DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

(1)

From the Secretary of State

Prime Minister
You will want to draw on this in any discussion with Mr Rallis in Luxembourg. (also attach (Flag A) the draft which is under discussion for your reply to Mr Rallis. It is not envisaged that this should issue until the middle of next week: I am not myself sure that as of to-day we know we are getting the [illegible] for the airport.
30/xi

Michael Alexander Esq
Private Secretary
10 Downing Street
London, SW1

28 November 1980

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 Scretary of State for Energy has agreed with the Chairman of BNOC 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

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 schedulling 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. BNOC 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 BNOC to invoke limited force majeure in this quarter and undefinitely into next year.

4 In spite of this risk, with my support BNOC 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.