

PRIME MINISTER

BP/BNOC OIL TRADING

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

Under most participation agreements, oil companies operating in the North Sea have to sell 51% of their North Sea crude to BNOC. An exception was made for BP. BP do not supply 51% of their North Sea oil. Instead, they use part of their North Sea oil for supplying their affiliates abroad, and they make up the difference by selling Middle East crude to BNOC. At the time when this was negotiated, it was to the advantage of both parties: BP were glad to have some extra high quality crude for their overseas affiliates, and BNOC were interested in having some lower grade crude to balance their overall supply position as well. BP's commitment to sell Middle East crude to BNOC is now causing them difficulties because of lack of supply, and because they otherwise have to buy in the spot market (spot prices of over 50 dollars have been reported recently). But Mr. Howell thinks that BNOC can not go any further in accommodating BP: if they were to do so this would endanger the plan to raise £400 ~~000~~ million by forward sales, and it would also - in his view - endanger our security of supply.

(I think this arrangement must be looked at again. The circumstances have totally changed & the government should be made aware of the danger. It is the oil market that is highly volatile. Can we not come to some arrangement - on this? Or do we believe in on the spot books?)

23 October 1979

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10 DOWNING STREET

From the Private Secretary

24 October 1979

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

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

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

T. P. LANKESTER

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

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