

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

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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.

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