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Prime Minister

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Further background on this problem is in the attached

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

CPAS note.

10 October, 1979

David

R 10/10

BP/BNOC OIL TRADING

Thank you for sending me a copy of your minute of 26th September to the Prime Minister about the negotiations between BP and BNOC on crude oil trading. I have also seen the Prime Minister's response in her Private Secretary's letter of 28th September.

This is indeed a difficult problem and I am grateful for your offer to meet to discuss it. However, I understand that BNOC and BP met recently to carry forward negotiations and that there has been some progress. I welcome this since I entirely agree with your approach that BNOC and BP should be encouraged to negotiate a mutually satisfactory solution. I also agree that UK security of supply is a most important consideration here, though I am sure that we must try to meet this objective in a way which preserves BP's contribution to the UK economy from its international trading activities. It is disturbing to read that they regard the potential cost to them of making no change in the present supply arrangements with BNOC as some \$1bn. I also note that they argue that the alternative to a satisfactory solution would be for them to sell refining and marketing assets in Europe.

I should be grateful if you could continue to keep me in touch with developments. I think a meeting could be useful at a later stage, particularly if BNOC and BP cannot reach an agreement. I should therefore be glad if you could give me the opportunity to comment before final decisions are taken.

I am sending a copy of this letter to the Prime Minister, the Foreign and Commonwealth Secretary and Sir John Hunt.

[Handwritten signature]

GEOFFREY HOWE

[Handwritten signature]

The Rt.Hon.David Howell, M.P.
Secretary of State for Energy.

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10 OCT 1979

