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Prime Minister

Content with para. 6?

Yes no

A.J.C. 7/5.

PM/82/35

PRIME MINISTER

North Sea Oil Exports Guidelines

1. When Peter Carrington visited Israel last month, Mr Begin again raised the question of North Sea oil sales to Israel, referring to an indication which he said he had been given by Mr Callaghan that this might be possible once our production reached a certain level. Peter Carrington said that in spite of the current oil glut it would be unfair to commit supplies to Israel, at the eventual expense of our regular customers in the IEA and the EC. He nonetheless undertook to mention the question to you.

2. The Government guidelines on the sale of oil as stated by Ministers in Parliament (and which have no legal force) provide that crude oil from the UK Continental Shelf (UKCS) should be exported to International Energy Agency (IEA) and EC member countries, or other countries with which there is an established pattern of trade in oil. They are an expression of solidarity over resources with our Community and IEA partners and the answer to suggestions that we should be doing more to share our oil with the Community. They make it easier to reject requests for UKCS oil from countries, eg Israel or South Africa, where this might provoke hostile reactions from elsewhere, without our seeming to discriminate against specific countries.

3. No OPEC country will supply Israel, which obtains its oil from Mexico, Egypt and the spot market. The US has agreed to make up Israel's oil supplies in an emergency.

/4.





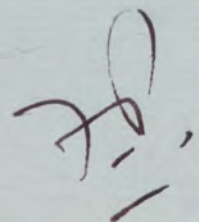
4. Agreement to Begin's request would almost certainly lead to a row with OPEC. Accusations have recently been made within the Organisation that Britain is trying to undermine OPEC through manipulation of North Sea oil prices. This is of course nonsense, as we have made clear. Nevertheless, the sale of oil to Israel might be seen by OPEC as highly provocative and could have repercussions for our trade with the Arab world. In view of the relatively small quantities of oil which would be involved if we supplied Israel, I judge that it is not worth taking this risk.

5. I have considered as an alternative encouraging the Israelis to pursue the conclusion of oil swap dealings with British oil producers. But a policy of permitting swaps but not sales would be more difficult to defend domestically and might be just as objectionable to OPEC.

6. I therefore recommend that we make no attempt to modify the guidelines. I would not propose to go back to Mr Begin (he told Peter Carrington that this was not a burning issue). If the Israelis raise the matter again, we can say that having reviewed the position we have concluded that we cannot offer them the security of supply they seek at the expense of our IEA and EC partners. If pressed, we could add that short-term contracts would be of no economic interest to them and that long-term contracts would impinge on the position of our energy partners regardless of present market conditions. We can also point out that our willingness to help meet Israeli energy needs is demonstrated by the NCB's current contract to export coal to them.

7. I am copying this minute to Nigel Lawson.

7 May 1982



(FRANCIS PYM)

Foreign and Commonwealth Office



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R M

Energy

10 May, 1982

NORTH SEA OIL EXPORTS GUIDELINES

The Prime Minister has seen the minute of 7 May by the Foreign and Commonwealth Secretary. She is content with the recommendations in paragraph 6.

I am copying this letter to Julian West (Department of Energy).

A. J. COLES

F Richards, Esq  
Foreign and Commonwealth Office

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file  
Energy  
BIC

10 DOWNING STREET

*From the Private Secretary*

5 April 1982

*[Handwritten mark]*

Export of North Sea Oil

Thank you for your letter of 30 March.  
The Prime Minister has noted its contents.

I am copying this letter to Julian West  
(Department of Energy) and to David Wright  
(Cabinet Office).

A. J. COLES

Michael Arthur, Esq.,  
Lord Privy Seal's Office

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SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

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K-a.

John Coles Esq  
Private Secretary  
10 Downing Street  
London  
SW1

2 April 1982

Dear John,

Michael Arthur sent me a copy of his letter of 30 March about exports of oil to Israel.

You will be glad to hear that the subpoena on my Secretary of State, to which he refers, was set aside in the Courts yesterday. It remains possible that one of the parties will attempt a further subpoena later on in the proceedings.

I am copying this letter to David Wright.

Yours ever,

J D WEST  
Private Secretary



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APR 5 1982

CONTOUR FOLD

LONDON



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Prime Minister

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To be aware.

A.J.C. 21/3



Foreign and Commonwealth Office

London SW1A 2AH

30 March 1982

Dear John

The Prime Minister may wish to be aware that arbitration proceedings were due to start in London on 29 March which may bring a challenge to the Government's policies on the export of North Sea oil as expressed in the so-called sales guidelines. It has a direct bearing on sales of oil to Israel and this could be raised during the current visit there by the Foreign and Commonwealth Secretary. The case also raises the question of whether the guidelines are compatible with the Treaty of Rome.

The Government guidelines, first announced in 1979 by the last administration and frequently repeated by Ministers in Parliament since, are that crude oil from the UK Continental Shelf (UKCS) should be exported to International Energy Agency (IEA) and EC member countries, or other countries with which there is an established pattern of trade in oil. The guidelines have no legal force, but have facilitated the rejection of requests for UKCS oil from countries, eg Israel or South Africa, where this might provoke hostile reactions from elsewhere, without our seeming to discriminate against specific countries. They are worth maintaining for this reason and because they are also a very valuable expression of solidarity with our IEA and Community partners. The guidelines do not cover trade in oil products or other forms of energy.

An American company, Sun Oil, basing itself on the guidelines, has refused to fulfil a contract to sell a cargo of UKCS crude to Bulk Oil (a company with extensive Jewish links) because the nominated destination was Haifa. Bulk Oil has commenced arbitration proceedings against Sun Oil and is expressly arguing that the guidelines infringe EC legal requirements.

HMG are not a party to the proceedings and have no standing to intervene. Solicitors for both parties have been in touch with the Department of Energy on various aspects of the case, but we do not have direct or full knowledge of all the facts of the arbitration. The Secretary of State for Energy, however, has been subpoenaed to appear at the hearing and will be represented by an official. A Cabinet Office official sub-committee responsible for Community legal questions is studying the possible EC legal risks to HMG which may result from the arbitration and will prepare possible action to defend our policies, should this become necessary.

/Israel's

A J Coles Esq  
PS/No 10

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Israel's oil supply is adequately secured by a contract with Mexico and, since the handback of the Sinai oil fields, with Egypt. Her remaining requirements are met by purchases, often on the spot market. She also has a treaty commitment from the US to make up oil supplies in an emergency. Nonetheless, since 1979, the Israelis have raised with us on a number of occasions the possibility of obtaining supplies of UKCS crude and have alleged that the guidelines are contrary to the EC-Israel Agreement.

Given the earlier Israeli approaches over the guidelines and Bulk Oil's Jewish links, it is possible that the Israelis may have been instrumental in causing the proceedings to be brought. In present circumstances they have no economic interest in buying UKCS oil. If they are pushing Bulk Oil's case, it can only be to make a political point or embarrass us. It is unfortunate that the way in which Bulk Oil have chosen to argue their case draws attention to aspects of our UKCS policies which risk being held incompatible with our EC obligations (though given the value of the guidelines to the EC in overall political and economic terms, it remains to be seen what the reaction of the Community institutions would be to this proposition). If the matter were ever to reach the European Court we would not rule out the possibility of the Commission giving evidence in support of the guidelines in view of the contribution they make to secure Community energy supplies.

I am sending a copy of this letter to Julian West at the Department of Energy and to David Wright.

*Yours ever*

A handwritten signature in blue ink, appearing to read 'M A Arthur'.

M A Arthur  
PS/Lord Privy Seal



30 MAR 1962

