

Prime Minister

2

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

TZ 6/14

PRIME MINISTER

BP/BNOC NEGOTIATIONS

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

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

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

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

DH.

SECRETARY OF STATE FOR ENERGY
5 November 1979



9 10 11 12 1
8 7 6 5 4 3
- 6 NOV 1979

Energy

MFJ



cc FCO
HMT
LPO
LPS
MAFF
DOT
LOD
CO

10 DOWNING STREET

From the Private Secretary

7 November 1979

Dear Bill,

BP/BNOC Negotiations

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

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

Yours etc.

Tim Latham.

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