greek Government has decided against concluding the proposed contract with GEC for the supply of a coal-fired power station and will be inviting international tenders. The Greek Prime Minister alleged that the coal supply offer was unsatisfactory and that the offer on oil was insufficient to compensate. Mr Rallis thought that the Prime Minister would understand his political difficulties. The Greek Minister of Industry subsequently suggested that the climate for economic and industrial cooperation would be favourably influenced by an early offer by BNOG of a token quantity of oil.

The Foreign and Commonwealth Secretary thinks that the Ambassador at Athens is probably right in believing that the adverse decision owed more to divisions within the ruling New Democracy than to fear of Opposition reactions. The excuse made, over the inadequacy of the offer on coal supply, is unconvincing. Lord Carrington thinks that the Greek Government should be left in no doubt that their conduct in recent months, culminating in this unfavourable decision, has made a deplorable impression in London. And they should be told firmly that they will get no North Sea oil from BNOG: you will remember that they received 200,000 tons of oil from BNOG on account of the power station deal and there seems no case for a further 'gesture of goodwill'.

I enclose the draft of a telegram which will, if you agree, be despatched to Athens on 23 December.

*Yours ever,
F N Richards*

(F N Richards)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

GR 1000

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CONFIDENTIAL

DESKBY 191230Z

FROM ATHENS 190900Z DEC

TO IMMEDIATE FCO

TELNO 345 OF 19 DEC 80

AND TO

IMMEDIATE DOT (ADVANCE COPY TO BENJAMIN/PEP)

IMMEDIATE DOI (ADVANCE COPY TO MEP)

IMMEDIATE DEPT OF ENERGY

GREECE : COAL FIRED POWER STATION PROJECT

THE GREEK PRIME MINISTER SUMMONED ME LATE ON 18 DECEMBER. MANOS, MINISTER OF ENERGY, AND ROUSSOS, ALTERNATE SECRETARY GENERAL AT THE MFA, WERE PRESENT. I WAS ACCOMPANIED BY MY COMMERCIAL COUNSELLOR. RALLIS INFORMED ME THAT HIS INNER CABINET HAD THAT DAY DECIDED, WITH ONLY MITSOTAKIS DISSENTING, NOT TO ACCEPT THE BRITISH PACKAGE. ALTHOUGH THE GEC OFFER WAS COMPETITIVE, THE COAL SUPPLY DID NOT MEET GREEK REQUIREMENTS OR THE TERMS OF THE MEMORANDUM OF UNDERSTANDING. THE OFFER ON OIL HAD BEEN INSUFFICIENT TO COMPENSATE. HE, RALLIS, COULD HAVE IMPOSED A CONTRARY DECISION ON HIS COLLEAGUES BUT "HE HAD NOT THE MORAL STRENGTH TO CREATE A POLITICAL CRISIS".

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3. I SAID THAT I DID NOT WISH TO MINIMISE THE VALUE OF THE PETROCHEMICAL PROJECT BUT THE DECISION ON THE POWER STATION WOULD CAUSE DISAPPOINTMENT AND CONCERN. RALLIS INTERRUPTED TO SAY THAT MRS THATCHER WOULD UNDERSTAND HIS POLITICAL DIFFICULTIES. I INSISTED THAT THE DECISION TO REJECT SO ADVANTAGEOUS A PACKAGE, COUPLED WITH THE DEPRESSING ACCOUNT I HAD JUST HAD FROM AVEROFF ON BRITISH PROSPEKTS FOR DEFENCE PROJECTS (MY TELNO 343) AND, MORE GENERALLY, THE FAILURE ON THE PART OF THE GREEKS TO IMPLEMENT THE MEMORANDUM OF UNDERSTANDING SIGNED A YEAR AGO IN LONDON WAS DIFFICULT TO UNDERSTAND AND WOULD CERTAINLY BE TAKEN VERY HARD IN LONDON. I EMPHASIZED THAT, IN OUR VIEW, THE POWER-STATION PACKAGE COMPLIED FULLY WITH THE TERMS OF THE MEMORANDUM AND THAT THE OIL OFFER WENT CONSIDERABLY FURTHER. I RECALLED THAT THE MEMORANDUM ALSO CONTAINED A COMMITMENT ON RAILWAYS AND REFERENCE TO DEFENCE PROJECTS. ON THE CURRENT DEFENCE PROJECTS, WHICH I ENUMERATED, RALLIS SAID THAT THESE WERE "AVEROFF'S FIEF": HE DID NOT INTERFERE. AS REGARDS THE RAILWAY MODERNISATION SCHEME, THE FINANCIAL SITUATION WAS SUKH THAT IT WAS NOT AT PRESENT A STARTER (BUT SEE MY PARA 6 BELOW).

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14

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6. IN SUBSEQUENT DISCUSSION, I REVERTED TO THE RAILWAY MODERNISATION PROJECT AND REFERRED TO THE "COLD BID" PRESENTED ON 16 DECEMBER TO THE MINISTER OF COMMUNICATIONS. (MY TELNO CRED A 213). IN THE LIGHT OF RALLIS' STATEMENT QUOTED IN MY PARA 3 ABOVE, I DO NOT CONSIDER THAT THIS STANDS MUCH CHANCE OF ACCEPTANCE BUT I SHALL ENSURE THAT HE IS PERSONALLY PROVIDED WITH FULL DETAILS. I ALSO PRESSED FOR ACCEPTANCE OF THE BRITISH BID FOR THE TEACHING HOSPITAL PROJECT.

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8. THE REJECTION OF THE POWER STATION OFFER IS BITTER NEWS AFTER ALL THE EFFORT PUT IN TO BRING OFF THIS PROJECT. THE MESSOLONGHI AND AIR-PORT CONSULTANCY CONTRACTS ARE TOGETHER WORTH SOME £70 MILLIONS, BUT THE DECISION REPRESENTS A SETBACK TO HOPES FOR A DRAMATIC IMPROVEMENT IN OUR SHARE OF THE GREEK PUBLIC-SECTOR MARKET. I HAVE REASON TO BELIEVE THAT THE DECISION OWES MORE TO DIVISIONS WITHIN NEW DEMOCRACY THAN TO FEAR OF PASOK REACTION. AS FOR THE FUTURE, OUR AIM SHOULD BE TO EXTRACT MAXIMUM COMMERCIAL ADVANTAGE FROM THE POSITION OF PSYCHOLOGICAL INDEBTEDNESS IN WHICH GREEK MINISTERS FIND THEMSELVES. IF WE PLAY OUR CARDS RIGHT, GEC ARE WELL PLACED TO WIN THE CONTRACT FOR THE COAL FIRED-POWER STATION AGAINST INTERNATIONAL COMPETITION

SUTHERLAND

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PS
PS/LRS
PS/MR HURD
PS/PUS
MR BULLARD
SIR A. ACLAND
MR FERGUSSON
MR P. H. MOBERLY

COPIES TO

PEP, DOI
MEP, DOT
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Mr. Mark
Mr. Jeron

DWF 6047/19

OO FCO (DESKBY 191230Z)

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FROM ATHENS 190900Z DEC

TO IMMEDIATE FCO

TELNO 344 OF 19 DEC 88

AND TO

IMMEDIATE DOT (ADVANCE COPY TO BENJAMIN/PEP)

IMMEDIATE DOI (ADVANCE COPY TO MEP DIVISION)

IMMEDIATE DEPT OF ENERGY

ADVANCE COPY

PS
PS/LPS
PS/Mr Huel PS/PUS
Mr Bullard
Mr A. Acland
~~Hd/SEB~~
Hd/DefD

MIPT

GREECE : COAL-FIRED POWER STATION PROJECT

1. FOLLOWING IS TRANSLATION OF PRESS RELEASE PUT OUT BY GREEK GOVERNMENT LATE ON 18 DECEMBER :

NEGOTIATIONS CARRIED OUT FOR MONTHS IN A WHOLLY CONSTRUCTIVE SPIRIT, AT GOVERNMENTAL AND TECHNICAL LEVEL, FOR THE IMPLEMENTATION OF THE MEMORANDUM OF UNDERSTANDING BETWEEN GREECE AND THE UNITED KINGDOM, CONCERNING THE CONSTRUCTION OF TWO COAL-FIRED POWER STATION, THE LONG- TERM SUPPLY OF COAL AS WELL AS THE SUPPLY OF OIL, REMAINED WITHOUT RESULT IN THE END, DESPITE THE GOOD WILL OF BOTH SIDES AND THEIR SINCERE DESIRE TO REACH AGREEMENT. IN THE GREEK VIEW THE BRITISH PROPOSALS ON COAL DID NOT FULFIL THE TERMS SET OUT IN THE MEMORANDUM OF UNDERSTANDING.
BRITISH COUNTER-PROPOSALS PRESENTED AT THE LAST PHASE OF THE

MEMORANDUM OF UNDERSTANDING.

BRITISH COUNTER-PROPOSALS PRESENTED AT THE LAST PHASE OF THE NEGOTIATIONS IN AN OBVIOUS EFFORT TO APPROACH GREEK VIEWS. DID NOT GO FAR ENOUGH TO MEET THE REQUIREMENTS AS ENVISIONED BY THE GREEK SIDE.

THE GREEK GOVERNMENT NOW INTENDS TO INVITE INTERNATIONAL TENDERS FOR A COAL-FIRED POWER STATION.

THE GREEK GOVERNMENT ATTACHES SPECIAL IMPORTANCE TO ECONOMIC AND INDUSTRIAL COOPERATION WITH GREAT BRITAIN, AND BELIEVES THAT GREECE'S FORTHCOMING ACCESSION TO THE EEC WILL OPEN UP NEW PROSPECTS FOR COOPERATION BETWEEN THE TWO COUNTRIES. IT IS THE INTENTION OF THE GOVERNMENT TO ENCOURAGE COMPANIES AND PUBLIC CORPORATIONS TO TAKE FULL ADVANTAGE OF SUCH OPPORTUNITIES.

SUTHERLAND

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DAVID COBB

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OUT TELEGRAM

	Classification and Caveats CONFIDENTIAL	Precedence/Deskby PRIORITY
ZCZC	1 ZCZC	
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DESKBY	5	
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PRE/ADD	7 TO PRIORITY ATHENS	
TEL NO	8 TELEGRAM NUMBER	
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	10 YOUR TELS NOS 344 AND 345: GREECE: COAL-FIRED POWER STATION	
	11 1. You were right to tell the Greek Prime Minister that his	
	12 Government's decision not to conclude the contract for the power	
	13 station would cause disappointment and concern: the failure to	
	14 implement the Memorandum of Understanding ^{has} is indeed ^{made a very} taken very	
	15 hard ^{poor impression} in London.	
	16 2. In these circumstances there can be no question of BNO	
	17 being asked to supply Greece with even a token quantity of oil,	
	18 let alone the 200,000 tonnes which Manos has in mind. The oil	
	19 offer was indeed linked to the power station contract, ^{on account of}	
	20 ^{which they in any case received approximately 200,000 tonnes of oil in November.}	
	21 3. I agree that our aim should be to extract the maximum	
	22 commercial advantage. It remains to be seen whether GEC will	
///	23 wish to take part in the international tender for the coal-fired	
//	24 power station. Whilst the Government's view of recent events	
/	25 (para 1 above) should not be concealed from Greek Ministers, we	
	would not of course wish to ^{register our displeasure to the extent that it} push the quannel to a point which ^{such as}	
NNNN ends telegram		Catchword adversely
File number	Dept SED	Distribution LIMITED SED ESSD TRED PS PS/LPS PS/PUS LORD BRIDGES MR BULLARD MR EVANS MR FERGUSSON
Drafted by (Block capitals) T L A Daunt		COPIES TO: DOT (PF) DOI (MEP)
Telephone number 233 4031		
Authorised for despatch		Mr. Braithwaite.
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

Classification and Caveats
CONFIDENTIAL

Page
2

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1 <<<<

2 adversely affected the chances of British companies securing
3 other orders, or put in question the Messolonghi and airport
4 contracts.

5
6 CARRINGTON

7 NNNN

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NNNN ends
telegram

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Catchword

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CONFIDENTIAL
DESKBY 191230Z

CONFIDENTIAL

FROM ATHENS 190900Z DEC
TO IMMEDIATE FCO
TELNO 345 OF 19 DEC 80
AND TO
IMMEDIATE DOT (ADVANCE COPY TO BENJAMIN/PEP)
IMMEDIATE DOI (ADVANCE COPY TO MEP)
IMMEDIATE DEPT OF ENERGY

B. Greece

*Enter and pass on
Prime Minister
We discuss
me Amt*

GREECE : COAL FIRED POWER STATION PROJECT

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SUTHERLAND

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PS/LRS
PS/MR HURD
PS/PUS
MR BULLARD
SIR A ACLAND
MR FERGUSSON
MR P. H. MOBERLY

COPIES TO
PEP, DOI
MEP, DOT
DIENERGY

GR 270
UNCLASSIFIED
DESKBY 191230Z
FROM ATHENS 190900Z DEC
TO IMMEDIATE FCO
TELNO 344 OF 19 DEC 80
AND TO
IMMEDIATE DOT (ADVANCE COPY TO BENJAMIN/PEP)
IMMEDIATE DOI (ADVANCE COPY TO MEP DIVISION)
IMMEDIATE DEPT OF ENERGY

Enter in p.c. (304)
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WSG 121/1	
RECEIVED 19 DEC 1980	
DESK OFFICER	REPLY
INDEX	FILE

MIPT

WSG 057/1 (123)

GREECE : COAL-FIRED POWER STATION PROJECT

1. FOLLOWING IS TRANSLATION OF PRESS RELEASE PUT OUT BY GREEK GOVERNMENT LATE ON 18 DECEMBER :

NEGOTIATIONS CARRIED OUT FOR MONTHS IN A WHOLLY CONSTRUCTIVE SPIRIT, AT GOVERNMENTAL AND TECHNICAL LEVEL, FOR THE IMPLEMENTATION OF THE MEMORANDUM OF UNDERSTANDING BETWEEN GREECE AND THE UNITED KINGDOM, CONCERNING THE CONSTRUCTION OF TWO COAL-FIRED POWER STATION, THE LONG-TERM SUPPLY OF COAL AS WELL AS THE SUPPLY OF OIL, REMAINED WITHOUT RESULT IN THE END, DESPITE THE GOOD WILL OF BOTH SIDES AND THEIR SINCERE DESIRE TO REACH AGREEMENT. IN THE GREEK VIEW THE BRITISH PROPOSALS ON COAL DID NOT FULFIL THE TERMS SET OUT IN THE MEMORANDUM OF UNDERSTANDING.

BRITISH COUNTER-PROPOSALS PRESENTED AT THE LAST PHASE OF THE NEGOTIATIONS IN AN OBVIOUS EFFORT TO APPROACH GREEK VIEWS. DID NOT GO FAR ENOUGH TO MEET THE REQUIREMENTS AS ENVISIONED BY THE GREEK SIDE.

THE GREEK GOVERNMENT NOW INTENDS TO INVITE INTERNATIONAL TENDERS FOR A COAL-FIRED POWER STATION.

THE GREEK GOVERNMENT ATTACHES SPECIAL IMPORTANCE TO ECONOMIC AND INDUSTRIAL COOPERATION WITH GREAT BRITAIN, AND BELIEVES THAT GREECE'S FORTHCOMING ACCESSION TO THE EEC WILL OPEN UP NEW PROSPECTS FOR COOPERATION BETWEEN THE TWO COUNTRIES. IT IS THE INTENTION OF THE GOVERNMENT TO ENCOURAGE COMPANIES AND PUBLIC CORPORATIONS TO TAKE FULL ADVANTAGE OF SUCH OPPORTUNITIES.

SUTHERLAND

LIMITED
SED
DEF DEPT
PS
PS/LPS
PS/MR HURD
PS/PUS

MR BULLARD
SIR A ACLAND
MR FERGUSSON
MR P MOBERLY

GK 820

CONFIDENTIAL

DESKBY 041600Z

FROM ATHENS 041400Z DEC

TO IMMEDIATE FCO

TELNO 330 OF 4 DEC 80

AND TO

IMMEDIATE DEPT OF INDUSTRY (ADVANCE COPY TO MEPD)

IMMEDIATE DEPT OF TRADE (ADVANCE COPIES TO BENJAMIN PEP DIVISION AND WISEMAN)

Benjamin PEP

*I am afraid that
I know the Greeks
deliberately misunderstand
on these occasions.*

*Mr Bullard
Mr Ferguson
DOT/PEP
DOI/MEPD*

(2)

nt

YOUR TELNO 218 : GREECE : COAL-FIRED POWER STATION.

1. I CALLED ON RALLIS ON 4 DECEMBER AND DELIVERED THE PRIME MINISTERS MESSAGE. AFTER READING IT, RALLIS SAID IMMEDIATELY THAT HE "WAS VERY MUCH AFRAID THAT IT WOULD NOT SATISFY THE PUBLIC POWER CORPORATION AND WOULD NOT ALLOW THE GREEK GOVERNMENT TO ACCEPT THE BRITISH OFFER". HE REFERRED TO HIS FEAR OF CRITICISM FROM PASOK IN PARLIAMENT.

2. RALLIS WENT ON TO SAY THAT HE WOULD LIKE THE VIEWS OF MANOS, MINISTER OF INDUSTRY AND ENERGY. AFTER SPEAKING TO HIM ON THE TELEPHONE HE ASKED ME TO SEE MANOS MYSELF. I DID SO AN HOUR LATER. MANOS SAID THAT THE OFFER WAS NOT AS GOOD AS RALLIS HAD EXPECTED ON THE BASIS OF HIS CONVERSATION WITH THE PRIME MINISTER IN LUXEMBOURG (HE APPEARS TO HAVE GAINED THE IMPRESSION THAT MRS THATCHER WAS OFFERING 1 MILLION TONS FOR 3 YEARS). HE, MANOS, HAD CALCULATED THAT THE ONLY WAY IN WHICH HE COULD JUSTIFY THE SETTING ASIDE OF THE PPC'S STATUTORY OBLIGATIONS TO PARLIAMENT WOULD BE IN TERMS OF A LONG TERM COMMITMENT ON OIL SUPPLY FROM THE UK. FROM THIS POINT OF VIEW THE PERIOD OF THE AGREEMENT WAS MORE IMPORTANT THAN THE QUANTITY. (HE APPEARED TO SUGGEST THAT 500,000 TONS FOR 10 YEARS WOULD HAVE BEEN SUFFICIENT) IT WOULD NOT EVEN HAVE MATTERED IF SUPPLY HAD BEGUN IN 1982 THAN 1981. I MADE THE POINTS IN PARA 5 OF YOUR TELEGRAM NO CREDIA 197, WHICH I HAD PREVIOUSLY PUT TO RALLIS. MANOS POINTED OUT THAT IN HER MESSAGE THE PRIME MINISTER HAD REFERRED TO FORCE MAJEURE BEING EXERCISED BY BIOC TO RENEGE ON EXISTING "EVERGREEN" CONTRACTS. THE SAME THING COULD HAPPEN TO THE GREEKS WERE THEY TO ACCEPT THE BRITISH OFFER. MY REFERENCE TO THE LAST PARAGRAPH OF THE PRIME MINISTER'S MESSAGE WAS INSUFFICIENT TO CONVINCING HIM TO THE CONTRARY.

All contracts have force majeure clauses.

3. MANOS THEN SAID FIRMLY THAT HE WOULD NOT REPEAT NOT RECOMMEND THE PACKAGE TO THE PRIME MINISTER. HE MUCH REGRETTED THIS. HE HAD HOPED ALL ALONG THAT THE DEAL WOULD WORK OUT. INDEED WHEN HE HAD DRAFTED RALLIS'S LETTER TO MRS THATCHER (YOUR CREDIA TELNO 138) HE HAD BEEN CONVINCED THAT IT WOULD. RALLIS WOULD DISCUSS THE MATTER WITH HIS CABINET, WHICH IS MEETING ON THE EVENING OF 4 DECEMBER. BUT HE HAD NO DOUBT WHAT THE DECISION WOULD BE. HE ADDED THAT THE GREEK GOVERNMENT WOULD NOT GO BACK ON THEIR PLANS FOR COAL-FIRING AND THAT HE WOULD RECOMMEND THAT THE PROJECT GO OUT TO INTERNATIONAL TENDER.

4. REFERENCE WAS MADE IN BOTH MY CONVERSATION WITH RALLIS AND WITH MANOS TO THE POSSIBILITY OF CONCLUDING A DEDICATED MINE AGREEMENT. RALLIS SAID THAT THIS HAD BEEN TOUCHED ON IN LUXEMBOURG. HOWEVER, AS MANOS POINTED OUT, IT WOULD BE IMPOSSIBLE TO CONCLUDE SUCH AN AGREEMENT IN THE TIMESCALE WITHIN WHICH WE ARE WORKING. RALLIS SUGGESTED AT ONE POINT THAT MANOS SHOULD DISCUSS THE PACKAGE FURTHER WITH THE MINISTER OF INDUSTRY IN THE MARGINS OF THE ENERGY COUNCIL MEETING IN BRUSSELS NEXT WEEK. MANOS SAID HOWEVER, THAT IF THERE WAS NO PROSPECT OF AN IMPROVEMENT IN THE OIL OFFER (I ASSURED HIM THERE WAS NOT) THEN THERE WAS NO POINT IN THIS.

5. MANOS IS TO TELEPHONE ME ON 5 DECEMBER AFTER DISCUSSION WITH THE PRIME MINISTER, TO PROPOSE A LINE TO TAKE WITH THE PRESS. AFTER A SIMPLE STATEMENT THAT THE DEAL IS NOT PROCEEDING, THIS WILL PROBABLY REFER TO THE FACT THAT THERE WILL BE AN INTERNATIONAL CALL FOR TENDER AND TO THE DESIRE OF THE TWO GOVERNMENTS THAT, DESPITE THIS DISAPPOINTMENT, ECONOMIC AND COMMERCIAL COOPERATION BETWEEN THEM SHOULD BE STRENGTHENED. IF THE TIMING IS RIGHT IT COULD MENTION THE AWARD OF THE PETROCHEMICAL PLANT CONTRACT TO BRITISH COMPANIES. MANOS WOULD ALSO LIKE A REFERENCE TO THE WILLINGNESS OF BNCO TO SUPPLY NORTH SEA OIL IN THE LATTER HALF OF 1981. "TO SHOW THAT THERE ARE NO HARD FEELINGS". I UNDERTOOK TO REPORT THIS REQUEST AND SHOULD BE GRATEFUL FOR EARLY INSTRUCTIONS, BUT GAVE HIM NO REPEAT NO ENCOURAGEMENT TO THINK THAT THIS WOULD BE POSSIBLE. I MADE IT CLEAR THAT I WOULD WISH TO AGREE THE PRESS LINE WITH YOU. THE PRESS STATEMENT MIGHT ISSUE ON 11 DECEMBER AFTER MANOS RETURNS FROM BRUSSELS

6. MY CONSIDERED VIEWS ON WHERE THIS LEAVES OUR ECONOMIC RELATIONS WITH GREECE WILL FOLLOW. MY IMMEDIATE CONCERN, HOWEVER, IS THAT THERE SHOULD BE NO REPERCUSSIONS FOR CURRENT BUSINESS. THE CONTRACT FOR THE AIRPORT CONSULTANCY STUDY IS NOT YET SIGNED AND THE NEGOTIATIONS ON THE PETROCHEMICAL PLANT ARE AT A DELICATE STAGE. IT IS OF CONSIDERABLE IMPORTANCE THAT BOTH SHOULD BE CONCLUDED AS SOON AS POSSIBLE WITHOUT HICCUPS

-4 DEC 1980



[Faint, illegible text covering the majority of the page, likely bleed-through from the reverse side.]

Greece

file

COVERING CONFIDENTIAL

as



10 DOWNING STREET

From the Private Secretary

4 December 1980

Message to the Greek Prime Minister

The Prime Minister approved an amended version of the draft letter which you had submitted for her to send to the Greek Prime Minister about the power station contract. I enclose a copy of the text in the form in which it issued.

I am sending copies of this letter and its enclosure to Paul Lever (FCO), Julian West (Department of Energy), Ian Ellison (Department of Industry) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Stuart Hampson, Esq.,
Department of Trade.

NPM

GR 740A
CONFIDENTIAL
DESKBY 040600Z
FM FCO 032300Z DEC
TO IMMEDIATE ATHENS
TELEGRAM NUMBER 218 OF 3RD DECEMBER 1980

CONFIDENTIAL

T 232/80
As
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MESSAGE FROM THE PRIME MINISTER.

FOLLOWING IS THE TEXT OF A PERSONAL MESSAGE FROM THE PRIME MINISTER FOR MR RALLIS. GRATEFUL IF YOU COULD ARRANGE FOR IT TO BE PASSED TO HIM URGENTLY. SIGNED ORIGINAL FOLLOWS BY BAG:-

DEAR PRIME MINISTER

THANK YOU FOR YOUR LETTER OF 21 NOVEMBER. I AM VERY GRATEFUL FOR THE THOROUGH AND CAREFUL EXAMINATION THAT YOU AND YOUR AUTHORITIES HAVE GIVEN TO THE ENERGY PROPOSAL UNDER THE MEMORANDUM OF UNDERSTANDING. I READILY UNDERSTAND THE POLITICAL CONSTRAINTS THAT YOU ARE CONFRONTING, AND WHICH YOU EXPLAINED TO ME SO COGENTLY IN LUXEMBOURG ON MONDAY.

AS I TOLD YOU THEN I ALSO HAVE POLITICAL PROBLEMS. WHILST THE BRITISH NATIONAL OIL CORPORATION HAS A STAKE IN NORTH SEA OIL, EXPLOITATION HAS BEEN CARRIED OUT LARGELY BY PRIVATE SECTOR COMPANIES WHO HAVE THEIR OWN COMMITMENTS TO MEET. DESPITE POPULAR BELIEF THAT WE HAVE AN AMPLE AND SECURE NATIONAL OIL SUPPLY, WE DO NOT. THE FIRST TASK OF THE BRITISH NATIONAL OIL CORPORATION IS TO CONTRIBUTE TO THE OIL SUPPLY OF THE UNITED KINGDOM, AND THIS IMPOSES STRICT LIMITS ON THE OVERSEAS BUSINESS WHICH THE CORPORATION CAN UNDERTAKE.

IT IS AGAINST THIS BACKGROUND THAT THE DECISION WAS TAKEN, AS AN EXCEPTIONAL FEATURE OF THE ENERGY PACKAGE, TO OFFER TO SUPPLY OIL TO GREECE AT THE RATE OF 500,000 TONNES PER ANNUM, THE CONTRACT BEING RENEWABLE EACH YEAR BY MUTUAL AGREEMENT (A SO CALLED 'EVERGREEN' ARRANGEMENT). AND IT IS AGAINST THIS BACKGROUND THAT I HAVE WEIGHED WITH GREAT CARE THE REQUEST YOU HAVE MADE FOR AN IMPROVEMENT IN THAT OFFER IN ORDER TO MAKE THE ENERGY PACKAGE ACCEPTABLE TO YOUR GOVERNMENT AND TO PUBLIC OPINION IN GREECE.

WE ARE ALREADY IN A POSITION WHERE SUPPLIES ARE ONLY JUST SUFFICIENT TO MEET COMMITMENTS. IT IS THEREFORE IMPOSSIBLE FOR US TO MEET YOUR REQUEST TO INCREASE THE SUPPLY TO ONE MILLION TONNES PER ANNUM: THE BRITISH NATIONAL OIL CORPORATION HAS THIS MONTH HAD TO DECLARE 'FORCE MAJEURE' ON ITS EXISTING 'EVERGREEN' COMMITMENT -S. DESPITE THIS, THE CORPORATION WILL CONTINUE TO HOLD OPEN THE SUPPLY COMMITMENT TO GREECE FOR 1981 (BUT FOR THE FIRST QUARTER, TIME IS VERY SHORT). FURTHER, THE CORPORATION WILL UNDERTAKE TO MAKE UP, LATER IN 1981, THE SUPPLY FORGONE THIS YEAR, MAKING A TOTAL OF 700,000 TONNES NEXT YEAR.

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/ FINALLY

FINALLY, I HAVE AUTHORISED THE CORPORATION TO CONVERT THEIR OFFER, UNIQUELY, FROM A ONE YEAR 'EVERGREEN' OFFER OF 500,000 TONNES INTO A CONTRACTUAL SUPPLY COMMITMENT OVER THREE YEARS, AT THE PRICE RULING AT THE TIME OF DELIVERY AND AN 'EVERGREEN' OFFER THEREAFTER. YOU WILL THEREFORE BE ASSURED OF 1.7 MILLION TONNES OF OIL OVER THE NEXT THREE YEARS, WITH THE 'EVERGREEN' FACILITY AFTER THAT.

A FIRM OFFER OF THIS KIND WOULD BE VIRTUALLY UNOBTAINABLE ELSEWHERE IN TODAY'S WORLD OIL MARKET. IT IS, INDEED, IN DIRECT CONFLICT WITH OUR PUBLICLY EXPRESSED POLICY ABOUT THE TERMS OF OIL COMMITMENTS (WHICH IS NOT TO ENTER INTO CONTRACTUAL ARRANGEMENTS OF MORE THAN TWO YEARS DURATION). IT ALSO GOES BEYOND THE TERMS UNDER WHICH THE CORPORATION SELLS TO CUSTOMERS WITHIN THE UNITED KINGDOM.

GIVEN THE CONSTRAINTS THAT WE ARE UNDER THIS REPRESENTS THE MOST FAVOURABLE OFFER THAT WE CAN MAKE. WITH THE BEST WILL IN THE WORLD, I CAN GO NO FURTHER. I VERY MUCH HOPE THAT THIS IMPROVEMENT WILL MAKE THE ENERGY PACKAGE ACCEPTABLE TO YOUR GOVERNMENT AND SO BRING THIS MUTUALLY BENEFICIAL BUSINESS TO SUCCESSFUL FRUITION. BNOC STAND READY TO DISCUSS ARRANGEMENTS WITH YOUR AUTHORITIES FOR THE START OF SUPPLIES AND TO PUT THESE ARRANGEMENTS INTO CONTRACTUAL FORM, AS SOON AS YOU INDICATE THAT THE WAY IS CLEAR. THERE WOULD, NO DOUBT, BE A FORMAL DECLARATION OF INTENT ON OTHER PARTS OF THE PACKAGE AT THE SAME TIME.

YOU CAN BE CONFIDENT THAT WE HERE WILL CONTINUE TO GIVE YOUR SUPPLIES PRIORITY BECAUSE OF THE IMPORTANCE WE ATTACH TO STRENGTHENING THE ECONOMIC AND POLITICAL LINKS BETWEEN OUR TWO COUNTRIES. IN THIS CONNECTION, I WAS PARTICULARLY PLEASSED TO LEARN OF THE AWARD TO BRITISH CONSULTANTS OF THE ATHENS AIRPORT DESIGN STUDY AND OF THE PROSPECTS FOR OUR COMPANIES IN THE MESSOLONGHI PETROCHEMICAL PROJECTS. AS YOU KNOW, WE WOULD BE LOOKING FOR OUR COMPANIES TO HAVE FURTHER OPPORTUNITIES IN URBAN AND COUNTRY RAIL TRANSPORTS, AND IN THE FIELD OF DEFENCE.

WE HAVE NOW BOTH GIVEN OUR CLOSE PERSONAL ATTENTION TO THIS CONTRACT FOR SEVERAL WEEKS. OUR TALK TOGETHER IN LUXEMBOURG WAS AT ONCE OPPORTUNE AND SYMBOLIC OF THE HIGH DEGREE OF COMMITMENT OF OUR TWO GOVERNMENTS TO THE MATTER. I HAVE GONE TO THE LIMIT - SOME WILL ARGUE BEYOND - IN MAKING THE OFFER SET OUT IN THIS LETTER. I DO SO WITH EVERY HOPE THAT OUR JOINT EFFORTS WILL BE SUCCESSFUL.

YOURS SINCERELY

MARGARET THATCHER

CARRINGTON

UNITED
SED
ESSD
TRED

PS
PS/LPS
PS/POB

MR BULLARD
MR FERGUSSON

CONFIDENTIAL

COPIES SENT TO
No. 10 DOWNING STREET

CONFIDENTIAL



File

254

10 DOWNING STREET

From the Private Secretary

3 December 1980

Dear Resident Clerk,

Message to the Prime Minister of Greece

I enclose a message from the Prime Minister to the Prime Minister of Greece about the Greek power station contract. I should be grateful if you could arrange for its despatch to Athens by Immediate telegram, desk by 0600Z tomorrow, 4 December.

Yours ever

Michael Alexander

Resident Clerk,
Foreign and Commonwealth Office.

*Sent as Tel 218 to Athens
of 3. Dec 80.*

*MPM
By Tube*

SUBJECT



T. 232/80

10 DOWNING STREET

THE PRIME MINISTER

3 December 1980

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T232/80

Thank you for your letter of 21 November. I am very grateful for the thorough and careful examination that you and your authorities have given to the energy proposal under the Memorandum of Understanding. I readily understand the political constraints that you are confronting, and which you explained to me so cogently in Luxembourg on Monday.

As I told you then I also have political problems. Whilst the British National Oil Corporation has a stake in North Sea oil, exploitation has been carried out largely by private sector companies who have their own commitments to meet. Despite popular belief that we have an ample and secure national oil supply, we do not. The first task of the British National Oil Corporation is to contribute to the oil supply of the United Kingdom, and this imposes strict limits on the overseas business which the Corporation can undertake.

It is against this background that the decision was taken, as an exceptional feature of the energy package, to offer to supply oil to Greece at the rate of 500,000 tonnes per annum, the contract being renewable each year by mutual agreement (a so called "evergreen" arrangement). And it is against this background that I have weighed with great care the request you have made for an improvement in that offer in order to make the energy package acceptable to your Government and to public opinion in Greece.

/We are

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We are already in a position where supplies are only just sufficient to meet commitments. It is therefore impossible for us to meet your request to increase the supply to one million tonnes per annum: the British National Oil Corporation has this month had to declare 'force majeure' on its existing "evergreen" commitments. Despite this, the Corporation will continue to hold open the supply commitment to Greece for 1981 (but for the first quarter, time is very short). Further, the Corporation will undertake to make up, later in 1981, the supply forgone this year, making a total of 700,000 tonnes next year.

Finally, I have authorised the Corporation to convert their offer, uniquely, from a one year "evergreen" offer of 500,000 tonnes into a contractual supply commitment over three years, at the price ruling at the time of delivery and an "evergreen" offer thereafter. You will therefore be assured of 1.7 million tonnes of oil over the next three years, with the "evergreen" facility after that.

A firm offer of this kind would be virtually unobtainable elsewhere in today's world oil market. It is, indeed, in direct conflict with our publicly expressed policy about the terms of oil commitments (which is not to enter into contractual arrangements of more than two years duration). It also goes beyond the terms under which the Corporation sells to customers within the United Kingdom.

Given the constraints that we are under this represents the most favourable offer that we can make. With the best will in the world, I can go no further. I very much hope that this improvement will make the energy package acceptable to your Government and so bring this mutually beneficial business to successful fruition. BNOG stand ready to discuss arrangements with your authorities for the start of supplies and to put these arrangements into contractual form, as soon as you indicate that the way is clear. There would, no doubt, be a formal declaration of intent on other parts of the package at the same time.

/You can be

CONFIDENTIAL

You can be confident that we here will continue to give your supplies priority because of the importance we attach to strengthening the economic and political links between our two countries. In this connection, I was particularly pleased to learn of the award to British consultants of the Athens airport design study and of the prospects for our companies in the Messolonghi petrochemical projects. As you know, we would be looking for our companies to have further opportunities in urban and country rail transport, and in the field of defence.

We have now both given our close personal attention to this contract for several weeks. Our talk together in Luxembourg was at once opportune and symbolic of the high degree of commitment of our two governments to the matter. I have gone to the limit - some will argue beyond - in making the offer set out in this letter. I do so with every hope that our joint efforts will be successful.

Yours sincerely

M. Thatcher

His Excellency Mr. George Rallis.

CONFIDENTIAL

GR 650

CONFIDENTIAL

CONFIDENTIAL

DESKBY 291230Z

FROM ATHENS 291100Z NOV

TO IMMEDIATE DEPT OF TRADE

TELNO CRED A 188 OF 29 NOV 80

AND TO

IMMEDIATE DOI (ADVANCE COPY FOR MEP DIVISION)

IMMEDIATE FCO (ADVANCE COPY PS TO S OF S AND SED)

Greece
DISTRIBUTION SELECTORS
FILE COPY

YOUR TELNO CRED A 190 : GREECE : COAL-FIRED POWER STATION

1. YOUR CRED A 191 WITH DRAFT TEXT OF THE PRIME MINISTER'S REPLY WAS DELAYED IN TRANSMISSION AND FOLLOWING COMMENTS SUBSUME TELCONS ON 28 NOVEMBER WITH BENJAMIN.
2. I UNDERSTAND THAT BNOG HAVE NOW AGREED THAT THE REVISED OFFER ON OIL SUPPLY SHOULD ADDITIONALLY INCLUDE PROVISION FOR 500,000 TONNES PER ANNUM ON AN "EVERGREEN" CONTRACT WHICH WOULD REMAIN IN FORCE INDEFINITELY UNLESS AMENDED OR DENOUNCED ON OR AFTER 31 DECEMBER 1983 IN ACCORDANCE WITH THE PROVISIONS OF ARTICLE 3 OF THEIR DRAFT AGREEMENT. THIS WILL HELP THE GREEK GOVERNMENT PRESENTATIONALLY. TO AVOID FUTURE MISUNDERSTANDING IT IS IMPORTANT THAT RALLIS SHOULD FULLY COMPREHEND THE IMPLICATIONS OF THE EVERGREEN CONTRACTUAL TERMS BUT THE ADDITIONAL PROVISION SHOULD ENABLE HIM, IN DEFENDING THE DEAL TO THE GREEK PARLIAMENT AND PUBLIC TO CHARACTERIZE THE OIL AGREEMENT AS A LONG-TERM SUPPLY ARRANGEMENT.
2. RALLIS AND HIS MINISTERS WILL RECOGNIZE THAT THE REVISED OFFER REPRESENTS AN IMPROVEMENT IN THE EXISTING TERMS. I CONSIDER IT ESSENTIAL THAT THE PROVISION FOR A CONTINUING EVERGREEN CONTRACT SHOULD BE INCLUDED IF THERE IS TO BE ANY CHANCE OF THEIR ACCEPTING. BUT RALLIS MAY WELL FIND IT DIFFICULT TO UNDERSTAND THE CONSTRAINTS UNDER WHICH THE BRITISH GOVERNMENT IS OBLIGED TO OPERATE AND WHY WE HAVE ENTAILED THE SUPPLY OF NORTH SEA OIL TO SUCH AN EXTENT THAT SO LITTLE IS AVAILABLE TO FURTHER OUR COMMERCIAL INTEREST. AND I STILL THINK THAT THE ODDS ARE AGAINST HIS ACCEPTING THE PACKAGE WHICH IN TERMS OF BOTH QUANTITIES AND GUARANTEES IS SO FAR SHORT OF HIS DEMANDS.
3. I AGREE WITH YOUR RECOMMENDATION THAT THE PRIME MINISTER SHOULD SEE RALLIS ON 1/2 DECEMBER AND EXPLAIN THE LIMITATIONS OF OUR OIL SUPPLY POSITION. IT WOULD BE ADVANTAGEOUS IF THE GREEK FOREIGN MINISTER WERE PRESENT OR IF HE COULD BE SPOKEN TO SEPARATELY IN LUXEMBOURG. AS THE SIGNATORY OF THE MEMORANDUM OF UNDERSTANDING, MITSOTAKIS HAS THROUGHOUT BEEN THE MOST FAVOURABLY DISPOSED OF ALL GREEK MINISTERS TOWARDS THE BRITISH OFFER.

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14.

CONFIDENTIAL

4. IF THERE IS NO PROSPECT OF IMPROVING THE OFFER AS REGARDS QUANTITIES OF OIL, I WOULD ALSO RECOMMEND THAT THE PRIME MINISTER'S REPLY BE DELIVERED TO RALLIS IN LUXEMBOURG. I WOULD SUGGEST THAT HE BE GIVEN A FINAL DATE FOR ACCEPTANCE OR REJECTION.

5. I HAVE THE FOLLOWING COMMENTS WHICH RELATE TO THE TEXT IN YOUR CREDA 191 :

(A) PARAGRAPH 4 : THE WORDING NEED NOT BE AMENDED BUT WE SHOULD BE CLEAR WHETHER THE REFERENCE TO "THE SUPPLY FOREGONE THIS YEAR" IS TO 200,000 TONNES OR 130,000 TONNES - IE TAKING INTO ACCOUNT THE TANKER-LOAD ALREADY SUPPLIED. YOUR CREDA 192 APPEARS TO CONFIRM THAT THE FORMER IS CORRECT.

(B) PARAGRAPH 5: IN THE BRIEF FOR THE PRIME MINISTER IT SHOULD BE MADE CLEAR THAT PALAEOCRASSAS, THE ALTERNATE MINISTER OF COORDINATION, HAS INFORMED ME THAT WE WILL GET THE AIRPORT CONTRACT BUT THAT IN THE CASE OF THE MESSOLONGHI PETROCHEMICAL CONTRACT HE HAS ONLY GIVEN AN ASSURANCE THAT WE HAVE VERY GOOD PROSPECTS. OUR OBJECTIVE SHOULD BE TO TRY TO SECURE BOTH THE POWER STATION AND PETRO-CHEMICAL CONTRACTS; BUT IF RALLIS TURNS DOWN OUR OFFER ON THE FORMER AT LUXEMBOURG THE PRIME MINISTER SHOULD BE ADVISED TO PRESS FOR MESSOLONGHI.

6. MY TELNO CREDA 185, PARAGRAPH 7. I UNDERSTAND THAT SHELL INTERNATIONAL HAVE SIGNED OR ARE ABOUT TO SIGN AN AGREEMENT WITH AN AMERICAN COAL CORPORATION. IF THIS WOULD ENABLE THEM TO SEND A REPRESENTATIVE TO ATHENS IMMEDIATELY TO NEGOTIATE A DEDICATED MINE AGREEMENT I RECOMMEND THAT MRS THATCHER SHOULD SAY SO.

7. PLEASE PASS ADVANCE COPIES TO RESIDENT CLERK,
P.S. TO SECRETARY OF STATE FOR TRADE, AND BENJAMIN (P.E.P. DIVISION)

SUTHERLAND

(ADVANCED AS REQUESTED)

LIMITED
SEC
TLED
ESVSD
PS
PS/LPS

MR BULLARD
MR FRAGUSSON
MR BRIDGES
MR EVANS
MR BRAITHWAITE
MR P. H. MORGAN

COPIES TO :
DOT
DOI

CONFIDENTIAL

00 DOT/CREDA (DESKBY 291230Z)

00 DOI

IMMEDIATE

D/B 291230Z

00 FCO

ADVANCE COPY

GR 650

CONFIDENTIAL

WDESKBY 291230Z

FROM ATHENS 291100Z NOV

TO IMMEDIATE DEPT OF TRADE

TELNO CREDA 186 OF 29 NOV 80

AND TO

IMMEDIATE DOI (ADVANCE COPY FOR MEP DIVISION)

IMMEDIATE FCO (ADVANCE COPY PS TO S OF S AND SED)

Hd/ SED

DO, DOT (PS/ Sof S)

DO, DOT (MEP Dir)

DO, DOI (MEP Dir)

PS (6)

PS/LPS (3)

Prime Minister

30.11.80

~~RG Ballard~~

RG Hamay

R/c

[limited]

14

YOUR TELNO CREDA 190 : GREECE : COAL-FIRED POWER STATION

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 - (B) PARAGRAPH 5: IN THE BRIEF FOR THE PRIME MINISTER IT SHOULD BE MADE CLEAR THAT PALAEOCRASSAS, THE ALTERNATE MINISTER OF COORDINATION, HAS INFORMED ME THAT WE WILL GET THE AIRPORT CONTRACT BUT THAT IN THE CASE OF THE MESSOLONGHI PETROCHEMICAL CONTRACT HE HAS ONLY GIVEN AN ASSURANCE THAT WE HAVE VERY GOOD PROSPECTS. OUR OBJECTIVE SHOULD BE TO TRY TO SECURE BOTH THE POWER STATION AND PETRO-CHEMICAL CONTRACTS; BUT IF RALLIS TURNS DOWN OUR OFFER ON THE FORMER AT LUXEMBOURG THE PRIME MINISTER SHOULD BE ADVISED TO PRESS FOR MESSOLONGHI.

6. MY TELNO CRED A 185, PARAGRAPH 7. I UNDERSTAND THAT SHELL INTERNATIONAL HAVE SIGNED OR ARE ABOUT TO SIGN AN AGREEMENT WITH AN AMERICAN COAL CORPORATION. IF THIS WOULD ENABLE THEM TO SEND A REPRESENTATIVE TO ATHENS IMMEDIATELY TO NEGOTIATE A DEDICATED MINE AGREEMENT I RECOMMEND THAT MRS THATCHER SHOULD SAY SO.

7. PLEASE PASS ADVANCE COPIES TO RESIDENT CLERK,
P.S. TO SECRETARY OF STATE FOR TRADE, AND BENJAMIN (P.E.P. DIVISION)

SUTHERLAND



CONFIDENTIAL

From the Secretary of State

Julian West Esq
Private Secretary
Secretary of State for Energy
Department of Energy
Thames House South
London SW1

28 November 1980

Dear Julian,

GREEK ENERGY PACKAGE

The attached draft reply for the Prime Minister to send to Mr Rallis has been worked out by officials based on your Department's further discussions with BNOC.

|| One of our major problems seems to be the grossly exaggerated idea that the Greeks appear to have of our oil capacity and availability. My Secretary of State fully agrees therefore that the letter needs to spell out our firmly the constraints under which we are compelled to view their latest request. Moreover, we cannot avoid the starting point as being the Prime Minister's statement, which he repeated on his visit to Greece, that the entire package stood "on the table", and, after having delayed their decision for so long and lost two supplies of oil that we had earmarked for them, it is more than slightly presumptuous to press now for such an unrealistic increase.

|| On the other hand, a considerable effort has been made by our companies and at all levels of Government to try to win this package, and the Greeks do have a problem of presentation given the hostile press campaign mounted against the proposals, albeit this may well arise in large measure from the backstairs activity of our competitors. My Secretary of State thinks that we should also give the Greeks credit for apparently having steered contracts for the Athens airport consultancy and the Messolonghi petrochemical complex, worth some £50-£75m, in our direction, which during his recent visit we could not have expected to gain.

My Secretary of State is very grateful for what you and BNOC are prepared to offer to improve on the oil component of the package: essentially, as we understand it, this is a firm commitment to supply 1.7m tons over the next three years. This compares with what they have at the moment, namely a



From the Secretary of State

CONFIDENTIAL

half million tons "evergreen" contract, which in their eyes must carry some indication of quantities up to this figure in subsequent years. He entirely agrees that as a general approach to the use of oil in connection with major projects, we should avoid a long-term commitment for what is by its nature a finite commercial advantage. On the other hand, the effectiveness of such an offer will depend crucially upon educating the Greeks, stating in unequivocal terms the impracticability of offering a greater quantity, and the uniqueness of the offer in its guaranteed period.

Given Greek expectations and their presentational problems, it is bound to be touch-and-go whether this will succeed. But, of course, we also have a substantial negative leverage in that such a firm volume of oil must be extremely difficult to turn down when the hostilities in the Middle East show no sign of coming to an end. It is a fine judgment, and we would certainly agree that if the Greeks turn this proposal down, they really do not deserve the offer nor the attractions elsewhere in the package, which they are prone to play-down.

In these circumstances, my Secretary of State would favour recommending to the Prime Minister that if the opportunity arose she should have an informal discussion with Mr Rallis in the margins of the European Council next week. He trusts that your Department will provide the strongest possible briefing in this event.

I am copying this letter to Michael Alexander (No 10), Roderic Lyne (FCO), Catherine Bell (Industry), Kate Timms (MAFF) and David Wright (Cabinet Office).

Yours ever,

Nicholas McInnes

Nicholas McInnes
Private Secretary

CONFIDENTIAL



DRAFT LETTER FROM THE PRIME MINISTER TO MR RALLIS

Thank you for your letter of 21 November. I am very grateful for the thorough and careful examination that you and your authorities have given to the energy proposal under the Memorandum of Understanding. I readily understand the political constraints that you are confronting, which were underlined by Ambassador Lagacos when he presented your letter.

You will appreciate that I also have political problems. Whilst the British National Oil Corporation has a stake in North Sea oil, exploitation has been carried out largely by private sector companies with their own disposal interests. It is a plain fact that, despite popular expectation that we have an ample and secure national oil supply, we do not. The first duty of the British National Oil Corporation must be to contribute to the security of oil supply to the United Kingdom, and this sets a strict constraint on the overseas business which the Corporation can undertake.

It is against this background that the decision was taken to make an oil supply offer to Greece of 500,000 tonnes per annum on a renewable basis as an exceptional feature of the energy package. And it is against this background that I have weighed with great care the request you have made for an improvement in that offer in order to make the energy package acceptable to your Government and to public opinion in Greece.



The tightness of foreseeable supply against commitments makes it physically impossible to meet your request to increase the supply to one million tonnes per annum: the British National Oil Corporation has this month actually had to declare force majeure on its existing "evergreen" commitments. Despite this, the Corporation will continue to hold open the supply commitment to Greece for 1981 (but for the first quarter, time is very short). Further, the Corporation will undertake to make up, later in 1981, the supply foregone this year, making a total of 700,000 tons next year.

Finally, I have authorised the Corporation to convert their offer, uniquely, from a one year "evergreen" offer of 500,000 tons into a contractual supply commitment over three years, at the price ruling at the time of delivery and an "evergreen" offer thereafter. You will therefore be assured of 1.7 million tons of oil over the next three years, with the "evergreen" facility after that.

This sort of firm offer is virtually unobtainable elsewhere in today's world oil market. It is, indeed, in direct conflict with our publicly expressed policy about the terms of oil commitments and beyond the terms under which the Corporation sells to customers within the United Kingdom.



Within the constraints that we face, this represents the most favourable offer that is feasible and I can go no further. I hope that this improvement will make the energy package acceptable to your Government and so bring this mutually beneficial business to successful fruition. BNOG stand ready to discuss arrangements with your authorities for the start of supplies and to put these arrangements into contractual form, as soon as you indicate that the way is clear, providing this is accompanied by a formal declaration of intent on other parts of the package.

I assure you that we shall continue to give your supplies the priority consistent with our strengthening economic and political co-operation. In this connection, I was particularly pleased to learn of the award to British consultants of the Athens airport design study and of the prospects for our companies in the Messolonghi petrochemical projects. As you know, we would be looking for our companies to have further opportunities in urban and country rail transport, and in the field of defence.

28 NOV 1980

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Prime Minister

You will want to know on this
in any discussion with Mr Rallis in

From the Secretary of State Luxembourg, (also attach (tag A))

the draft which is under discussion for your
reply to Mr Rallis. It is not envisaged

28 November 1980

that this should come until the middle of
next week. I am not myself sure that
as of today we know we are getting the
bureaucracy for the airport.

Michael Alexander Esq
Private Secretary
10 Downing Street
London, SW1

Dear Michael,

GREEK ENERGY PACKAGE: BRIEF FOR PRIME MINISTER

--- I attach briefing for the Prime Minister on the coal-fire power
station project in case the opportunity should arise for her to
discuss the question with Mr Rallis during the course of the
European Council in Luxembourg next week. This briefing has been
cleared with the Department of Energy.

As you know, the Secretary of State for Energy has agreed with the
Chairman of BNOG that we can dispense with the either/or approach
of offering the Greeks either 1.7 million tonnes of oil as a firm
commitment over three years, or 700,000 tonnes next year and an
"evergreen" arrangement to run for subsequent years. This makes
a very considerable improvement in the presentation, since we can
now demonstrably point to an improvement in assured oil supplies
over and above what the Greeks already have.

In addition, Shell Coal International have told us that they have
completed formal arrangements to take over a 50% stake in Massey -
one of the largest coal producers in the United States - and, within
a short while of any agreement being concluded, could start detailed
discussions on the possibility of dedicating coal capacity to the
Greeks.

I am copying this briefing to Roderic Lyne (FCO), Catherine Bell
(Industry), Kate Timms (MAFF), Julian West (Energy), David Wright
(Cabinet Office) and Michael Franklin (Cabinet Office).

Yours ever,

Nicholas McInnes

N McInnes
Private Secretary

(1)

Hand
- 30/11



GREEK POWER PACKAGE

NOTE FOR MEETING WITH MR RALLIS

Current Position

Mr Rallis' letter, which comes after the Public Power Corporation and the Greek Economic Ministers' meetings, is primarily concerned with pressing the need for an improvement in the oil supply part of the package. Annex A is a speaking brief by Department of Energy setting out the current position on oil availability.

Despite present circumstances, BNOC is prepared to go beyond the current offer before the Greeks of half a million tonnes per annum on an "evergreen" basis, with the following improvements:

- (a) A further 200,000 tonnes in 1981, bringing the total for that year to 700,000 tonnes; and
- (b) A firm commitment to supply 500,000 tonnes for the next two years, ie 1982 and 83;
- (c) After which the existing "evergreen" arrangement would apply.

This would give the Greeks a total firm oil commitment of 1.7 million tonnes over the next three years, after which the current "evergreen" proposals would apply.

Line to Take

- (a) The terms of the revised offer should be spelt out to Mr Rallis. In doing so, it should be stressed that it is wholly impracticable to envisage a firm commitment to supply oil for ten years, and the 1 million tonnes per annum is also not feasible.
- (b) HMG also has political problems in making oil



available to Greece on better terms than to our own UK customers.

(c) We are prepared, however, to advance this improved offer, which has major advantages:

- (i) The offer is unique in providing firm commitments to supply for three years;
- (ii) and would give the Greeks a sure component of oil from a source not connected with the volatile Middle East market;
- (iii) the fact that the oil supply is linked to the other parts of the energy package is a particularly important reason why we can in this instance go beyond the strict permissible terms for future commitments, in that the new power station will be providing a new source of energy in three years and the supply of oil until this occurs fits coherently into the package;
- (iv) This would enable contacts and normal dialogue to be established with BNOC, thus allowing continuing workaday contacts to deal with the details of deliveries etc to best suit the Greek's needs within this period.

(d) More generally, the total benefits of the package, particularly now that Mr Rallis admits that the power-station price is "reasonable", is so manifestly attractive (even the coal offer, which is criticised as not complying with the Greek interpretation of the Memorandum, is not a part that they would wish to see removed), that were the Greek Government to turn it down, this would have very unfortunate repercussions on business confidence that we have been trying hard to stimulate in recent months.



- (e) On the coal element, Mr Rallis reiterates the Greek position that this aspect does not comply with their interpretation. We can only regret that this is so, since the Greeks have chosen to infer that the Memorandum implies firm prices for coal four-five years ahead, whereas - and our documents substantiate our position, it was never suggested that coal should be supplied on other than a periodic review basis, and it was clearly stated that in current market conditions the normal review period would be annual. Our view, substantiated by our legal experts, is that the coal offer goes far beyond what was envisaged in the Memorandum.

The Greeks have also made a considerable issue of having a "dedicated mine". Shell have now completed the merger of interests with A T Massey Coal Company in the US, and will be ready, very soon after the NCB coal agreement is signed, to proceed with detailed discussions on dedicated coal capacity.

- (g) On timing, the scheduling of oil supplies for the first months of next year is already taking place. If the Greeks wish to take up our offer, it is therefore very important that they should do so quickly, otherwise they will lose some of the early shipping dates. At the same time, we would want a formal indication of agreement in principle by the Greek authorities to the components of the package simultaneous with the oil agreement being signed.



GREEK OIL SUPPLY

BRIEF FOR PM'S MEETING WITH MR RALLIS

Points to Make

- 1 UKCS production is just about equal to UK demand which is currently depressed. This has led to a popular expectation in the UK that we have an ample and secure oil supply. That is not the case.

- 2 Much of the production is in the hands of international oil companies who export it for use in their international business. BNOG also is obliged to supply much of its oil to those companies under the terms on which it originally acquired its oil. The first call on the remainder which is not sold to UK refineries is to cover the deficiency in UK security caused by oil company exports.

- 3 Over the next few years the UK is not fully covered against a revival of industrial activity or production failures which are to be expected in the harsh environment of the North Sea. Recent failure of a compressor on the Ninian field, combined with our refusal to permit avoidable waste of petroleum by flaring has obliged BNOG to invoke limited force majeure in this quarter and indefinitely into next year.

- 4 In spite of this risk, with my support BNOG made, as part of the energy package, an oil supply offer to Greece of 500,000 tons per annum on a renewable basis as an exceptional feature. This is not a firm commitment to supply beyond the first year, though it carries the expectation that the arrangement would be rolled forward from year to year. At our last meeting in Athens, I stressed that the package, including this offer on oil, stood on the table as a firm proposal for



your agreement.

5 Despite your failure to meet the deadline dates for delivery of 200,000 tons this year, BNOC would now be willing to make up later in 1981 this 200,000 tons. I have also authorised the Corporation to convert the first three years, ie up to and including 1983, of their offer from an "evergreen" basis into a firm contractual supply commitment at the price ruling at the time of delivery.

6 Such a term for a contractual supply commitment is virtually unobtainable elsewhere in today's oil market. In the circumstances, HMG has firmly decided that no contractual commitment on oil should exceed two years; this has been declared publically; and rigorously followed. Even the Corporations' customers within the UK do not enjoy supply on better terms. I would therefore face very real criticism, in a field as sensitive as oil supply arrangements, if an exception were made for Greeks and no-one else. This can therefore only be justified in the context of the placing of other components of the proposed energy package. Even so it exposes my Government to severe criticism should British customers have to go short while these guaranteed supplies are being made to Greece.



Background

The Greek PM's message makes acceptance of the UK power station package conditional upon the offer of additional UKCS oil.

2 The current oil offer by BNOC is for a supply at the rate of 10,000 barrels per day (500,000 tonnes pa) on an annual "evergreen" basis. This is a term of the trade indicating that the contractual commitment is for one year only but that both parties expect the arrangement to be rolled forward. The commitment to renewal would be negotiated each September and relate to the subsequent calendar year. The Greeks sought a longer term commitment at an earlier stage, but were refused. The value of the present oil offer, at today's prices, is some £50m pa.

3 The Greek PM seeks an increase in the offer to 10m tonnes over 10 years ie twice the annual rate offered. He writes as though the existing offer is for 10,000 b.d. for 10 years. It is not. An "evergreen" commitment is a contractual commitment for one year only, though there is an expectation of renewal.

4 BNOC had offered to supply three cargoes in 1980. One was delivered as a gesture of goodwill. The remaining offer lapsed on 31 October and BNOC confirmed to the Greeks after that date that the supply in 1980 was no longer available.

5 Indeed, because of reduced production from two UKCS fields (Ninian and Murchison) BNOC have had to declare limited force majeure on fourth quarter deliveries. This will have repercussions in January and February deliveries and BNOC expect to be very stretched to meet their contractual commitments right through until the fourth quarter of 1981.



6 The Chairman of BNOC and Mr Clark discussed the situation with the Secretary of State for Energy on Wednesday. He could not commit additional quantities. BNOC would, however, be prepared to extend the period of the firm contractual commitment to the Greeks to 3 years at the rate already offered (10,000 b.d.), thus increasing threefold the oil actually committed by contracts to the Greeks (whatever their expectations). They would also make up in the last quarter of 1981 the two cargoes (200,000 tonnes) foregone by the Greeks this year through indecision.



From the Secretary of State

CONFIDENTIAL

Michael Alexander Esq
Private Secretary
10 Downing Street
London, SW1

26 November 1980

Dear Michael

GREECE: COAL FIRED POWER STATION

I mentioned to you on the telephone that we had received advice from the Ambassador in Athens on the handling of the letter from Mr Rallis which you sent to me with your letter of 25 November. As this is a Creda telegram I enclose a copy for your information and for that of copy recipients.

The Ambassador mentions that the Prime Minister will be seeing her Greek counterpart at the European Council on 1/2 December and that this might provide an appropriate occasion to hand over the reply. Your initial reaction was that in order to avoid the expectation of a negotiation at Summit level it would be preferable for a reply to be despatched before Mr Rallis leaves Athens.

I am copying this letter and its attachment to Paul Lever (FCO), Ian Ellison (Industry), Julian West (Energy) and David Wright (Cabinet Office), and also to Kate Timms (Agriculture) at the request of the Ambassador.

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary

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DESKBY (261600Z

FROM ATHENS 261500Z NOV

TO IMMEDIATE DEPT OF TRADE

TELNO CREDA 185 OF 26 NOV 80

AND TO IMMEDIATE DOI (FOR MEPD) AND FCO (FOR SED)

YOUR CREDA TSL NOS 187 AND 188 :

GREECE : COAL-FIRED POWER STATION

1. I BELIEVE THAT HIS LETTER TO THE PRIME MINISTER REPRESENTS A GENUINE ATTEMPT BY RALLIS TO CIRCUMVENT HIS POLITICAL DIFFICULTIES AND TO AGREE AN ENERGY PACKAGE WHICH WILL BE GOOD FOR BOTH UK AND GREECE. THE DIFFICULTIES ARE CONSIDERABLE. WE KNOW THAT THE BOARD OF THE PUBLIC POWER CORPORATION IS DEEPLY DIVIDED ON THE MERITS OF THE BRITISH PACKAGE. RALLIS WILL HAVE TO DEFEND IT TO THE PUBLIC AND IN PARLIAMENT AGAINST AN OPPOSITION WHICH WILL BE ARMED WITH ARGUMENTS PROVIDED BY THOSE WHO ARE AGAINST THE DEAL WITHIN THE P.P.C. AND ABLE TO MAKE PLAY WITH THE RESIGNATION OF BOUTOS, FORMER MINISTER OF COORDINATION. IN THE CIRCUMSTANCES, I CONSIDER THAT THE GREEK PRIME

BRITISH PACKAGE. RALLIS WILL HAVE TO DEFEND IT TO THE PUBLIC AND IN PARLIAMENT AGAINST AN OPPOSITION WHICH WILL BE ARMED WITH ARGUMENTS PROVIDED BY THOSE WHO ARE AGAINST THE DEAL WITHIN THE P.P.C. AND ABLE TO MAKE PLAY WITH THE RESIGNATION OF BOUTOS, FORMER MINISTER OF COORDINATION. IN THE CIRCUMSTANCES, I CONSIDER THAT THE GREEK PRIME MINISTER MUST HAVE THE EXTRA OIL FOR WHICH HE IS BIDDING - OR SOMETHING PRETTY CLOSE TO IT - IF HE IS TO GIVE THE GO-AHEAD.

2. APART FROM THE INTRINSIC IMPORTANCE OF THIS CONTRACT (£150 MILLION) IN WHICH SO MUCH TIME AND EFFORT HAS BEEN INVESTED BY EVERYONE INCLUDING THE NCB, SHELL COAL INTERNATIONAL AND GEC, IT HAS ACQUIRED A SYMBOLIC IMPORTANCE FOR BRITISH-GREEK RELATIONS. THE SUCCESS OF WHAT THE GREEKS SEE AS A BRITISH COMMERCIAL OFFENSIVE ON THE GREEK MARKET THESE LAST MONTHS WILL BE JUDGED BY THE OUTCOME. SUCCESS WILL AGAIN MAKE US A FORCE TO BE RECKONED WITH IN THIS MARKET WHICH OTHERWISE IS LIKELY, I FEAR, TO REMAIN PREDOMINANTLY A GERMAN/FRENCH/ITALIAN PRESERVE, AND WILL GREATLY IMPROVE OUR CHANCES OF PICKING UP FURTHER PUBLIC SECTOR CONTRACTS IN THE COMING MONTHS AND YEARS. THE TONIC EFFECT ON BRITISH INDUSTRY, WHICH HAS BEEN RELUCTANT TO VENTURE INTO GREECE, WOULD BE EQUALLY IMPORTANT AT A TIME WHEN ACCESSION TO THE EUROPEAN COMMUNITY OPENS UP NEW OPPORTUNITIES.

3. MORE GENERALLY, I WOULD SEE A SUCCESSFUL OUTCOME AS OPENING UP A PROFITABLE WAY OF DOING BUSINESS WHEREBY WE USE THE UNIQUE POSITION WHICH OUR COAL AND OIL GIVE US TO SUPPORT BRITISH INDUSTRY IN EUROPE. THE SIGNIFICANCE OF THIS AT A TIME OF HIGH UNEMPLOYMENT AND A STRONG POUND IS POTENTIALLY VERY GREAT. WERE THE FRENCH, FOR EXAMPLE, IN OUR PLACE AND WE IN THEIRS, I WOULD CERTAINLY BE REPORTING ON THE POOR PROSPECTS WHICH OUR COMPANIES WOULD HAVE OF DOING BUSINESS IN THE PUBLIC SECTOR AGAINST THE UNANSWERABLE ARGUMENTS OF BEING ABLE TO OFFER COAL AND OIL IN AN ENERGY HUNGRY WORLD. MOREOVER, SO FAR AS THE OIL IS CONCERNED, THERE IS NO QUESTION OF OUR OFFERING A SPECIALLY SUBSIDISED PRICE.

4. FOR ALL THESE REASONS, I SEE ADVANTAGE IN A POSITIVE REPLY BY THE PRIME MINISTER. IT MUST BE DELIVERED SOON IF THE SPECIAL CREDIT TERMS OF THE GEC OFFER ARE TO BE MAINTAINED AND I HAVE ALREADY MADE IT CLEAR, WITHOUT PREJUDICE TO THE TERMS OF OUR REPLY, THAT WE CANNOT BROOK FURTHER DELAY FROM THE GREEK SIDE. AS GEC AND NCB/SHELL COAL INTERNATIONAL NEED TO HAVE DOCUMENTS SIGNED AS SOON AS POSSIBLE AND AT THE LATEST BY THE END OF DECEMBER, THERE IS NO TIME FOR BARGAINING ON THE TERMS FOR OIL SUPPLY. IF ANY ADDITIONAL SUPPLIES CAN BE MADE I WOULD THEREFORE RECOMMEND THAT THE PRIME MINISTER'S REPLY SPELL OUT THE BEST OFFER WE CAN MAKE AND STATE PLAINLY THAT THIS IS "TAKE IT OR LEAVE IT" BY THE DATE WHICH THE COMPANIES JUDGE IS THE LATEST WHICH WOULD ENABLE THEM TO CONCLUDE FRAMEWORK AGREEMENTS BY THE END

AT THE LATEST BY THE END OF DECEMBER, THERE IS NO TIME FOR BARGAINING ON THE TERMS FOR OIL SUPPLY. IF ANY ADDITIONAL SUPPLIES CAN BE MADE I WOULD THEREFORE RECOMMEND THAT THE PRIME MINISTER'S REPLY SPELL OUT THE BEST OFFER WE CAN MAKE AND STATE PLAINLY THAT THIS IS "TAKE IT OR LEAVE IT" BY THE DATE WHICH THE COMPANIES JUDGE IS THE LATEST WHICH WOULD ENABLE THEM TO CONCLUDE FRAMEWORK AGREEMENTS BY THE END OF THE YEAR.

5. I APPRECIATE THE CONSTRAINTS ON SUPPLY BY BNOG AND (YOUR TELNO CRED A 186) HAVE UNDERLINED THEM TO THE GREEKS. IF IT IS IMPOSSIBLE TO MEET RALLIS'S DEMANDS IN TOTAL OR ON THE TIME-SCALE HE HAS SPECIFIED IT IS CERTAINLY IN MY VIEW WORTH MEETING THEM IN PART PROVIDED THAT THE ADDITIONAL OIL OFFER IS NOT SO SMALL AS TO BE DERISORY. IF WE CANNOT OFFER TEN YEARS GUARANTEED SUPPLY, YOU MAY WISH TO CONSIDER PROPOSING A GOVERNMENT-TO-GOVERNMENT REVIEW OF ANGLO/GREEK COOPERATION IN THE ENERGY SECTOR TO TAKE PLACE BEFORE THE END OF THE PERIOD FOR WHICH THE OIL WOULD BE OFFERED. THIS MIGHT PUT US IN A FAVOURABLE POSITION TO OBTAIN FURTHER P.P.C. CONTRACTS AT THAT TIME.

6. TWO POINTS OF CLARIFICATION IN THE TEXT OF RALLIS'S LETTER:

(A) I HAVE CONFIRMED WITH ROUSSOS, ALTERNATE SECRETARY-GENERAL AT THE MINISTRY OF FOREIGN AFFAIRS, WHO IN TURN HAS CONSULTED MANOS, MINISTER OF INDUSTRY, THAT "AT CURRENT PRICES" IN PARAGRAPH 6 MEANS AT THE OFFICIAL PREVAILING PRICE. I RECOMMEND THAT THIS SHOULD BE CLARIFIED IN THE PRIME MINISTER'S REPLY.

(B) ROUSSOS HAS ALSO POINTED OUT THAT, DESPITE THE CHARACTERIZATION OF THE COAL SUPPLY CONTRACT AS UNSATISFACTORY, THE GREEKS REGARD IT AS AN ESSENTIAL PART OF THE PACKAGE.

7. ON COAL SUPPLY, YOU WILL WISH TO CHECK WITH SHELL INTERNATIONAL WHETHER ANYTHING FURTHER CAN BE SAID IN THE REPLY ON THEIR NEGOTIATIONS FOR THE DEDICATED MINE. IN YOUR TELEGRAM NO CRED A 169 OF 4 NOVEMBER IT WAS REPORTED THAT THEIR NEGOTIATIONS WERE IN THE FINAL STAGES.

8. I RECOMMEND THAT, IN HER REPLY, THE PRIME MINISTER SHOULD NOT REFER TO OUR EXPECTATION THAT THE MESSOLONGHI PETROCHEMICAL CONTRACT (MY TELNO CRED A 172, PARA 2) WILL ALSO BE AWARDED TO THE UNITED KINGDOM BUT THAT, IF THE REPLY IS POSITIVE ON OIL, THIS SHOULD BE MADE CLEAR ORALLY IN DELIVERING IT TO RALLIS. I WOULD HOWEVER RECOMMEND THAT THE REPLY SHOULD, WITH REFERENCE TO PARAGRAPH 7 OF RALLIS'S LETTER, INCLUDE A MENTION OF THE PROSPECTS FOR CLOSER COOPERATION IN THE FIELD OF DEFENCE SALES WHERE WE HAVE MADE LITTLE HEADWAY AND TO THE CONTINUED BRITISH INTEREST IN GREEK TRANSPORT PROJECTS, INCLUDING THE SALONIKA RAILWAY AND THE ATHENS METRO

HOWEVER RECOMMEND THAT THE REPLY SHOULD, WITH REFERENCE TO PARAGRAPH 7 OF RALLIS'S LETTER, INCLUDE A MENTION OF THE PROSPECTS FOR CLOSER COOPERATION IN THE FIELD OF DEFENCE SALES WHERE WE HAVE MADE LITTLE HEADWAY AND TO THE CONTINUED BRITISH INTEREST IN GREEK TRANSPORT PROJECTS, INCLUDING THE SALONIKA RAILWAY AND THE ATHENS METRO

9. RALLIS WILL OF COURSE BE AT THE EUROPEAN COUNCIL ON 1/2 DECEMBER WHEN MRS THATCHER WILL SEE HIM. SHE MAY WISH TO DELIVER THE REPLY PERSONALLY. IF THE PRIME MINISTER DECIDES TO TAKE THIS COURSE I SHOULD WISH TO ADVISE MR RALLIS'S OFFICE IN ATHENS IN ORDER TO ARRANGE A BILATERAL MEETING IN LUXEMBOURG.

10. I REALISE THE TIME CONSTRAINTS BUT SHOULD BE GRATEFUL TO HAVE AN OPPORTUNITY TO COMMENT ON THE REPLY IN DRAFT.

11. ROUSSOS HAS STRESSED TO ME THE CONFIDENTIAL NATURE OF THE EXCHANGE OF MESSAGES. I HOPE THAT THIS CAN BE IMPRESSED ON ALL THOSE INVOLVED IN LONDON.

12. PLEASE PASS ADVANCE COPIES TO PS/SECRETARY OF STATE FOR TRADE, AND BENJAMIN (PEP DIVISION) WHO SHOULD ALSO PLEASE ARRANGE FOR A COPY TO BE SHOWN TO MR PETER WALKER WITH WHOM I DISCUSSED THE POSSIBLE TERMS OF OUR RESPONSE WHEN THE MINISTER OF AGRICULTURE WAS IN ATHENS ON 25 NOVEMBER BUT BEFORE WE HAD SEEN THE TEXT OF RALLIS'S LETTER.

SUTHERLAND

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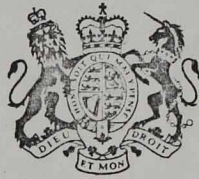
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RH



10 DOWNING STREET

From the Private Secretary

25 November, 1980

Dear Sir,

Call by the Greek Ambassador

The Greek Ambassador called on the Prime Minister this morning to deliver a letter from the Greek Prime Minister, Mr Rallis, about the power station project. I enclose a copy of the letter.

In handing over the letter, Mr Lagacos said that he had also had a telephone conversation with his Prime Minister who had asked him to stress the difficulties of the political issues involved for the Greek Government. The Public Power Corporation had leaked to the Greek press and opposition their view that the coal supply contract was unsatisfactory. There was, in any case, a general tendency to question the letting of such a large contract without an international tender. The Government was, of course, in a pre-electoral period and the opposition were seizing every opportunity to criticise the Government.

Mr Rallis had come to the conclusion that the only way to defend the package would be to increase the oil supply element and to stress the security of oil supply from the United Kingdom as opposed to that from e.g. Iran or Iraq. Mr Rallis was extremely anxious to strengthen relations between Greece and the United Kingdom and recognised the importance of the contract in this connection. But without an increased oil element, the package would not survive scrutiny in the Greek Parliament. Mr Lagacos made it plain that he agreed with his Prime Minister's assessment and that he was desperately anxious to see an agreement concluded.

The Prime Minister said that the Ambassador would not expect her to answer yes or no at once. The fact was that production in the North Sea was down because of gas flaring. She would have to consult the Secretary of State for Energy and BNOG about the possibilities. She would ensure that a reply was sent as soon as

/possible.

CONFIDENTIAL

RH

CONFIDENTIAL

- 2 -

possible. When accompanying the Ambassador to the door I stressed the degree to which North Sea Oil supplies were, inevitably, already committed. He seemed to find the thought that there was not a limitless supply surprising.

The Prime Minister did not get into the kind of discussion envisaged in Neil McInnes' letter to me of 21 November. Mr Lagacos made it very clear that he was not in a position to discuss the problems in any detail.

No doubt you will be considering urgently what line we take in reply. You will, of course, observe that Mr Rallis' letter does not refer to any other contracts although there is a statement to the effect that agreement would open up the way to "further and mutually beneficial co-operation". As you know the Prime Minister is anxious to secure the power station contract if at all possible. But she recognises that the new Greek demand represents a very considerable increase on the existing offer. We should aim to get a reply on its way in the course of this week.

I am sending copies of this letter and its attachment to Paul Lever (Foreign and Commonwealth Office), Ian Ellison (Department of Industry) Julian West (Department of Energy) and David Wright (Cabinet Office).

Yours sincerely

Richard Alexander

S Hampson, Esq
Department of Trade

CONFIDENTIAL



From the Secretary of State

Michael Alexander Esq
Private Secretary
10 Downing Street
London, SW1

24 November 1980

Dear Michael,

GREEK COAL-FIRED POWER STATION PROJECT

--- Further to my letter to you of 21 November I enclose a supplementary note on the project for the Prime Minister's meeting tomorrow morning with the Greek Ambassador.

I am copying this letter and attachment to Roderic Lyne, Ian Ellison and Julian West.

Yours ever,

Nicholas McInnes

N McInnes
Private Secretary



oil for putting more business in the direction of the UK, the Department of Energy advice is that the Prime Minister should indicate that this is not currently possible: the UK is only just producing as much oil as it consumes, and much of that oil is in the hands of producing companies with no interest in supplying the UK. But experts would be very ready to examine the possibility of more oil depending upon the justification in terms of business for UK companies on the table.

It is therefore very difficult to be more specific than in the earlier brief, since, until the text of the message from the Greek Prime Minister is known, we are all shadow-boxing.

SUBJECT

THE PRIME MINISTER

CONFIDENTIAL

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T227/80

Athens, 21 November 1980

Dear Madam Prime Minister,

As you will recall, the energy package under the Memorandum of Understanding between our two Governments, figured prominently in the talks we had during your recent visit to Greece. I hope that I was then able to convey to you our appreciation of the efforts made by your companies and officials as well as our own eagerness to reach agreement within the required time limit. In doing so, I did not conceal the technical weaknesses of the proposed package as our experts saw them, or the political difficulties attending the conclusion of contracts of such importance without inviting international tenders. These considerations were also set out in the course of the conversation I had, subsequently, with the Secretary of State for Trade Mr. John Nott.

Since then I pressed the Public Power Cooperation for renewed and imaginative endeavours with a view to breaking the deadlock. After long deliberations the following picture emerged :

. / .

The Rt Hon. Margaret Thatcher MP.,
Prime Minister,
10 Downing Street,
LONDON

The price asked by the General Electric Company Ltd for the design, manufacture and erection of the coal-fired power stations, after discounts made, can now be considered as reasonable.

Unfortunately the conditions of the coal supply contract, despite efforts at improvement on the British side, remain unsatisfactory. They fall short, in Public Power Corporation's view, of the letter and spirit of the Memorandum of Understanding.

Since the prospects of further improvement of the coal supply conditions look dim, a way out could only be brought about through some offsetting clause in a parallel field, which would make the deal fairer and more balanced. Such a clause could be found in increased and secure North Sea oil supplies. It is true that on this score the Memorandum of Understanding is rather vague, while the offer of nearly 500,000 tons, under an annual evergreen contract is insufficient to redress the balance of the energy package.

I, therefore, propose the conclusion of a firm contract irrevocably committing the United Kingdom to supply Greece with ten million tons of oil, over a period of ten years, in equal parts, at current prices, commencing on 1 January 1981. It is my conviction that only under this condition the whole energy package will be able to stand Parliamentary scrutiny.

I earnestly hope that this proposal painfully arrived at after long efforts and much heartsearching could meet with your agreement. If this proves to be the case, the way will thus be opened up to further and mutually beneficial cooperation.

In closing I would like to repeat my feelings of deep appreciation of your visit to Greece as well as my enduring interest in the talks we had and the views you expressed.

This letter will be delivered to you by our Ambassador in London Mr. Lagacos, who will be available to further elaborate on the political intricacies of the whole issue with which I am confronted.

Please accept, Dear Madam Prime Minister, the assurance of my highest esteem and consideration, with which I remain,

Yours Sincerely

G. J. Rallis

GEORGE RALLIS

If the suggested
has in taken we may lose
these contracts. We should
sue for on for issue can
and not be difficult.
These contracts
we intend to us
not



From the Secretary of State

Michael Alexander Esq
Private Secretary
10 Downing Street

Prime Minister
We have still had no
request for an appointment

21 November 1980

Handwritten signature

Dear Michael,

You will have seen Athens Creda 175 indicating that the letter from Mr Rallis is going to say that the coal-fired power station package is acceptable if we can increase the quantity of BNOC oil. It is also likely that the letter may include reference to other projects which the Greeks are prepared to award to British interests: notably that the British consortium and Bechtel will be awarded the Athens Airport management contract, and that our bid for the Messolonghi petro-chemical project will also be accepted.

The value of these is high - the airport consultancy is likely to be worth £5-10 million, depending upon relationships with other consultants, and the airport itself likely to cost in the region of £625 million, with a potential UK hardware content of some £100 million; the particular petro-chemical project concerned would have a potential UK content value of £15 million. These additional awards, which could involve discretion by the Greek Government in our favour, are attractive in their own right, and on the airport alone could be expected to lead to substantial orders being placed on our manufacturers.

On the provision of further oil, the situation immediately is very difficult, and the attached note by Department of Energy suggests a line that the Prime Minister might follow.

In playing their hand in this way, the Greeks have allowed us to respond without being bounced, though clearly we should need to say that we will respond urgently.

Ideally, however, we would like to announce a decision in principle quickly and not wait until the oil situation is cleared: we would therefore wish the Ambassador to concede that, on the basis of urgent talks to see what oil might be allocated, the two Governments could announce the decision immediately. It would also be most helpful if the Ambassador could let us have an indication of the line that the Greek Prime Minister would wish us to take with the Press here to help the Greek Government in coping with their domestic presentational problems.



From the Secretary of State

I am copying this to Roderic Lyne, Ian Ellison and Julian West.

Yours ever,

Nicholas McInnes

N McINNES
Private Secretary



Objective ?

To react appropriately if the Greek Ambassador seeks an increase in the BNOC commitment to supply UKCS oil, as the final price for Greek acceptance of the UK bid.

Line to take

1 The situation in the world oil market has changed totally since BNOC's offer was made, greatly increasing the value of the commitment already offered. We have been called upon to make additional supplies available to our existing EC and IEA partners. In addition, production in the North Sea is running below expectations and BNOC has been obliged to declare force majeure on its existing contracts.

If pressed

2 If only the timetable for decisions on this project had been adhered to, oil would already be on its way to Greece in the current quarter. Indeed, one cargo (70,000 tonnes) has been released as a gesture of good-will. Responsibility for the loss of the remaining two cargoes this year does not rest with the UK. There is no practical possibility of BNOC increasing its commitment to Greece until late in 1981 but, as a gesture, I will ask BNOC to see whether it can then make up the two cargoes you have foregone this year. I can go no further.

If further pressed

3 I have nothing to add. I am surprised that I should be asked to do business in this manner. I trust our new relationships in the Community will not be conducted on this basis.



Background

We understand that the Greek message may make acceptance of the UK power station package conditional upon the offer of additional UKCS oil.

2 The current oil offer by BNOC is for a supply at the rate of 10,000 barrels per day on an annual "evergreen" basis. This is a term of the trade indicating that the contractual commitment is for one year only but that both parties expect the arrangement to be rolled forward. The commitment to renewal would be negotiated each September and relate to the subsequent calendar year. The Greeks sought a longer term commitment at an earlier stage, but were refused. The value of the present oil offer, at today's prices, is some £50m p.a.

3 BNOC had offered to supply three cargoes in 1980. This offer lapsed on 31 October and BNOC confirmed to the Greeks after that date that the supply in 1980 was no longer available. BNOC had, covertly, earmarked a possible cargo for delivery in December if the Greeks came forward with acceptance of the UK package by 14 November. This cargo is no longer available. Indeed, because of reduced production from two UKCS fields (Ninian and Murchison) BNOC have had to declare limited force majeure on fourth quarter deliveries. This will have repercussions in January and February deliveries and BNOC expect to be very stretched to meet their contractual commitments throughout the first half of 1981.

PLEASE copy File TELETYPE

DWF G 43/21

LLG 95/21

IMMEDIATE

OO DOT/CREDA

OO FCO

OO DOI

GR 153

CONFIDENTIAL

FROM ATHENS 210830Z NOV

TO IMMEDIATE DOT

TELNO CREDA 175 OF 21 NOV 88

AND TO IMMEDIATE FCO (FOR SED) AND DOI (FOR MEPD)

ADVANCE COPY

Hd / SED

~~DOT (CRE)~~

DOI (MEPD)

10 Dg St.

[limited]

X3

AMBASSADOR'S TEL CREDA 172 : COAL-FIRED POWER STATION

1. RALLIS' OFFICE HAVE INFORMED US THAT LAGAKOS HAS BEEN INSTRUCTED TO ASK TO SEE THE PRIME MINISTER ON 22 NOVEMBER TO CONVEY RALLIS' LETTER ABOUT THE COAL-FIRED POWER STATION PROJECT. THE LETTER IS BEING SENT TO LAGAKOS BY HAND OF OLYMPIC AIRWAYS PILOT.

2. GREEK MINISTERS AND OFFICIALS ARE UNDER INSTRUCTIONS TO DIVULGE NOTHING OF THE CONTENT UNTIL LAGAKOS HAS TRANSMITTED THE LETTER. HOWEVER A MEMBER OF RALLIS' STAFF AND PAPPAS, SECRETARY GENERAL OF THE MINISTRY OF INDUSTRY AND ENERGY, HAVE BOTH TOLD US IN STRICT CONFIDENCE THAT THE MESSAGE IS IN ESSENCE THAT THE PACKAGE IS ACCEPTABLE SUBJECT TO AN INCREASE IN THE QUANTITY OF GIL OFFERED BY BROC.

3. FCO. PLEASE PASS COPY IMMEDIATE TO NO 10 FOR PS.

FAIRWEATHER

NNNN

PERCISE COPY FOR THE



21 NOV 1980

DISTRIBUTION SELECTORS
FILE COPY

K.29

NO DISTRIBUTION

[DOT/CRE]

SED

TRED

DOI

DWF G 015/19

LLG 050/19

OO CREDA

OO FCO

OO DOI

GR 230

CONFIDENTIAL

FM ATHENS 190758Z NOV

TO IMMEDIATE DOT

TELEGRAM NUMBER CREDA 172 OF 19.11.80

INFO IMMEDIATE FCO (FOR SED) DOI (FOR MEPD)

MYTEL NO CREDA 167.

NO. 10. DOWNING ST.
(Requested by
Duty clerk)

7-3

GREECE: THE COAL-FIRED POWER STATION AND OTHER PROJECTS

1. AT MEETING WITH FRANKLIN (CABINET OFFICE) AND BRIDGES ON 18 NOVEMBER, PALAEOCRASSAS, ALTERNATE MINISTER OF COORDINATION, CONFIRMED TO ME THAT THE GREEK GOVERNMENT HAD TAKEN A DECISION ON THE POWER STATION PROJECT WHICH WAS BEING COMMUNICATED IN A PERSONAL MESSAGE FROM RALLIS TO THE PRIME MINISTER THROUGH THE GREEK AMBASSADOR IN LONDON. RALLIS HAD DECREED THAT MRS THATCHER SHOULD BE FIRST TO HEAR THE VERDICT.

A PERSONAL MESSAGE FROM RALLIS TO THE PRIME MINISTER THROUGH THE GREEK AMBASSADOR IN LONDON. RALLIS HAD DECREED THAT MRS THATCHER SHOULD BE FIRST TO HEAR THE VERDICT.

2. PALAEOCRASSAS WENT ON TO SAY THAT THE BRITISH CONSORTIUM WITH BAI AND BECHTEL WOULD BE AWARDED THE ATHENS AIRPORT MANAGEMENT CONTRACT (SEE MY TELNO CREDA 170) AND THAT HE ALSO EXPECTED TO HAVE GOOD NEWS NEXT WEEK ABOUT THE BRITISH BID FOR THE MESSOLONGHI PETRO-CHEMICAL PROJECT (SEE MY TELNO CREDA 169).

3. THE GREEK MINISTER WAS NOT PREPARED TO REVEAL THE DECISION ON THE POWER STATION PROJECT BUT I DEDUCE FROM THE MANNER IN WHICH HE REFERRED TO THESE TWO SUBSTANTIAL CONSOLATION PRIZES THAT IT IS NEGATIVE.

4. AS RALLIS'S MESSAGE TO THE PRIME MINISTER MAY ALSO REFER TO THE PROJECTS IN MY PARA 2 ABOVE YOU WILL WISH TO CONSULT NO 10 BEFORE ADVISING THE BRITISH FIRMS CONCERNED.

5. PLEASE PASS ADVANCE COPIES TO BENJAMIN AND PEP (FOR DURIE).

SUTHERLAND

[NOT PASSED BY C.O.D.]

NNNN

Greece

NRPA yet

Rmt

01-211-6402

Rt Hon John Nott MP
 Secretary of State for Trade
 Department of Trade
 1 Victoria Street
 London SW1H 0ET

7 NOVEMBER

Dear John

GREEK POWER STATION ORDER: BNOG OIL SUPPLIES

Thank you for your letter of 30 October about the BNOG oil offer which forms part of the power station package offered to the Greeks. I express below some views on the tactics, as I see them, of handling this oil offer from now on, though I recognise that these stem from a very partial involvement in the overall effort. It concerns me that, from this limited vantage point, I should suddenly be asked to override the commercial judgement of the British National Oil Corporation on the handling of their offer. Any intervention of this kind carries a potential cost, whether it is explicitly laid at the Government's door or not. It is not clear to me what machinery exists to set clear objectives in promoting export packages of this kind, including the criteria which should be applied as we find ourselves pushed further and further in negotiation. I hope we shall have an opportunity to discuss these more general matters.

Returning to the particular circumstances of the Greek deal, the extension of an oil supply offer in a world which is hungry for crude oil is not something to be undertaken lightly. Since the Iranian Revolution any term supply of oil has been a real prize for the recipient, but since the Gulf war began the oil market in which BNOG made their original offer to Greece has changed significantly and even the odd cargo during the remainder of this year is now keenly sought after. BNOG could very readily place this oil elsewhere. Moreover, now that spot crude prices have again moved above term prices, any buyer who foregoes an offer from BNOG which is already on the table cannot hope to make up that supply elsewhere at the same price. This is the strength of the position of the oil seller and it is not a strength we should lightly yield by allowing potential customers to pass deadlines without penalty. To do so would be to devalue our oil weapon.

Nevertheless, in response to the concern expressed in your letter, Hamish Gray did intervene to ask BNOC not to apply an absolute deadline of 31 October to the whole oil package, the intent the Corporation had last week expressed to us (but not, at that stage, explicitly to the Greeks). The result is already known to your officials. BNOC have, in agreement with us, reallocated the second of the three cargoes previously intended for the Greeks in the current quarter, but will hold open the remainder of their offer until the middle of this month.

Our officials have met with the other Departments concerned and with BNOC to discuss the tactics of what should now be said to the Greeks. As a result of that discussion BNOC have sent a message to Athens noting that the 31 October deadline for acceptance of the second and third cargoes this year passed and that this oil is therefore no longer available. BNOC have given no commitment to make up, next year, cargoes which the Greeks forgo this year. Our Ambassador in Athens will be told, however, that BNOC is willing, without commitment, to see whether any make-up might be possible if the package deal goes through; and that he can therefore agree to pass on to London any representations which may be made on this point - though without soliciting them.

There remains your request that no deadline should be placed on the remainder of the BNOC offer. This is something which neither I nor the Corporation can grant. The Corporation has its own internal decision deadlines, for operational and commercial reasons. In any case, in my view BNOC should now set the Greeks an absolute deadline for acceptance of the whole package, including next year's oil supply. Once that passes, the Greeks would have no further call on BNOC for oil, though they would, of course, be free to approach BNOC again to see whether any part of the supply could be recovered in a new offer. To fail to do this will be to convince the Greeks that they have us on the run.

The Corporation have told Hamish Gray that they will hold open their offer until November 14. The Corporation have made no commitment beyond that date and may well decide that November 14 is, indeed, their absolute deadline. My preference, as I say, would be to communicate that deadline now to the Greeks. But as I take it that you personally are convinced it would be tactically wrong to do so, I will not insist on this course, since BNOC have not done so. This means that the Greeks will be left with an explicit message that they have lost the remaining two cargoes this year but in some uncertainty about next year's supply.

If there is still no Greek decision by, say 12 November, we shall need to discuss the matter before any further approach is made to BNOC.

CONFIDENTIAL



I am sending copies of this letter to the Prime Minister, the Foreign Secretary and Sir Robert Armstrong.

Howell

David

D A R HOWELL

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

-7 NOV 1980



fc
Rmt

Prime Minister

Greece (2)

The deal still hangs in
the balance!

CONFIDENTIAL

From the Secretary of State

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London, SW1P 4QJ

30 October 1980

Rmt - 30/x

ms

Dear Secretary of State,

GREEK POWER STATION ORDER: BNOO OIL SUPPLIES - ATHENS TELEGRAM
CREDA 154

You will be aware of the crucial part that our offer of some oil from BNOO is playing in persuading the Greek Government to place what is for them a politically contentious order for a £200m power station with GEC.

BNOO have been very patient in what has been a complex negotiation involving also NCB and Shell, over the past 18 months, and not helped by the problems of the Greek Government in drawing together the threads for a final decision. There have, however, been perfectly legitimate grounds for the delay in recent days - first, key Ministers have been tied up with their Parliamentary debate to decide to rejoin NATO - a step that we all welcome to shore up the southern NATO flank. Secondly, the Public Power Corporation, who are responsible for making the basic recommendation for the power station, are suffering a strike by their engineering staff, which has inevitably taken its senior management away from this issue.

I am grateful to you for having interceded with BNOO to persuade them to hold open the offer of oil for a few more days: and I enclose the text of the latest telegram from our Ambassador, who is firmly of the view that to press through the oil offer for an immediate decision would be counter-productive to our chances of gaining this project, which is extremely important for future political relations, and will represent our first major public sector contract in Greece for some two decades.

I would like to thank you for what you have done so far, but I hope that you can persuade BNOO to refrain from an ultimatum that would throw the whole deal into jeopardy, and allow the Greeks to put the onus for breakdown on us. We should also face criticism from GEC and

CONFIDENTIAL



From the Secretary of State

CONFIDENTIAL

other contractors, whose reading from their contacts is rather more favourable than the Ambassador's. As for the second Greek consignment of oil for this year, if we can have no reply by the date BNOC have indicated, we should, as was recommended by the Ambassador earlier, feel free to reallocate it, but be ready to make it up next year if this is then the Greek request, but subject to signature of the deal.

I am copying this note to the Prime Minister, the Foreign Secretary and Sir Robert Armstrong.

Yours sincerely,

Nicholas Miles

JOHN NOTT

(Approved by the Secretary of State and signed in his absence.)

CONFIDENTIAL

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TO IMMEDIATE DOT

TELNO CREDA 154 OF 30 OCT 80

AND TO IMMEDIATE FCO

YOUR TELNO CREDA 165 :

COAL-FIRED POWER STATION PROJECT :

OIL SUPPLIES

1. I REPORTED IN MY TELEGRAM CREDA 153 THAT A DECISION BY THE GREEK GOVERNMENT MIGHT WELL BE DELAYED UNTIL AFTER 31 OCTOBER. MANOS, MINISTER OF INDUSTRY AND ENERGY, TOLD ME ON 26 OCTOBER THAT THE SENIOR EXECUTIVES IN THE PUBLIC POWER CORPORATION HAD BEEN PREOCCUPIED OVER THE PREVIOUS FOUR DAYS WITH THE STRIKE OF THE EMPLOYEES AND HAD THEREFORE BEEN UNABLE TO MAKE A RECOMMENDATION TO THE GOVERNMENT. THE GREEK PRIME MINISTER CONFIRMED TO SIR DAVID STEEL OF BP ON 29 OCTOBER THAT THE BRITISH OFFER HAD NOT YET BEEN FORMALLY CONSIDERED BY MINISTERS. IN THIS CONVERSATION RALLIS SAID THAT THE GEC BID WAS BROADLY COMPETITIVE BUT THAT THE GREEKS HAD BEEN LOOKING FOR A FIRMER LONGER-TERM COMMITMENT ON PRICE FOR COAL SUPPLY. STEEL GAVE HIM NO REASON TO THINK THAT THEY COULD EXPECT A BETTER DEAL FROM BP.

0000/

2. I HAVE SPOKEN AGAIN TODAY TO MANOS WHO HAS UNDERTAKEN TO LET ME KNOW AS SOON AS POSSIBLE WHEN THE PPC WILL MAKE THEIR RECOMMENDATION. BUT IT IS CLEAR THAT NO DECISION BY THE GREEK GOVERNMENT CAN BE EXPECTED UNTIL AT LEAST NEXT WEEK.

3. I DO NOT BELIEVE THAT FURTHER PRESSURE ON THE GREEK GOVERNMENT IS LIKELY TO IMPROVE THE PROSPECT FOR A FAVOURABLE DECISION AND

THEREFORE RECOMMEND AGAINST THE OPTIONS REFERRED TO IN YOUR PARAGRAPH

3. I STILL THINK THAT THE ODDS ARE AGAINST ACCEPTANCE OF THE BRITISH PACKAGE BUT I JUDGE THAT OUR CHANCES HAVE MARGINALLY IMPROVED OVER THE PAST TWO WEEKS AND THAT THE LONGER THE DECISION IS PUT OFF THE MORE LIKELY IT IS TO BE FAVOURABLE.

4. BUT THE OIL COMPONENT IS AN INTEGRAL AND ESSENTIAL PART OF THE PACKAGE. I HAVE EXPLAINED BOTH TO PALAEOGRASSAS AND TO MANOS THAT BNOG'S SECOND CONSIGNMENT CANNOT BE HELD BEYOND 31 OCTOBER AND THEY ACCEPT THIS. HOWEVER (IF THIS IS THE MEANING OF PARAGRAPH 1 OF YOUR T.U.R.) I AM VERY CONCERNED THAT BNOG ARE APPARENTLY CONTEMPLATING CANCELLING NOT ONLY THIS CONSIGNMENT BUT ALSO THE BALANCE OF THE 230,000 TONS FOR THIS YEAR AND SUPPLIES FOR 1981 IF NO DECISION IS REACHED BY 31 OCTOBER. TO WITHDRAW THE OIL OFFER NOW WOULD MERELY PRECIPITATE AN UNFAVOURABLE DECISION BY THE GREEK GOVERNMENT AND GIVE THEM AN EXCUSE FOR SAYING NO WHICH WOULD LAY THE ONUS ON THE BRITISH. I STRONGLY RECOMMEND THAT BNOG SHOULD HOLD UPEN THE OFFER FOR A FURTHER PERIOD.

5. AS REGARDS THE FIRST SHIPMENT VOULGARIS' OFFICE HAVE TOLD US THAT THE MINISTRY OF COMMERCE TELEXED BNOG ON 29 OCTOBER ABOUT ARRANGEMENTS FOR PICKING UP

SUTHERLAND

NNNN



Greece
Flu M
oct 20

10 DOWNING STREET

From the Private Secretary

2 October 1980

GREEK POWER PROJECT

The Prime Minister has seen your letter to me of 1 October. She has signed a slightly amended version of the letter from her to Mr. Rallis enclosed with your letter.

I enclose a copy of the final text. The signed text has been sent to the Greek Embassy in London.

M. O'D. B. ALEXANDER

Stuart Hampson, Esq.,
Department of Trade.



File RB

10 DOWNING STREET

From the Private Secretary

2 October 1980

I enclose a letter from the Prime Minister to the Prime Minister of Greece. I should be most grateful if you could arrange for this to be forwarded to Athens as soon as possible. As you will see, the letter results from discussions between the Prime Minister and Mr. Rallis during Mrs. Thatcher's visit to your country last week.

M. O'D. B. ALEXANDER

His Excellency Monsieur Eustace P. Lagacos.

SUBJECT



file VB
cc J/T
fco

10 DOWNING STREET

THE PRIME MINISTER

2 October 1980

**PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T196/80.**

My dear Prime Minister,

May I again express my warmest thanks for your generous hospitality during my stay with you last week. I am very glad that our talks confirmed our common view on so many topics of joint concern.

We agreed that I would let you have a summary of the main features of the energy package which our companies and officials have been seeking to negotiate with very considerable effort since last November. The main points are underlined in the attached note, which also indicates the latest position on a dedicated mine. Each of the component parts of the package - oil, coal-supplies and power-station manufacture - are competitive in their own right, and in combination offer a uniquely attractive set of measures bringing together my country's strengths in energy and your wish to have a more stable basis of energy supply. The proposals carry the full support of my Government.

I do not need to stress again the importance that I attach to inaugurating our partnership in the European Community with these proposals. I hope you will agree that this package is one which accords with Greece's economic interests, and that a frame agreement should be drawn up in time for signature when John Nott, Secretary of State for Trade, visits your country on 12/14 October.

/ Meanwhile

Meanwhile, all concerned in the United Kingdom remain ready to join with your officials as necessary to help carry this forward.

Yours sincerely
Margaret Thatcher

His Excellency Mr. George Rallis.

PLB



CONFIDENTIAL

From the Secretary of State

Michael Alexander Esq
Private Secretary
10 Downing Street
Whitehall
SW1

1 October 1980

Dear Michael

GREEK POWER PROJECT

I understand that during her visit to Athens it was agreed that the Prime Minister should send to Mr Rallis a summary of the attractions of the power-generation package. It was suggested by Rallis that this would be submitted through the Greek Ambassador in London. I attach a draft letter and accompanying Memorandum.

One of our problems is that, on the dedicated coalmine, the Shell acquisition is currently going through anti-trust clearance, and their legal advice is that, while the matter is sub-judice, they cannot be party to any reference. We shall have to make this clear to our Ambassador, but this accounts for the less than clear statement in the draft on this particular point. Even so, the Greeks do know that there is an early possibility of a dedicated mine, and already have indicative prices for its output.

Even without being able to declare details, the offer remains attractive on all three fronts, and, indeed, the oil offer can only have enhanced value in the light of the present Middle East situation. There are already signs that the rats are beginning to nibble at our position within the Greek Government, and our view is that we cannot afford to lose momentum by letting the issue drag on until Shell's legal inhibitions about a dedicated mine in the US are removed.

If the Prime Minister agrees to this message, I should be grateful if you could convey it through the Greek Ambassador. We would also send a telegram text to our Post, so that they can have copies lodged with the Prime Minister's office to enable Greek Ministers to work towards clearing the position before my Secretary of State arrives.

Yours sincerely
Stuart Hampson

S HAMPSON
Private Secretary

COAL FIRED POWER STATION

In following up the joint initiative of the United Kingdom and Greek Governments in the Memorandum of Understanding on industrial and economic co-operation signed in November 1979, UK companies and nationalised industries have negotiated a unique package to support the Greek Government's policies of diversifying its energy resources and reducing reliance on the volatile oil market.

NORTH SEA OIL

The British National Oil Corporation is prepared to make available this year 200,000 (two hundred thousand) tons of North Sea oil, next year nearly 500,000 (five hundred thousand) tons under an annual evergreen contract commencing on 1 January 1981.

COAL SUPPLY FOR NEW POWER STATION

Under special provisions negotiated with the PPC, and summarised in the attached letter of 22 September from Mr Donald Davies to Mr Manos, the PPC will have an assurance that competitively priced coal of the necessary quantity and quality for a new 700 MW power station will be available throughout the life of the power station, ie 25 years.

The arrangements will enable the Public Power Corporation to achieve the best balance between security of supply and competitive price levels in the rapidly developing coal market. The possibilities for securing the necessary capacity range from a fixed dedicated part of the output of a new coalmine, to purchasing from a variety of sources on the basis of

periodic price reviews. Whatever the balance, however, the PPC will be assured of a fallback guaranteed supply from NCB sources.

In addition, the coal supply agreement provides a unique guarantee of price for 1984 and 1985, the first years of a new power-station's operation: despite current market uncertainties, 600,000 (six hundred thousand) tonnes will be made available in this period on a base price fixed now subject only to identified escalation factors; and a further 680,000 (six hundred and eighty thousand) tonnes of coal will be made available in the same period at a maximum base price, also subject to escalation factors, save that in the event of cheaper coal being available the benefits will be passed to the PPC.

As Greek authorities are aware, early opportunities for the development of project coal are envisaged in the United States. At the earliest opportunity, NCB's intended assignee would be ready to enter into detailed discussions on arrangements for a dedicated supply, for which the best current price indication has been provided. Whilst this would be a continuing arrangement, 800,000 tonnes of coal from such a source could provide a total of 3.0m tonnes of coal in 1984/85 at prices which will be largely insulated from unexpected increases in world prices.

Under these proposals, therefore, the Greek Government will be able, in their first approach to a new and complex energy market, to rely upon the expertise of the National Coal Board, the leading West European producer, who are in the forefront of coal mining and utilisation technology, and have already

an advisory role to many Governments and public electricity authorities. In arranging shipping, due regard will be paid to Greek shipping interests.

COAL-FIRED POWER STATION PROPOSAL

The General Electric Company Limited and their principal sub-contractors, Babcock Power, have made detailed proposals for a 700 MW coal-fired power station, at an internationally competitive price, and offering the prospect of completion of the station, based on established designs currently being implemented, in 50 (fifty) months from contract signature.

FINANCIAL PROPOSALS

We have now negotiated financing arrangements which compare favourably with those offered by competitors, and the terms of export credit are being held at a rate lower than the new OECD Consensus rates, which in any event will not be available after 31 December 1980. Such a financial package cannot therefore be repeated.

UK GOVERNMENT SUPPORT

The services of the Central Electricity Generating Board, who have the greatest experience on coal-fired power technology, have already contributed in the survey of possible sites for a new power station. Such further support as the PPC may require during construction, commissioning and during operational service will also be available, so that the PPC can be assured of total technical support on coal handling, coal-firing, environmental control, ash disposal and operation during the life of the station.

The UK Government remains committed to the successful implementation of the total package, and will use all its good offices to seek to achieve this, working in close liaison with PPC and other Greek authorities as necessary.



National Coal Board
Hobart House
Grosvenor Place
London SW1

HE Mr S Manos
Minister of Industry and Energy

22 September 1980

I thought it might be helpful to you if I set out the broad principles of what we have offered to the Public Power Corporation, avoiding the legal details which tend to obscure the substance of what we are attempting to achieve.

The National Coal Board has agreed to act as the main contractor for coal supplies to the first hardcoal fired power station in Greece as part of a United Kingdom package. In step with the other participating organisations (including the UK Government) and under the umbrella of the Memorandum of Understanding signed between the two Governments in 1979, discussions about the coal supply arrangements have been crystallised in a draft coal supply agreement.

Security at Competitive Prices

The agreement provides for the availability of a secure supply of coal for the power station of up to 1.5 m. tonnes per annum for the life of the power station. The concept is that by a series of five year supply periods, each period covered by successive supplemental agreements, the power station will receive its coal requirements (apart from a very small supply of UK coal at list price) at world prices for coal traded competitively. The PPC will have the right to trade elsewhere if they believe they can do so to advantage.

Thus the PPC and the Greek Government have an assurance that competitively priced coal will be available throughout the life of the power station, ie. 25 years.

To meet this undertaking the NCB agrees the following main provisions:-

/(i)



- (i) In order to grant access to coal at world prices they will assign the first coal supply contract or the major part of it (in respect of supplies to be delivered in the first five years from commencement in 1984 and subsequently, given that all the parties agree) to Shell Coal International - though not named in this agreement - who will effect the supply from a spread of world sources under supplemental agreements;
- (ii) To retain responsibility for the reasonable performance of the assignee during this period and in case of default to make up tonnage deficiencies at world prices;
- (iii) In the circumstances of force majeure which may threaten continuity of operations - such a situation being a remote possibility bearing in mind that the other contractual sources would be urged to try to meet such shortfall - NCB will provide coal as soon as possible from their own sources at list prices.

Dedicated Mine

The NCB and their assignee will pursue with the PPC entering into a joint venture for the supply of coal from a dedicated mine. The NCB will arrange with the PPC for urgent studies to review the options available.

Basic Prices and Initial Tonnage

Demand for steam coal in 1984/85 will be met in many cases from coal reserves as yet unworked. It is therefore quite impossible now to commit coals to basic prices for delivery in those years without entering into enormous risk which no coal supplier is normally willing to do.

However, NCB with Shell Coal International have agreed to supply over the first 2 years 1,280,000 tonnes of coal at basic prices which will not be reviewed before the PPC has taken the tonnage, provided this is before the end of 1985. In addition a dedicated mine could provide a further 800,000 tonnes of coal in each of those years.

For the balance of the tonnage the draft agreement makes provision for a review of basic prices at 2 year intervals to operate from 1st January 1981. By the middle of 1982 PPC will have basic prices for their first deliveries provided these flow before the end of 1984.

/Future Negotiations



Future Negotiations

The NCB fully appreciate that the PPC and the Greek Government are anxious to achieve the best possible coal supply offer for acceptance before they decide to award the contract for the power station. We also understand your concern that once you have made the decision you should not be treated as a captive customer dependent upon NCB and SCI at unrealistic prices. The draft agreement provides safeguards to cover this situation and which say that if the period of the Agreement is extended it is envisaged that the same principles will apply as apply to the first five year agreement.

In conclusion let me therefore summarise what is offered:

1. A secure hard coal availability for 25 years guaranteed under the appropriate conditions by the National Coal Board.
2. Provision for prices to be negotiated on a competitive basis.
3. A contract which, during a specific five year period, allows purchasing from other sources.
4. A guarantee performance on the contract will be exercised through the supervision of the NCB as part of their contractual obligation and by the UK and Greek Governments under the Memorandum of Understanding.

The National Coal Board is confident that the Public Power Corporation has been offered unique supply arrangements and I hope you can agree that the undertaking set out in the Memorandum of Understanding has been more than fully met.

These principles are set in the Coal Supply Agreement and I look forward to initialling this letter as a step towards completing the Agreement.

In addition, outside the provisions of the supply contract, NCB will be ready to work urgently with the appropriate Greek authorities to appraise the opportunities for establishing a further dedicated coal supply.

Donald Davies
Member of the
NATIONAL COAL BOARD



Prime Minister

(2)

Phd 26/9

COMMERCIAL IN CONFIDENCE

From the Secretary of State

Michael Alexander Esq
Private Secretary
10 Downing Street
London, SW1

26 September 1980

Ag. Phd

Dear Michael

GREECE: COAL-FIRED POWER STATION PROJECT

The Prime Minister asked for a progress report on the Greek coal-fired power station on her return from Yugoslavia. Briefly, the following action is in hand:-

GEC - a draft Heads of Agreement is being prepared for presentation to the Public Power Corporation by the end of next week.

NCB - the draft Agreement is being re-examined to make its substance clearer and to ensure that it conforms with the final offer made. The aim is to resubmit it to PPC in the week after next.

Shell - the need for urgent details on the commercial aspects of a dedicated mine have been put to Shell and will be discussed with them on Monday 29 September on their return from Denmark.

After Monday's meeting with Shell we should have a clearer idea of the timing for presenting proposals on the dedicated mine.

When we have established the details of the dedicated mine, we would suggest that the Prime Minister underline in a message to Rallis that the package on offer has unique advantages, represents our last word, and cannot be improved in substance, and this would be accompanied, or paralleled, by a succinct paper setting out the major selling points of the separate elements of the package.

We are pursuing the outstanding coal issues vigorously, and I shall update you next week on progress. Meanwhile, we feel that the Prime Minister should not approach Mr Pocock until we have identified whether there are problems on the Shell front.

COMMERCIAL IN CONFIDENCE

1

?? Michael Pocock died

η a heart attack about
a year ago. not.



From the Secretary of State

COMMERCIAL IN CONFIDENCE

You are aware that my Secretary of State's visit is scheduled for 12-14 October. We shall be considering the tactics of this visit in relation to the developments I have described.

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary

COMMERCIAL IN CONFIDENCE



UNITED STATES DEPARTMENT OF STATE

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FROM ATHENS

TO IMMEDIATE FCO

TELNO 260 OF 24 SEPT 80

AND TO

IMMEDIATE DEPT OF TRADE FOR BENJAMIN (PEP)

IMMEDIATE DEPT OF INDUSTRY FOR BROWN (MEP)

MY TELNO 256

PRIME MINISTER'S VISIT : COAL-FIRED POWER STATION

1. WHILE THE PRIME MINISTER AND MR RALLIS WERE CONDUCTING THEIR

1. WHILE THE PRIME MINISTER AND MR RALLIS WERE CONDUCTING THEIR SECOND PLENARY SESSION, REPRESENTATIVES OF THE NATIONAL COAL BOARD AND THE PUBLIC POWER CORPORATION (PPC) MET ON THE MORNING OF 23 SEPTEMBER UNDER THE CHAIRMANSHIP OF BOUTOS, MINISTER OF COORDINATION TO HEAR DETAILS OF THE OFFER OF A FURTHER 340,000 TONS OF COAL FOR THE TWO YEARS 1984-85 AT US DOLLARS 85 PER TON MAXIMUM WHICH DAVIES (NCB) WAS AUTHORIZED BY TELEPHONE TO MAKE DURING THE EVENING OF 22 SEPTEMBER. MANOS, MINISTER OF INDUSTRY AND ENERGY, WAS PRESENT BUT TOOK LITTLE PART IN THE DISCUSSIONS. SO WERE MY COMMERCIAL COUNSELLOR AND BENJAMIN (DOT).

2. DAVIES EXPLAINED THE NEW OFFER IN DETAIL AND HANDED OVER A LETTER TO MANOS WHICH SETS OUT IN LAYMAN'S TERMS WHAT WE ARE OFFERING ON THE COAL SIDE. BOUTOS, WHO WAS MOST AGGRESSIVE, COMPLAINED ABOUT BEING PUT UNDER PRESSURE. HE DISMISSED THE OFFER AS FAILING TO FULFIL THE UK'S COMMITMENTS UNDER THE MEMORANDUM OF UNDERSTANDING. HE TOOK ISSUE IN PARTICULAR WITH C.I.F. TERMS: THE PRICE AT WHICH THE NEW COAL WAS GUARANTEED, AND THE PERIOD. (HE SAID THAT THE GREEKS WERE STILL AFTER 25 YEARS ASSURED SUPPLY.) HE CONCLUDED THAT UNTIL DETAILS WERE AVAILABLE ON THE QUALITY, QUANTITY AND PRICE OF COAL FOR THE "DEDICATED" MINE, HE COULD MAKE NO RECOMMENDATION. HE ALSO SHOWED SOME DISPOSITION TO QUESTION THE COMPETITIVENESS OF GEC'S BID. WE MADE IT CLEAR TO BOUTOS THAT THE PRESENT OFFER WAS THE OUTCOME OF THE PERSONAL INVOLVEMENT OF THE PRIME MINISTER AND THAT NEITHER THE NCB OR GEC COULD GO FURTHER.

3. THIS DIFFICULT MEETING BROKE UP TOO LATE FOR ANY DISCUSSION OF THE PROJECT DURING THE PLENARY SESSION. MRS THATCHER RAISED THE MATTER PERSONALLY WITH RALLIS AT THE PRESIDENT'S LUNCH, EMPHASISING THE EXCEPTIONAL NATURE OF THE TERMS OF THE OFFER. RALLIS SPOKE OF HIS DIFFICULTY IN JUSTIFYING TO THE GREEK PUBLIC AND PARLIAMENT THE AWARD OF THE CONTRACT WITHOUT GOING TO INTERNATIONAL TENDER. AT A SUBSEQUENT BRIEFING MEETING FOR THE PRIME MINISTER ATTENDED BY REPRESENTATIVES OF GEC AND THE NATIONAL COAL BOARD IT WAS ACKNOWLEDGED THAT AGREEMENT WOULD NOT BE POSSIBLE DURING THE VISIT AND AGREED THAT THE GREEKS BE TOLD AGAIN THAT THE NCB AND GEC'S TERMS COULD NOT BE IMPROVED BUT THAT THEY WOULD REMAIN ON THE TABLE. IT WAS AGREED THAT IN ANSWER TO PRESS ENQUIRIES WE SHOULD SAY THAT THE BRITISH SIDE HAD PRESENTED A PACKAGE IN MOST ADVANTAGEOUS TERMS WHICH THE GREEKS WERE CONSIDERING AND THAT EXCHANGES WERE CONTINUING ON CERTAIN ASPECTS OF THE PROJECT. GEC AND NCB REPRESENTATIVES HAVE TODAY LEFT ATHENS AND IT IS IMPORTANT NOT TO SUGGEST THAT THEIR DISCUSSIONS HAVE BEEN SUSPENDED.

4. AT THE PRIME MINISTER'S DINNER ON 23 SEPTEMBER, RALLIS TOOK THE INITIATIVE WITH THE PRIME MINISTER, ADMITTING THAT THERE WERE DIFFERENCES OF VIEW WITHIN HIS CABINET. HE IDENTIFIED AS THE PRINCIPAL PROBLEM WHICH FACED THE GREEKS IN ASSESSING THE NCB'S OFFER THE LACK OF INFORMATION ON THE "DEDICATED" MINE AND IT WAS AGREED THAT WE SHOULD PRODUCE THE DETAILS REQUESTED AS SOON AS POSSIBLE. RALLIS SAID THAT THE AIM SHOULD BE TO REACH AGREEMENT BEFORE THE VISIT OF THE SECRETARY OF STATE FOR TRADE ON 12 OCTOBER BUT THAT, RATHER THAN HAVE CONTINUED DISCUSSION OF TERMS DURING THAT VISIT (BOUTOS WILL BE MR NOTT'S HOST) HE WOULD PREFER TO HAVE THE VISIT POSTPONED BY A SHORT PERIOD. RALLIS SAID THAT HE WISHED TO CONTINUE TO BE PERSONALLY INVOLVED AND MIGHT PREFER TO COMMUNICATE THROUGH THE GREEK AMBASSADOR IN LONDON (PRESUMABLY TO CIRCUMVENT BOUTOS). RALLIS REPEATED THE POINTS IN THIS CONVERSATION TO ME AT THE AIRPORT AFTER THE PRIME MINISTER'S DEPARTURE ADDING THAT HE WOULD WISH ALSO TO KEEP ME INFORMED.

5. IN THE LIGHT OF WHAT HE SAID TO ME ON 16 SEPTEMBER RALLIS' UNWILLINGNESS TO OVERRULE BOUTOS IS UNEXPECTED AND NOT WHOLLY EXPLICABLE IN TERMS OF THE RIVALRY BETWEEN BOUTOS AND MITSOTAKIS. I HAVE EVIDENCE THAT MITSOTAKIS, AND PROBABLY ALSO MANOS AND AVEROFF, CONSIDER THAT THE DEAL IS A GOOD ONE AND THAT GREECE SHOULD HONOUR THE MEMORANDUM OF UNDERSTANDING. BUT THE GREEK PRIME MINISTER IS CAUTIOUS BY NATURE AND ANXIOUS TO MAINTAIN HIS REPUTATION FOR JUDICIOUS FAIRNESS. IN A PRE-ELECTION PERIOD AND IN THE FACE OF CRITICISM ALREADY VOICED IN THE OPPOSITION PRESS, HE IS, I BELIEVE, GENUINELY CONCERNED AT THE NEED TO JUSTIFY THE DEAL TO THE PUBLIC IN ALL ITS ASPECTS. IT MAY BE THAT HIS ONLY OBJECT IN SEEKING FURTHER DETAILS ON THE DEDICATED MINE, IS TO PUT OFF THE RECKONING WITH US AND TO AVOID HARD WORDS DURING THE PRIME MINISTER'S VISIT. BUT I CONSIDER THAT THERE IS STILL A REASONABLE CHANCE OF OUR SECURING THE PROJECT ON THE PRESENT TERMS IF THE DETAILS OF THE DEDICATED MINE CAN BE DEMONSTRATED TO HIM THAT THEY ARE ADVANTAGEOUS. MOREOVER, RALLIS MUST REALISE THAT IF THE PROJECT DOES NOT NOW, AFTER ALL THAT HAS TRANSPIRED, GO TO THE UK, THERE COULD BE REPERCUSSIONS UNFAVOURABLE TO GREECE ON THE EVE OF E.C. ACCESSION ON OTHER ASPECTS OF OUR ECONOMIC AND COMMERCIAL RELATIONS.

6. IF WE ARE TO MAKE THE TIMETABLE PROPOSED BY RALLIS, WE SHALL NEED BY THE END OF THIS MONTH TO:

(A) PROVIDE THE GREEKS WITH THE DETAILS REQUESTED ON THE "DEDICATED" MINE. THE PRIME MINISTER WISHES TO HAVE A REPORT ON PROGRESS AS SOON AS SHE RETURNS FROM YUGOSLAVIA ON 26 SEPTEMBER.

(B) LET THE GREEKS HAVE A CLEAR AND CLEAN VERSION OF THE DRAFT COAL AGREEMENT. THE PRESENT TEXT IS OVERLY LEGALISTIC AND IN ANY

PROGRESS AS SOON AS SHE RETURNS FROM TOKYO LEAVING ON 20 OCTOBER

(B) LET THE GREEKS HAVE A CLEAR AND CLEAN VERSION OF THE DRAFT COAL AGREEMENT. THE PRESENT TEXT IS OVERLY LEGALISTIC AND IN ANY CASE REQUIRES AMENDMENT TO TAKE ACCOUNT OF DEVELOPMENTS. THIS SHOULD BE PREPARED NOW BUT MY ADVICE IS THAT IT SHOULD NOT BE PRESENTED UNTIL WE CAN REPORT ON THE DEDICATED MINE.

7. THE PRIME MINISTER RULED IN ATHENS THAT THE AGREEMENT ON THE PROVISION OF NORTH SEA OIL TO GREECE SHOULD BE CONSIDERED AS PART OF THE PACKAGE AND THEREFORE CONTINGENT UPON AGREEMENT ON THE POWER STATION AND COAL CONTRACTS.

8. A TACTICAL POINT TO BEAR IN MIND IS THAT MITSOTAKIS, WHOSE SUPPORT IN GOVERNMENT COULD BE CRUCIAL, WILL BE IN NEW YORK UNTIL 8 OCTOBER.

9. FCO PLEASE PASS FO NO. 10 FOR PS/PM

SUTHERLAND

NNN

PRIME MINISTER'S TELEPHONE CONVERSATION WITH SIR DEREK EZRA ON
MONDAY 22 SEPTEMBER 1980

Prime Minister: Can you hear me?

Sir Derek: Yes.

contract for a
PM: Good. We have been having trouble with this/coal-fired power station at the end of which everything was sorted out with the exception of some 340,000 tonnes a year, sorry two years, namely the first two years of the contract which should be years 1984 and 1985. They wanted security of supplies at a formula price. Now you will understand that I found it very difficult to understand that as that is only about 340,000 tonnes - about one-third of one per cent of our total annual production - I find it difficult to understand why we didn't absolutely leap at it. However, I understand that your boys have said now they can guarantee it. If we don't get it from elsewhere we will do it from our own production, which I think is good news.

Sir Derek: Yes. That is right. It has been fixed up this evening.

PM: ... it will be a minute section in the price of the total output. I have said that we could do - that Industry and Trade between them will fund up to £2 million, which I think should see things through. But I think you will agree that we simply cannot let this contract go for want of 340,000 tonnes of coal in a country starving for jobs. All right?

Sir Derek: Yes. Well we have found a way of doing it and I hope it is successful.

PM: I am sure it will be successful. Thank you for your co-operation 340,000 tonnes a year for two years is necessary from us, maximum extra bit from Trade and Industry £2 million.

Sir Derek: All right. Thank you very much.

/PM:

PM: Did you have a good time abroad?

Sir Derek: Yes. Incidentally I heard your speech in Bordeaux
It went down very well.

PM: Yes. Exactly what I thought would happen did happen. We
were nice to our French friends, we were nice about France but no-one
was nice about Britain.

Sir Derek: No, but the discussions went very well.

PM: The discussions went well.

Sir Derek: Yes they did. And very positive.

PM: All right. Well now I will go pounding the world looking for
more coal contracts. Thank you.

Sir Derek: Thanks very much. Goodbye.

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TO IMMEDIATE F C O
TELEGRAM NUMBER 4057 OF 22 SEPTEMBER.
AND TO IMMEDIATE ATHENS.

ATHENS TELNOS INDUS 112 AND 113.

N. C. B.

JENSEN (NCB) HAS ASKED US TO REPORT THAT SIR D EZRA AGREES
THE TEXT CONCERNING COAL SUPPLIES TO PPC IN 1984/5
PROVIDED THAT THE UNQUANTIFIED PREMIUM REFERRED TO IN THE
LAST SENTENCE OF PARAGRAPH 3 WOULD NOT RESULT IN A NET LOSS
TO NCB/ICF.

FCO ADVANCE DESKBY TO:-
DOI - BROWN
DOT - ROSSITER (CRE3)

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MR EVANS

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TO IMMEDIATE DEPT OF INDUSTRY

TELNO INDUS 113 OF 22 SEPT 80

AND TO

IMMEDIATE DEPT OF TRADE FOR ROSSITER CRE3

AND IMMEDIATE UKREP BRUSSELS

FOR BROWN. M.I.P.T.:

1. IN ORDER THAT 1 (0.8) MILLIONS TONS OF COAL CAN BE SUPPLIED TO THE PPC IN 1984/85 IN PARALLEL WITH THE 600,000 TONS OF SOUTH AFRICAN COAL OFFERED BY SHELL UNDER THE ASSIGNEE ARRANGEMENTS, AT A BASE PRICE OF (SAY US DOLLARS 70 PER TONNE) AND UNDER AN ESCALATION FORMULA OF (SAY 17% GROSS), OR THE ACTUAL RATE OF US COAL PRICE ESCALATION AS CALCULATED ACCORDING TO THE FORMULA IN THE SHELL AGREEMENT, WHICHEVER IS THE LESS, THE DEPARTMENT OF INDUSTRY UNDERTAKES TO PAY NCB/ICF, UNDER SECTION 8 OF THE INDUSTRY ACT 1972, UP TO £2 MILLION IN REIMBURSEMENT OF ANY LOSSES ENTAILED ABOVE MARGINAL COSTS IN FULFILLING THIS OFFER.

2. THIS GUARANTEE IS SUBJECT TO THE DEPARTMENT BEING SATISFIED THAT ALL REASONABLE STEPS HAVE BEEN TAKEN TO FULFIL THIS REQUIREMENT BY THE MOST ECONOMIC MEANS CONSISTENT WITH THE TERMS OF THE AGREEMENT WITH PPC.

3. SHOULD IT APPEAR THAT LOSSES ON THIS BASIS COULD EXCEED £2 MILLION, THE DEPARTMENT WILL CONSIDER WITH NCB/ICF HOW SUCH LOSSES CAN BE ACCOMMODATED, BY, IF NECESSARY, AN EXTENSION OF THIS AGREEMENT. THE DEPARTMENT WILL CHARGE, IN RESPECT OF THIS GUARANTEE, A PREMIUM OF (.....).

SUTHERLAND

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na
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FOR BROWN.

1. M.I.F.T. CONTAINS TEXT OF PROPOSED GUARANTEE LETTER TO NCB TO ENABLE AT LEAST 800,000 TONS - THE SHELL US COAL PROVISION, OR PREFERABLY 1 MILLION TONS AS A MORE ATTRACTIVE FIGURE, TO BE OFFERED WITH THE LOSSES MADE "SAVE HARMLESS", BUT WITH A FINITE COMMITMENT INITIALLY TO £2.0M.
2. WE SHALL NEED TO CLEAR THIS URGENTLY. PLEASE COPY TO NCB AND SHELL UKREP PLEASE PASS IMMEDIATELY TO SIR DEREK EZRA THROUGH WALTER JENSEN, NCB OFFICES, BRUSSELS.
3. I SHALL WISH TO CLEAR THIS OFFER IN PRINCIPLE BEFORE THE PM'S MEETING WITH GREEK MINISTERS AT 1500Z TODAY.

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From the Private Secretary

22 September 1980

Prime Minister's Visit to Greece:
Power Station Projects

I am writing to confirm that we have consulted the Prime Minister about the possibility of a Government subsidy to the National Coal Board to cover the likely loss to them of supplying 200,000 tonnes of coal to the Greeks in 1984 at world prices, as opposed to national prices. We did so on the basis of a briefing from Mr. Brown of your Department along the lines of the enclosed minute. The Prime Minister agreed that the subsidy, which Mr. Brown estimated at £2m at today's prices, but which he said might in the event be less, should be given. The Prime Minister has asked me to make it clear that she was doing so on the basis that the subsidy should not be grounds for an "additional bid" by any of the Departments concerned.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), John Wiggins (HM Treasury), and Stuart Hampson (Department of Trade).

T. P. LANKESTER

I.K.C. Ellison, Esq.,
Department of Industry

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FM DTI 211756Z SEP 80

TO IMMEDIATE ATHENS

TELEGRAM NUMBER INDUS UNNUMBERED OF 21 SEPTEMBER 1980

FROM BROWN YOUR TELNO 252

NA
MAD

GREECE: COAL FIRED POWER STATION PROJECT

HAVE DISCUSSED WITH NCB AND SHELL AS WELL AS WITHIN WHITEHALL. DRAFT OF LETTER FROM DAVIES NCB TO MANOS SETTING OUT CLEARLY THE BASIC PRINCIPLES OF THE NCB OFFER INCLUDING THE 25 YEAR GUARANTEE IN MIFT, PLEASE PASS TO ASHMORE. WE HAVE TRIED TO BUILD ON PHRASES ASHMORE WILL RECOGNISE SO AS TO MINIMISE THE CHANCE OF DRAFTING CHANGES.

PROBLEM WITH FURTHER SUPPLIES AT GUARANTEED PRICES STILL EXISTS. SHELL ARE UNWILLING TO GO FURTHER AS THEY SAY THEY HAVE NO MORE SOUTH AFRICAN COAL AND OTHER SUPPLIERS WOULD NOT ALLOW SHELL TO QUOTE FIXED PRICES. MY BELIEF IS THAT SHELL HAVE BEEN PUSHED SO FAR THAT THEY ARE AFRAID THE TERMS OFFERED FOR THE PPC WILL HAVE IMPLICATIONS FOR THEIR OTHER BUSINESS AND SUPPLY CONTACTS. NEVERTHELESS AM PURSUING WITH DAVIES NCB WHO WILL SPEAK TO EZRA. CANNOT CONTACT BNOB BUT SUGGEST THAT IF WE HAVE SOME MOVEMENT ON COAL THEN BNOB COULD STILL SIGN SUBJECT TO THEIR BEING AN AGREEMENT THAT SIGNATURES OF THE COAL AND GEC CONTRACTS WILL FOLLOW. TO SIGN ON THESE TERMS WOULD PROVIDE A COMMITMENT ON THE GREEKS BUT WOULD ALSO PRODUCE A FAVOURABLE AND TANGIBLE RESULT FROM THE PM'S VISIT WHICH COULD CREATE THE RIGHT CLIMATE WITHIN WHICH TO SIGN FRAME AGREEMENTS ON THE OTHER CONTRACTS.

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MR EVANS
MR BRAITHWAITE

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TO IMMEDIATE ATHENS
TELNO.INDUS U/NOF 21 SEPTEMBER.

FROM BROWN. MIPT.

DRAFT OF LETTER FROM DAVIES TO MANOS FOLLOWS.

I THOUGHT IT MIGHT BE HELPFUL TO YOU IF I SENT OUT THE BROAD PRINCIPLES OF WHAT WE HAVE OFFERED TO THE PUBLIC POWER CORPORATION, AVOIDING THE LEGAL DETAILS WHICH TEND TO OBSCURE THE SUBSTANCE OF WHAT WE ARE ATTEMPTING TO ACHIEVE.

THE NATIONAL COAL BOARD HAS AGREED TO ACT AS THE MAIN CONTRACTOR FOR COAL SUPPLIES TO THE FIRST HARDCOAL FIRED POWER STATION IN GREECE AS PART OF A UNITED KINGDOM PACKAGE. IN STEP WITH THE OTHER PARTICIPATING ORGANISATIONS (INCLUDING THE U.K GOVERNMENT) AND UNDER THE UMBRELLA OF THE MEMORANDUM OF UNDERSTANDING SIGNED BETWEEN THE TWO GOVERNMENTS IN 1979, DISCUSSIONS ABOUT THE COAL SUPPLY ARRANGEMENTS HAVE BEEN CRYSTALLISED IN A DRAFT COAL SUPPLY AGREEMENT.

SECURITY AT COMPETITIVE PRICES.

THE AGREEMENT PROVIDES FOR A SECURE SUPPLY OF COAL FOR THE POWER STATION OF UP TO 1.5M TONNES PER ANNUM FOR THE LIFE OF THE POWER STATION. THE CONCEPT IS THAT BY A SERIES OF FIVE YEAR SUPPLY PERIODS, EACH PERIOD COVERED BY SUCCESSIVE SUPPLEMENTARY AGREEMENTS, THE POWER STATION WILL RECEIVE ITS COAL REQUIREMENTS (APART FROM A VERY SMALL SUPPLY OF U.K COAL OAT LIST PRICE IN ORDER THAT WE MAY BE THE MAIN CONTRACTOR) AT WORLD PRICES FOR COAL TRADED COMPETITIVELY. THE P.P.C WILL HAVE THE RIGHT TO TRADE ELSEWHERE IF THEY BELIEVE THEY CAN DO SO TO ADVANTAGE.

THUS THE P.P.C AND THE GREEK GOVERNMENT HAVE AN ASSURANCE THAT COMPETITIVELY PRICED COAL WILL BE AVAILABLE THROUGHOUT THE LIFE OF THE POWER STATION.

TO MEET THIS UNDERTAKING THE NCB AGREES TWO MAIN PROVISIONS:-
(1) IN ORDER TO GRANT ACCESS TO COAL AT WORLD PRICES THEY WILL ASSIGN THE FIRST COAL SUPPLY CONTRACT (IN RESPECT OF SUPPLIES TO BE DELIVERED IN THE FIRST FIVE YEARS FROM COMMENCEMENT IN 1984 AND SUBSEQUENTLY, GIVEN THAT ALL THE PARTIES AGREE) TO SHELL COAL INTERNATIONAL, WHO WILL EFFECT THE SUPPLY FROM A SPREAD OF WORLD SOURCES UNDER SUPPLEMENTAL AGREEMENTS:

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(11) TO RETAIN RESPONSIBILITY FOR THE REASONABLE PERFORMANCE OF THE ASSIGNEE DURING THIS PERIOD AND IN CASE OF DEFAULT TO MAKE UP TONNAGE DEFICIENCIES AT WORLD PRICES.

IN THE SUBSEQUENT FIVE YEAR PERIODS AFTER 1984/89, THE NCB WILL CONTINUE TO RETAIN RESPONSIBILITY FOR THE REASONABLE PERFORMANCE OF THE ASSIGNEE AND IN CASE OF DEFAULT TO MAKE UP TONNAGE DEFICIENCIES AT NCB LIST PRICES.

DEDICATED MINE

THE NCB AND SHELL COAL INTERNATIONAL ARE WILLING TO CONSIDER WITH THE P.P.C ENTERING A JOINT VENTURE FOR THE SUPPLY OF COAL FROM A DEDICATED MINE. THE NCB WILL JOIN WITH S.C.I AND THE P.P.C IN URGENT STUDIES TO REVIEW THE OPTIONS AVAILABLE.

BASIC PRICES AND INITIAL TONNAGE.

DEMAND FOR STEAM COAL IN 1984/85 WILL BE MET IN MANY CASES FROM COAL RESERVES AS YET UNWORKED. IT IS THEREFORE QUITE IMPOSSIBLE NOW TO COMMIT COALS TO BASIC PRICES FOR DELIVERY IN THOSE YEARS WITHOUT ENTERING INTO ENORMOUS RISK WHICH NO COAL SUPPLIER IS NORMALLY WILLING TO DO. THE POSITION IN THIS RESPECT IS NO DIFFERENT THAN IN THE CASE OF OIL.

HOWEVER, SHELL COAL INTERNATIONAL HAVE AGREED TO SUPPLY OVER THE FIRST 2 YEARS 600,000 TONNES OF COAL AT BASIC PRICES WHICH WILL NOT BE REVIEWED BEFORE THE P.P.C HAS TAKEN THE TONNAGE, PROVIDED THIS IS BEFORE THE END OF 1985. IN ADDITION A DEDICATED MINE COULD PROVIDE A FURTHER 800,000 TONNES OF COAL IN EACH OF THOSE YEARS.

FOR THE BALANCE OF THE TONNAGE THE DRAFT AGREEMENTS MAKES PROVISION FOR A REVIEW OF BASIC PRICES AT 2 YEAR INTERVALS TO OPERATE FROM 1ST JAN 1981. BY THE MIDDLE OF 1982 P.P.C WILL HAVE BASIC PRICES FOR THEIR FIRST DELIVERIES, PROVIDED THESE FLOW BEFORE THE END OF 1984. THE NEXT REVIEW PERIOD WOULD CONFIRM PRICES TO THE END OF 1986.

FUTURE NEGOTIATIONS.

THE NCB FULLY APPRECIATE THAT THE P.P.C AND THE GREEK GOVERNMENT ARE ANXIOUS TO ACHIEVE THE BEST POSSIBLE COAL SUPPLY OFFER FOR ACCEPTANCE BEFORE THEY DECIDE TO AWARD THE CONTRACT FOR THE POWER STATION. WE ALSO UNDERSTAND YOUR CONCERN THAT ONCE YOU HAVE MADE THE DECISION YOU SHOULD NOT BE TREATED AS A CAPTIVE CUSTOMER DEPENDANT UPON NCB AND SCI AT UNREALISTIC PRICES. THE DRAFT AGREEMENT PROVIDES SAFEGUARDS TO COVER THIS SITUATION.

IN PARTICULAR IF THE P.P.C FINDS FOR ANY REASON THAT IT CAN SECURE MORE COMPETITIVE ARRANGEMENTS OTHERWISE THAN VIA NCB FOR A SPECIFIC PERIOD, THEN THE NCB IS STILL WILLING TO RETAIN THE CONTRACT FOR THE SUBSEQUENT 1-5 YEAR PERIOD.

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IN CONCLUSION LET ME THEREFORE SUMMARISE THE ATTRACTIONS OF WHAT IS OFFERED.

1. A SECURE HARD COAL SUPPLY FOR 25 YEARS, GUARANTEED BY THE NATIONAL COAL BOARD.
2. THE ASSURANCE OF BEING ABLE TO BUY AT COMPETITIVE PRICES.
3. A CONTRACT WHICH, DURING A SPECIFIC FIVE YEAR PERIOD, ALLOWS PURCHASING FROM OTHER SOURCES FOR THE SUBSEQUENT PERIOD.
4. A GUARANTEE OF PERFORMANCE ON THE CONTRACT WILL BE EXPERIENCED THROUGH THE SUPERVISION OF THE NCB AS PART OF THEIR CONTRACTUAL OBLIGATION AND BY THE U.K AND GREEK GOVERNMENTS UNDER THE MEMORANDUM OF UNDERSTANDING.

THE NATIONAL COAL BOARD IS CONFIDENT THAT THE PUBLIC POWER CORPORATION HAS BEEN OFFERED UNIQUE SUPPLY ARRANGEMENTS AND I HOPE YOU CAN AGREE THAT THE UNDERTAKING SET OUT IN THE MEMORANDUM OF UNDERSTANDING HAS BEEN MORE THAN FULLY MET.

I LOOK FORWARD TO US INITIALING THE PRINCIPLES SET OUT ABOVE WHICH ARE MORE FULLY DEVELOPED IN THE COAL SUPPLY AGREEMENT.

ENDS

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SED
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PS
PS/LRS
MR FERBUSSON
MR EVANS
MR BRATHWAITE

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MR. LANKESTER

B.
22/9

The Prime Minister wanted it to be made plain that she expected the additional £2m to be found by the responsible Department, presumably the Department of Industry, from within its existing cash limit, and that it should not be regarded as "new money". I am not sure whether there is such a thing as a cash limit or a budget for the year 1984. Could you add some phrase to the end of the last sentence of the first paragraph of the attached letter making this clear?

Ans

20 September, 1980.



BRITISH EMBASSY,
ATHENS.

Coal Fired Power Station

A. Consumption at full production 1.5 m tons p.a.
(less in first two years)

B. Where will it come from?

1. 300,000 p.a. from S. Africa

2. 800,000 p.a. from USA

(deducted coal agreement)

3. [To be discussed with Shell]

400,000 p.a. from other sources

_____ 1.5 m tons*

* Plus 60,000 p.a. UK coal

NB. Shell/NOB have agreed to negotiate
2 above with Greeks but this will not be
possible for 2-3 weeks.



STATEMENT FOR MR D DAVIES TO USE AT BRIEFING MEETING AND,
IF APPROPRIATE, TO GO AS LETTER FROM HIM TO MR MANOS

I thought it might be helpful to you if I set out the broad principles of what we have offered to the Public Power Corporation, avoiding the legal details which tend to obscure the substance of what we are attempting to achieve.

The National Coal Board has agreed to act as the main contractor for coal supplies to the first hardcoal fired power station in Greece as part of a United Kingdom package. In step with the other participating organisations (including the UK Government) and under the umbrella of the Memorandum of Understanding signed between the two Governments in 1979, discussions about the coal supply arrangements have been crystallised in a draft coal supply agreement.

Security at Competitive Prices

The agreement provides for the availability of a secure supply of coal for the power station of up to 1.5 m. tonnes per annum for the life of the power station. The concept is that by a series of five year supply periods, each period covered by successive supplemental agreements, the power station will receive its coal requirements (apart from a very small supply of UK coal at list price) at world prices for coal traded competitively. The PPC will have the right to trade elsewhere if they believe they can do so to advantage.

Thus the PPC and the Greek Government have an assurance that competitively priced coal will be available throughout the life of the power station, i.e. 25 years.



To meet this undertaking the NCB agrees the following main provisions:-

- (i) In order to grant access to coal at world prices they will assign the first coal supply contract (in respect of supplies to be delivered in the first five years from commencement in 1984 and subsequently, given that all the parties agree) to Shell Coal International - though not named in this agreement - who will effect the supply from a spread of world sources under supplemental agreements;
- (ii) to retain responsibility for the reasonable performance of the assignee during this period and in case of default to make up tonnage deficiencies at world prices;
- (iii) in the circumstances of force majeure which may threaten continuity of operations - such a situation being a remote possibility bearing in mind that the other contractual sources would be urged to try to meet such shortfall - NCB will provide coal as soon as possible from their own sources at list prices.

Dedicated Mine

The NCB and their assignee will pursue with the PPC entering into a joint venture for the supply of coal from a dedicated mine. The NCB will arrange with the PPC for urgent studies to review the options available.

Basic Prices and Initial Tonnage

Demand for steam coal in 1984/85 will be met in many cases from coal reserves as yet unworked. It is therefore quite impossible now to commit coals to basic prices for delivery in those years without entering into enormous risk which no coal supplier is normally willing to do. The position in this respect is no different than in the case of oil.



However, Shell Coal International have agreed to supply over the first 2 years 600,000 tonnes of coal at basic prices which will not be reviewed before the PPC has taken the tonnage, provided this is before the end of 1985. In addition a dedicated mine could provide a further 800,000 tonnes of coal in each of those years.

For the balance of the tonnage the draft agreement makes provision for a review of basic prices at 2 year intervals to operate from 1st January 1981. By the middle of 1982 PPC will have basic prices for their first deliveries provided these flow before the end of 1984.

Future Negotiations

The NCB fully appreciate that the PPC and the Greek Government are anxious to achieve the best possible coal supply offer for acceptance before they decide to award the contract for the power station. We also understand your concern that once you have made the decision you should not be treated as a captive customer dependent upon NCB and SCI at unrealistic prices. The draft agreement provides safeguards to cover this situation and which say that if the period of the Agreement is extended it is envisaged that the same principles will apply as apply to the first five year agreement.

In conclusion let me therefore summarise what is offered:

1. A secure hard coal availability for 25 years guaranteed under the appropriate conditions by the National Coal Board.
2. Provision for prices to be negotiated on a competitive basis.



3. A contract which, during a specific five year period, allows purchasing from other sources.

4. A guarantee performance on the contract will be exercised through the supervision of the NCB as part of their contractual obligation and by the UK and Greek Governments under the Memorandum of Understanding.

The National Coal Board is confident that the Public Power Corporation has been offered unique supply arrangements and I hope you can agree that the undertaking set out in the Memorandum of Understanding has been more than fully met.

These principles are set in the Coal Supply Agreement and I look forward to initialling this letter as a step towards completing the Agreement.

In addition, outside the provisions of the supply contract, NCB will be ready to work urgently with the appropriate Greek authorities to appraise the opportunities for establishing a further dedicated coal supply.

END OF STATEMENT



PRIME MINISTER'S VISIT TO GREECE: 22-24 SEPTEMBER 1980

TERMS OF DRAFT ANNOUNCEMENT ON THE
IMPLEMENTATION OF THE MEMORANDUM OF UNDERSTANDING

In the course of their discussions on bilateral, economic and commercial questions, the Prime Ministers of the United Kingdom and the Hellenic Republic reviewed the state of implementation of the Memorandum of Understanding signed on 16 November 1979.

Coal-Fired Power Station

The project for the construction of a coal-fired power station in Greece referred to in the Memorandum includes the following elements:

- (a) the construction of a coal-fired power station of a capacity of 2 X 350 Mw;
- (b) a long-term coal supply contract.

So far as the power station is concerned, the two Prime Ministers noted that a detailed examination of the bid by the United Kingdom company GEC was now complete and that it met the requirements of the Memorandum of Understanding of being competitive in prevailing international market conditions.

Recognising that a long-term coal supply contract is an integral part of the contract, the two Prime Ministers reviewed the state of negotiations between the Public Power Corporation and the National Coal Board. They agreed that the offer put to the Public Power Corporation was exceptionally advantageous and would provide Greece with the coal required on favourable terms.

The Prime Ministers noted that separate negotiations had been concluded between the British National Oil Corporation and the Greek authorities for the supply of North Sea oil to Greece in 1981. The intention is that the contract for this supply will be signed at the same time as the contracts for the power station and coal supply.



The two Prime Ministers agreed that it was desirable that heads of agreement should be signed as soon as possible and, at the latest, by mid-October. The Secretary of State for Trade, the Rt Hon John Nott, will be in Greece for discussions with Greek Ministers on 13/14 October.

Transport Projects referred to in
the Memorandum of Understanding

The two Prime Ministers noted the close and fruitful co-operation established between the Hellenic Railways Organisation and Transmark, the consultancy subsidiary of British Rail, in the study of the modernisation of the Greek railways system. The continued interest of British companies in the implementation of contracts for this project was acknowledged.

It was noted that British companies would have an opportunity to bid for work in connection with the Athens Metro project.

CONFIDENTIAL

MR. ALEXANDER

Prime Minister's Visit to Greece: Power Station Projects

The letter of 19 September from the Private Secretary to the Secretary of State for Trade alerted you to the fact that without some financial help to the NCB from the Government, the UK package of GEC power plants, NCB/Shell coal and BNOG oil must remain as it is, and the risk incurred that the Greeks after all would reject the package offered. Following negotiations this morning, the Ambassador in Athens now considers that an agreement on the package is achievable provided two coal issues are resolved.

First, the NCB has to set out a clear cut formula covering an assured 25 year coal supply for the power station. Second, the NCB has to offer the additional coal referred to in the Private Secretary's letter. The volume required is at least 200,000 tonnes to be delivered as a once-off supply in 1984 for the coal stockyard. The base price has to be current world prices subject to agreed escalation formulae. If the NCB were to guarantee this tonnage from UK sources then the price difference between NCB coal and American coal is currently some US\$25 per tonne. 200,000 tonnes would therefore require a subsidy of some US\$5m or £2m at today's prices. It may be possible to minimise the cost by guaranteeing supplies from world sources at today's prices, and in that event a greater supply than 200,000 tonnes might be possible. It would be our objective to negotiate the best deal possible with the NCB commensurate with the objective of securing the total package at least cost to the public purse. The GEC contract if won would be worth some US\$400m to the hard pressed UK power plant industry with the potential for further orders thereafter for British industry.

You agreed to update the Prime Minister on the latest position and to seek her views on the possibility of a specific subsidy to the NCB as outlined above. We noted that should the Prime Minister

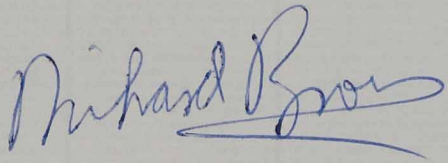
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/ agree

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- 2 -

agree to the proposal, it would be necessary to consider the financial arrangements with the Treasury and the Department of Energy.

A handwritten signature in blue ink, appearing to read "Richard Brown", with a horizontal line underneath the name.

(R.A. BROWN)

MEE Division,
Department of Industry.

20 September, 1980.

CONFIDENTIAL



MS

10 DOWNING STREET

Prime Minister

Michael has not seen
this telegram, but thinks
it has probably been overtaken
by your discussion with him
this afternoon.

S.J. Pike

Duty Clerk

20.9.80

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DOI PS(6)
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RC D. Davidson

MY TELNO 251 AND DOI INDUS TELS NO 80-82

GREECE: COAL FIRED POWER STATION PROJECT

1. THE EXPERT LEVEL MEETING DURING THE EVENING OF 19 SEPTEMBER SUCCEEDED IN REDUCING THE GAP BETWEEN THE GEC PRICE AND THE TARGET PRICE TO 3.7% ACCORDING TO THE PUBLIC POWER CORPORATION (PPC) OR +0.5% ACCORDING TO GEC. AGREEMENT AT THIS POINT SEEMED CLOSE BUT, CONTRARY TO OUR EXPECTATIONS, PPC DID NOT PROPOSE A COMPROMISE. AN AGREED SUMMARY SETTING OUT THE ALTERNATIVE CALCULATIONS WAS SUBMITTED TO MANOS, MINISTER OF INDUSTRY AND ENERGY, ON 20 SEPTEMBER BY PPC.

2. I RANG MANOS BEFORE HIS MEETING WITH PPC TO ENSURE THAT HE UNDERSTOOD GEC'S POINT OF VIEW ON THE PRICE CALCULATIONS. A MEETING WAS SUBSEQUENTLY ARRANGED. IN THE MEANTIME, MANOS HAD SPOKEN TO RALLIS. BEFORE OUR MEETING I SPOKE PRIVATELY TO MANOS AND, WITH THE PRIOR AGREEMENT OF DAVIDSON (GEC) SAID THAT, ON CONDITION THAT THE GREEK SIDE ACCEPTED THAT GEC HAD NOW REACHED THE TARGET PRICE, THE COMPANY WOULD BE PREPARED TO MAKE A FURTHER 2% DISCOUNT. (THIS IS MADE UP OF A REDUCTION IN THE ECGD PREMIUM AND A PRICE REDUCTION BY GEC AND BABCOCKS). I MADE IT CLEAR THAT NO FURTHER ADJUSTMENT WAS POSSIBLE AND THAT IN OUR VIEW THE OFFER BY GEC WAS FULLY COMPETITIVE AND THE PACKAGE AS A WHOLE WAS AN EXCELLENT ONE.

3. IN SESSION WITH DAVIDSON AND LIPPETT OF GEC, MANOS ACKNOWLEDGED THAT THE GAP WAS NOW VERY NARROW AND THAT THE GEC OFFER WAS A USEFUL ONE. IF THE GREEKS GOT WHAT THEY WANTED ON COAL THERE WAS A VERY GOOD CHANCE THAT THE PROJECT WOULD NOW GO FORWARD.

4. MANOS MADE IT CLEAR HOWEVER THAT THE GREEKS STILL REGARDED THE OFFER INADEQUATE FOR THE PPC TO MAKE A POSITIVE RECOMMENDATION AND FOR GREEK MINISTERS TO DEFEND THE PACKAGE IN PUBLIC AND BEFORE PARLIAMENT. THE GREEK DESIDERATA WERE AS FOLLOWS:

(A) PRICES KNOWN IN ADVANCE - SAVE FOR ESCALATION - FOR ALL THE COAL REQUIRED FOR THE FIRST TWO YEARS OF THE STATION'S LIFE.

(B) AN ASSURED SUPPLY FOR 25 YEARS RATHER THAN ARRANGEMENT
/////

(B) AN ASSURED SUPPLY FOR 25 YEARS RATHER THAN THE ARRANGEMENT PRESENTLY PROPOSED, WHICH ARE SUBJECT TO RENEWAL EVERY FIVE YEARS.

(C) THE FIRST PRICE REVIEW NOT TO TAKE PLACE UNTIL TWO YEARS AFTER START-UP

THE OFFER INADEQUATE FOR THE PPC TO MAKE A POSITIVE RECOMMENDATION AND FOR GREEK MINISTERS TO DEFEND THE PACKAGE IN PUBLIC AND BEFORE PARLIAMENT. THE GREEK DESIDERATA WERE AS FOLLOWS:

(A) PRICES KNOWN IN ADVANCE - SAVE FOR ESCALATION - FOR ALL THE COAL REQUIRED FOR THE FIRST TWO YEARS OF THE STATION'S LIFE.

(B) AN ASSURED SUPPLY FOR 25 YEARS RATHER THAN ARRANGEMENT
/////

(B) AN ASSURED SUPPLY FOR 25 YEARS RATHER THAN THE ARRANGEMENT PRESENTLY PROPOSED, WHICH ARE SUBJECT TO RENEWAL EVERY FIVE YEARS.

(C) THE FIRST PRICE REVIEW NOT TO TAKE PLACE UNTIL TWO YEARS AFTER START-UP.

(D) AMELIORATION OF THE STRINGENT F O R C E M A J E U R E CLAUSE.

MANOS CONFIRMED THAT A DEDICATED COAL AGREEMENT COULD BE THE ANSWER TO (A) AND (B) PROVIDED THIS COULD BE NEGOTIATED VERY QUICKLY. ASHMORE WAS PRESENT FOR THIS PART OF THE MEETING.

5. I HAVE LITTLE DOUBT THAT, PROVIDED WE CAN OFFER THE GREEKS MORE ON COAL THIS PROJECT WILL NOW GO FORWARD. GEC HAVE MADE A MAJOR EFFORT AND IT IS LIKELY THAT THE PPC WILL BE PREPARED TO MAKE A RECOMMENDATION IN TERMS WHICH WOULD PERMIT GREEK GOVERNMENT TO APPROVE THEIR BID PROVIDED THE REST OF THE PACKAGE IS ADEQUATE. DISCUSSION DURING THE PRIME MINISTER'S VISIT IS LIKELY THEREFORE TO BE CONCENTRATED ON THE COAL ISSUE. FROM THIS POINT OF VIEW I AM SURE THAT IT WOULD BE VALUABLE IF SIR DEREK EZRA COULD BE IN ATHENS DURING MRS THATCHER'S VISIT, ACCOMPANIED IF POSSIBLE BY A SENIOR MEMBER OF SHELL COAL INTERNATIONAL. NEGOTIATIONS ON THE COAL ISSUE HAVE BEEN HANDICAPPED ALL ALONG BY LIMITED MANDATE GIVEN TO ASHMORE.

6. I REMAIN OF THE VIEW THAT PRESSURE WILL HAVE TO BE BROUGHT TO BEAR ON SHELL. Q U I D P R O Q U O OF THEIR RETAINING EXCLUSIVE LIEN ON ASSIGNMENT MUST BE MORE COAL THAN THAT ON OFFER AT PRESENT. PRESUMABLY, SINCE THEY ARE RELUCTANT TO ACCEPT THE POSSIBILITY OF DUAL ASSIGNMENT THEY ARE ANXIOUS FOR THIS BUSINESS. THEY WILL HAVE TO MAKE A MUCH GREATER EFFORT IF THEY ARE TO GET IT.

7. IT IS UNLIKELY THAT THE GREEKS WILL MAKE ANY FURTHER MOVE BEFORE THE PRIME MINISTER'S MEETING WITH MR RALLIS AND I PROPOSE TO BRIEF MRS THATCHER ON THE ABOVE LINES. I SHALL RECOMMEND THAT OUR OBJECTIVE SHOULD BE THE SIGNATURE OF A HEADS AGREEMENT DURING THE VISIT OF THE SECRETARY OF STATE FOR TRADE, SINCE THIS IS CLEARLY NOT POSSIBLE NEXT WEEK. HOWEVER, I HOPE THAT BOTH SIDES WILL BE ABLE TO AGREE TO SAY SOMETHING ABOUT THE PROMISING PROGRESS OF THE NEGOTIATIONS IN ORDER TO DISPEL ANY IMPRESSION THAT A BREAKDOWN HAS TAKEN PLACE.

8. FCO PLEASE PASS IMMEDIATE TO NO 10 FOR P.S.

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AND TO

IMMEDIATE DOI FOR MANSEY AND BROWN

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 MR FERGUSON
 MR. BUNARD ~~SR~~ ~~SE~~

v. 7

DOI INDUS TELNO 79 : GREECE/COAL FIRED POWER STATION.

1. BEFORE THE DISCUSSIONS RESUMED ON 19 SEPTEMBER UNDER THE CHAIRMANSHIP OF MANOS, MINISTER OF INDUSTRY AND ENERGY, I SPOKE TO HIM PRIVATELY TO EMPHASIZE BOTH THE GREAT IMPORTANCE WHICH THE BRITISH GOVERNMENT ATTACH TO AGREEMENT ON THE COAL FIRED POWER STATION, AND THE IMMENSE EFFORT WHICH HAD BEEN MADE BOTH ON THE POWER STATION AND COAL TO MEET GREEK REQUIREMENTS. I POINTED TO THE CONCESSIONS ON PRICE AND IN FINANCING WHICH HAD BEEN MADE ON THE POWER-STATION AND ON COAL, AND TOLD HIM THAT WE WERE PREPARED TO CONSIDER A DEDICATED MIN AGREEMENT. GEC'S OFFER WAS IN OUR VIEW COMPETITIVE. WE COULD NOT GO ON HAGGLING NEXT WEEK. MANOS REPLIED THAT THE PPC WAS LOCKED INTO A COMPARISON EXERCISE AND UNLESS THEY COULD BE PERSUADED TO ACCEPT GEC'S ARGUMENTS THAT THEY HAD NOW REACHED THE TARGET PRICE, HE VERY MUCH FEARED THAT THE PROJECT WOULD NOT GO FORWARD. SO FAR AS COAL WAS CONCERNED, MANOS MADE IT CLEAR THAT, WHILE A DEDICATED COAL AGREEMENT WAS OF GREAT INTEREST TO GREECE AND MORE WORK SHOULD BE DONE ON IT URGENTLY, HE NEEDED MORE THAN 300,000 TONS OF COAL AT A KNOWN PRICE FOR THE FIRST 2 YEARS OF THE STATION'S LIFE.

POWER STATION

2. IN THE PLENARY SESSION, DAVIDSON AND BROWN (GEC) SET OUT TO CONVINCING THE GREEK SIDE THAT THE INITIAL GAP SEPARATING THE GEC

2. IN THE PLENARY SESSION, DAVIDSON AND BROWN (GEC) SET OUT TO CONVINCING THE GREEK SIDE THAT THE INITIAL GAP SEPARATING THE GEC PRICE FROM THE TARGET PRICE (BASED ON THE FRENCH OFFER FOR AGHIOS DIMITRIOS I AND II) WAS NOT 14% (AS PPC CONTEND) BUT 11.5%. THEY MADE SOME PROGRESS. AFTER HARD NEGOTIATIONS, IT WAS AGREED THAT EXPERTS WOULD RECONVENE THIS EVENING TO SEE WHETHER PPC WOULD BE PREPARED TO ACCEPT THE TECHNICAL, COMMERCIAL AND FINANCIAL ARGUMENTS WHICH IN THE GEC VIEW BRIDGE THE REMAINING GAP OF 4.8%.

COAL

3. ASHMORE SAID THAT THE NCB WAS PREPARED TO EXAMINE QUICKLY WITH SHELL A DEDICATED MINE AGREEMENT. HE EMPHASIZED THAT THE NCB GUARANTEE WOULD BE OPERATIVE FOR SUCH AN AGREEMENT. AFTER THE GREEKS HAD ASCERTAINED THAT NEGOTIATIONS FOR SUCH AN AGREEMENT COULD NOT BEGIN FOR SOME WEEKS, DISCUSSION WAS CONCLUDED. HOWEVER, MANOS TOLD BENJAMIN (DOT) PRIVATELY THAT THE REQUIREMENTS WERE:

(A) MORE COAL INITIALLY THAN 300,000 TONS;

(B) THE GUARANTEE PRICE OF NCB COAL SHOULD BE LOOKED AT :
NCB LIST PRICE WAS TOO HIGH;

(C) MORE WORK URGENTLY ON THE DEDICATED MINE.

BENJAMIN LEFT LATER IN THE MORNING FOR BORDEAUX WHERE WE ARRANGED TO BE IN TOUCH BY TELEPHONE THIS EVENING.

4. SUBJECT TO OUTCOME OF MEETING REFERRED TO IN PARAGRAPH 2, IT SHOULD BE POSSIBLE AT THE LEAST TO PUT TO THE TWO PRIME MINISTERS ON 22 SEPTEMBER AN AGREED PAPER DEMONSTRATING THAT ONLY A SMALL GAP NOW REMAINS BETWEEN THE GEC OFFER AND THE TARGET PRICE. IF SO, FURTHER DISCUSSION IS LIKELY TO CONCENTRATE ON COAL. IN THIS CONNECTION, I TRUST THAT NCB WILL INSTRUCT ASHMORE TO REMAIN IN ATHENS. IN THE MEANTIME, I HOPE THAT URGENT CONSIDERATION WILL BE GIVEN TO PROVIDING THE GREEKS WITH ASSURANCE OF ADDITIONAL SUPPLIES FOR FIRST 2 YEARS AT PRE-ESTABLISHED PRICE. IT MAY BE THAT THE SOLUTION TO THIS LIES IN NCB MAKING TWO AGREEMENTS, ONE TO BE ASSIGNED TO SHELL AND THE OTHER TO BP OR SOME OTHER SUPPLIER.

5. SO FAR AS THE NCB GUARANTEE PRICE IS CONCERNED, WE CAN PRESUMABLY WRITE IN A FORMULA TO SATISFY THE GREEKS SINCE, IF THE GUARANTEE IS INVOKED, IT WILL BE BECAUSE THE WORLD PRICE HAS GONE ABOVE THE UK LIST PRICE.

6. WE ALSO REQUIRE URGENTLY TEXT OF A DRAFT ARTICLE ON A DEDICATED AGREEMENT.

7. FCO. PLEASE PASS COPY IMMEDIATE TO NO 10 FOR PS TO REPEAT

7. FCO. PLEASE PASS COPY IMMEDIATE TO NO 10 FOR PS TO REPEAT
TO PARIS FOR PM'S PARTY.

[~~RE~~ PASSED BY G.O.D.]

AND PASS GREEK ECONOMIC DISTRIBUTION.

SUTHERLAND

NNNN



10 DOWNING STREET

Michael

Green Power Station Project.

Mr. Benjamin, Trade,
would like you to ring
- either tonight or first
thing in the morning. He
has additional information
on the power station project.
He is in Bordeaux on
010 - 3356 - 909 - 237

Steve

19.9.80.



From the Secretary of State

Tim Lankester Esq
Private Secretary
10 Downing Street
London, SW1

MS

Prime Minister
Mr. Pott will
probably telephone
about this on the
weekend.

19 September 1980

R

19/9

Dear Tim

PRIME MINISTER'S VISIT TO GREECE - POWER STATION PROJECT

Further to our letter of 12^{Flag A} September to Michael Alexander, the news from Athens is not as encouraging as we would have wished.

The Greek Prime Minister has made it plain that he will be guided by the views of his Ministers. Talks in the last 2 days in Athens with those Ministers have shown that they do not yet feel able to recognise the package as being publicly defensible. They claim that they need further concessions beyond those which have already been made. It is our view and that of the companies that the package taken as a whole is unbeatable.

So far as the power station element itself is concerned, the companies have gone as far as they can and are now in the position that they would be prepared to see the order go rather than increase the loss which they say they will already now be making on the deal.

Officials have been in touch with the NCB to see whether something might be done on the parallel coal supply contract. The NCB (and Shell who are sub-contractors) believe that they too have reached the end of the road and wonder whether the Greeks are not just negotiating. Without some financial help to the NCB from Government the package must remain as it is and the risk incurred that the Greeks after all will reject the package offered to them. The only way of minimising the risk is for NCB to commit additional coal supplies but this would almost certainly involve the NCB in a loss which they would not be willing to contemplate in view of the financial targets set for them by Government. Whether they would be responsive if those targets were changed officials have not tested because Ministers themselves would need to take the necessary decision to ease the financial framework.



From the Secretary of State

Given the position of the companies the view of officials is that the offer must now stand even at the risk that the Greeks may decide to reject it.

We have not yet been able to report this to Mr Nott but will do so as soon as we can and he will probably want to telephone the Prime Minister about it over the weekend. Because of the Prime Minister's interest we thought we should let you have this report at once.

I am copying this letter to Ian Ellison (Industry) and Roderic Lyne (FCO).

Yours sincerely

Catherine Capon.

CATHERINE CAPON
Private Secretary



TRADES
(M)

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PM's tours 116

10 DOWNING STREET

From the Private Secretary

12 September 1980

Prime Minister's Visit to Greece

I enclose the signed copy of a letter from the Prime Minister to Mr. Rallis which I mentioned to you on the telephone a moment ago. I hope it will be possible to get this text to Athens as soon as possible.

I am sending copies of this letter and its enclosure to Stuart Hampson (Department of Trade) (with reference to his letter to me of 12 September), and to Ian Ellison (Department of Industry).

M. O'D. S. ALEXANDER

Stephen Gomersall, Esq.,
Lord Privy Seal's Office.

GB

SUBJECT

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D/T
D/I

TH



PRIME MINISTER'S

PERSONAL MESSAGE

10 DOWNING STREET

SERIAL No. T.173/80^a

THE PRIME MINISTER

12 September,

Dear Prime Minister,

I hope that when we meet later this month, on the eve of our two countries' new partnership in the European Community, we will be able to mark a real advance in economic and commercial cooperation between our two countries. The importance of such cooperation has been given additional weight by the difficult economic situation which confronts us all. These factors were much in our minds here when Her Majesty's Government signed the Memorandum of Understanding on Industrial Cooperation last November.

I understand that discussions between our authorities and industrial interests on the power station, coal supplies and deliveries of North Sea oil have reached a point where in practical terms there are only a few limited points to be cleared up. As it stands, the whole package will be a unique, competitive and highly attractive arrangement which will serve to broaden the range of your energy supplies. I can assure you that it will have my Government's continuing support.

I am very conscious of the efforts already made by all concerned. But I trust that you will feel able to agree that we should call upon our experts to bend every effort to achieve a balanced outcome in time for announcement in the course of our talks in Athens.

Yours sincerely,

(SGD) MT

His Excellency Mr. George Rallis



From the Secretary of State

Michael Alexander Esq
Private Secretary to the Prime Minister
10 Downing Street
London, SW1

12 September 1980

Dear Michael

PRIME MINISTER'S VISIT TO GREECE

In an effort to give the Prime Minister's discussions with the Greek Government on 22 September some concrete achievement, and to use the occasion to persuade the Greek system to move more quickly, the various United Kingdom interests have been making every effort to tie up the arrangements for the Greek Government to announce its intention of ordering a coal-fired power station, undertake arrangements through NCB for the supply of coal, and to take delivery of first supplies of North Sea oil (which we should in any event have had to consider once Greece joined the EC).

This is a complex package, but basically what the Greeks now have is a very competitive price for a new 700 MW power station; a unique offer to arrange coal supplies whereby they will be guaranteed, if they wish, over 25 years that there will be no circumstance where the station will lack coal, coupled with other arrangements for supply which are as far as the market can go; and a readiness to supply some consignments this year and next of North Sea oil. The Greeks have an internal political problem in that they have to present special circumstances to justify a negotiated contract for a power station, which differs from their normal practice of open-market tender.

The difference between the sides in practical terms is very slight, but the Greeks are pressing for further concessions. For example, on the power station, the price difference has been narrowed to $3\frac{1}{2}\%$, which is strongly disputed by our contractors on the basis of faulty comparisons with other suppliers, and that the Greeks are making no allowance for the greater efficiency of the station; on coal, the suppliers have made heroic efforts to meet the Greek demand for some coal on prices to be negotiated now but for delivery in 1984, and possibly something further might be done; on oil, the Greeks are pleased with the arrangements, but we have stressed that they are conditional on the power station negotiations being completed.



From the Secretary of State

At a meeting of senior economic Ministers yesterday, apparently, the voting was three in favour, with four not prepared to support the proposal, but equally not wishing to oppose. In these circumstances, a final nudge of political pressure could be decisive in tipping the balance, so that the Greeks will be prepared to have the Heads of Agreement signed during the Prime Minister's visit.

The Post advise that it would be very useful to have a message from the Prime Minister to hand, for use at their discretion, when our Ambassador returns there from leave tomorrow. My Secretary of State considers that we should not miss any opportunity to bring this important deal to a conclusion, and would therefore recommend that such a message be sent.

--- A draft text, agreed with the FCO, is attached. If the Prime Minister is prepared to follow this course, we would propose sending the text in advance by telegram.

I am copying this letter to Ian Ellison (Industry) and Roderic Lyne (FCO).

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary



DRAFT LETTER FROM THE PRIME MINISTER TO THE PRIME MINISTER OF GREECE

I hope ^{that} our meeting later this month ^{will make} ~~can make~~ a real advance in co-operation between our two countries, in the face of the economic situation confronting us, and on the eve of our partnership in the ~~EC~~ ^{European Community}. This was ^{on industrial collaboration} certainly our intention in signing the Memorandum of Understanding last November.

I understand that discussions between our authorities and industrial interests on the power station, coal supply, and some deliveries of North Sea oil have in practical terms only a few narrow points to be cleared. As it stands, the whole package will be a unique, competitive and very attractive arrangement to broaden the range of your energy supply. ^{I can assure that it will continue to enjoy} with the continuing support of my Government. ~~with the continuing support of my Government.~~

I am very aware of the efforts made so far by all concerned. But I trust that you will feel able to agree that we should call upon our experts to make every effort to achieve a balanced outcome in time for announcement in the course of our talks.



12 SEP 1980

