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CHOAM file



Foreign and Commonwealth Office

London SW1A 2AH

14 October 1985

*Dear Charles,*Brunei Shell Petroleum

Thank you for your letter of 9 October enclosing one of the same date from the Chairman of Shell to the Prime Minister about the problems Shell are having in their negotiations with the Brunei Government. I enclose a draft reply for the Prime Minister's signature. A brief on this issue had already been prepared for the Prime Minister's bilateral with the Sultan at CHOGM.

Negotiations have been going on between Shell and the Brunei Government for nine months but are now stalled. The Bruneian team, which includes some nationalist elements, appears intent on extracting part repayment of past profits as well as driving a hard bargain for future arrangements. As Mr Holmes points out in his letter to the Prime Minister, the current market conditions do not justify meeting the Bruneian demands. Shell have now suspended the talks and hope to make progress by approaching the Sultan and Prince Jefri direct.

Our High Commissioner in Brunei, Mr Cornish, discussed the situation with the Chairman of the Brunei side, Pengiran Bahrin, earlier this week. As the enclosed telegram (No 252) shows, Bahrin was critical of what he claimed to be Shell's insensitive approach to the talks, and alluded to problems in his own team from young Turks intent on demonstrating that Brunei could be as tough as any other negotiator. But Bahrin indicated that he could see an acceptable end result and accepted grudgingly that this would involve compromise by Brunei.

The situation requires delicate handling. When Shell's Regional Coordinator, Mr Mackrell, called at the Foreign and Commonwealth Office, as Mr Holmes mentions, on 3 October, he was told that, in view of Shell's very substantial interests in Brunei and the sensitivities of the Sultan himself, it would be prudent to approach him with great care and tact, and that it was important generally in their negotiations not to provoke a strongly nationalist response. Mr Mackrell was told that if the matter was raised between the Prime Minister and the Sultan it would be done only in general terms, leaving negotiations for the commercial

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interests involved. The brief reflects this line, with which Mr Mackrell agreed.

I am copying this letter to Geoff Dart (Department of Energy).

*Your wvs,*  
*Len Appleyard*  
(L V Appleyard)  
Private Secretary

C D Powell Esq  
10 Downing Street

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DRAFT: minute/letter/teleletter/despach/note

TYPE: Draft/Final 1+

FROM:

Reference

PRIME MINISTER

44

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

P F Holmes Esq MC  
 Chairman and Managing Director  
 Royal Dutch Shell  
 Shell Centre  
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Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Thank you for your letter of 9 October about your negotiations with the Brunei Government.

CAVEAT.....

I am sorry to hear that your talks with the Bruneians have not been going well. I shall certainly take up the matter with the Sultan of Brunei when we meet this week in Nassau.

The negotiations are clearly an issue of considerable local sensitivity. I am sure your negotiators are in close touch with our High Commissioner in Brunei, and will have this local dimension very much in mind at their forthcoming meetings.

*have no doubt of the importance of this*

I much hope that the negotiations will soon be brought to a mutually satisfactory conclusion, it is a matter of great importance that they should.

Enclosures—flag(s).....

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FM BANDAR SERI BEGAWAN  
TO PRIORITY FCO  
TELNO 252  
OF 100850Z OCTOBER 85

YOUR TELNO 163: BRUNEI SHELL PETROLEUM (BSP)

1. AFTER DISCUSSION OF OTHER BUSINESS ON 9 OCTOBER I REMINDED PENGIRAN BAHRIN THAT THE PRIME MINISTER AND SULTAN HAD DISCUSSED BRIEFLY SHELL'S RELATIONSHIP WITH BRUNEI IN APRIL, AND SAID THAT SHE MIGHT WANT TO MENTION THE SUBJECT AGAIN IN NASSAU. BAHRIN SAID SULTAN WOULD BE FULLY BRIEFED.
2. BAHRIN THOUGHT THAT SHELL'S TIMING IN SUSPENDING THE TALKS AND DEMANDING AUDIENCES WITH THE SULTAN AND PRINCE JEFRI HAD BEEN UNFORTUNATE. THERE WAS NO NEED FOR THIS. ON DOWNSTREAM OPERATIONS SHELL HAD PUT FORWARD SOME 'RIDICULOUS' OFFERS BUT HAD MADE IT CLEAR PRIVATELY THAT THEY WERE ONLY OPENING BIDS. ON UPSTREAM OPERATIONS THE BALL WAS IN BRUNEI'S COURT BUT THE BRUNEI TEAM HAD NO CHANCE TO SAY ANYTHING DURING THE LAST ROUND SINCE SHELL HAD WALKED OUT. MITSUBISHI HAD SINCE TOLD BRUNEI GOVERNMENT THAT IT DID NOT ASSOCIATE ITSELF WITH SHELL'S ACTION.
3. BAHRIN FEARED THAT SHELL MIGHT NOT BE NEGOTIATING IN GOOD FAITH. FOR EXAMPLE, THE REQUEST FOR AUDIENCES WAS IN A LETTER SIGNED IN EUROPE BEFORE THE LAST ROUND. THE BRUNEI TEAM THOUGHT VARNEY WAS DETERMINED TO HAND IT OVER WHATEVER WAS SAID DURING THE LAST ROUND. HIS APPROACH, TACTICS AND OBVIOUS LACK OF PATIENCE HAD RAISED HACKLES. IN CONTRAST TO MITSUBISHI, SHELL HAD KEPT ITS LOCAL MANAGING DIRECTOR (VAN DIJK) OUT OF THE TEAM. YET MR VAN DIJK KNEW THE BRUNEI SCENE AND WAS REASONABLE.
4. BAHRIN SAID THAT THE AUDIENCES HAD NOW BEEN GRANTED BUT NO DATE FIXED. (VAN DIJK CONFIRMS THIS.) HIS PROBLEM WAS NOW WHAT LINE THE SULTAN WOULD TAKE. USING FAMILIAR LANGUAGE, HE SAID THAT ALTHOUGH HE WAS CHAIRMAN OF THE BRUNEI TEAM OTHERS MIGHT UNDERMINE HIS POSITION BY URGING THE SULTAN TO TAKE A HARD LINE. A BRUNEI TEAM LED BY DATO SELAMAT HAD RECENTLY VISITED ABU DHABI AND HAD LEARNT HOW TOUGH A HOST GOVERNMENT COULD BE. (JENKIN'S LETTER OF 29 JULY TO CARTER, SEAD.)
5. IN RESPONSE TO A DIRECT QUESTION BAHRIN SAID HE COULD CERTAINLY SEE HIS WAY THROUGH TO AN END RESULT SATISFACTORY TO ALL THREE PARTIES. HE ACCEPTED, A BIT GRUDGINGLY, THAT THIS WOULD INVOLVE COMPROMISE BY BRUNEI.

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6. I SAID THAT FROM MY LIMITED KNOWLEDGE OF THE DETAILS I COULD WELL UNDERSTAND A DEGREE OF IMPATIENCE BY SHELL.

THE NEGOTIATIONS HAD LASTED FOR NINE MONTHS WITH LITTLE PROGRESS IN SHELL'S VIEW. WHATEVER BAHRIN MIGHT THINK OF VARNEY IT WAS THE SUBSTANCE WHICH MATTERED AND THE FACT WAS THAT THE BOARD OF A MAJOR, HIGHLY EXPERIENCED AND REASONABLE OIL COMPANY WERE NOW CONCERNED. THAT IS WHY THEY HAD ASKED TO SEE THE SULTAN. IT WAS HOWEVER REASSURING THAT BAHRIN COULD SEE AN ACCEPTABLE END RESULT.

7. COMMENT. NOT ALL OF BAHRIN'S COMMENTS SHOULD BE TAKEN AT FACE VALUE. SHELL HAS DETECTED LITTLE SIGN OF ENOUGH GIVE ON THE BRUNEI SIDE TO GET A PROPER NEGOTIATION UNDER WAY. BUT SOME OF WHAT HE SAID RINGS REASONABLY TRUE. HE HAS GENUINE PROBLEMS WITH MEMBERS OF HIS TEAM, PARTICULARLY THE THREE WHO WENT TO ABU DHABI - DATO SELAMAT (PERMANENT SECRETARY PRIME MINISTER'S DEPARTMENT), AWANG ABDUL RAHMAN KARIM (MANAGING DIRECTOR BRUNEI INVESTMENT AGENCY) AND ABDUL KANI (HEAD OF PETROLEUM UNIT). ALL THREE ARE HAWKS ON THIS ISSUE AND PRICKLY IN THEIR ATTITUDE TO BRITAIN (SEE BRUNEI TELNO 199 ON KARIM'S APPROACH TO BRUNEI INVESTMENT AGENCY MATTERS). SITUATION IS FURTHER COMPLICATED BY BAD BLOOD BETWEEN BAHRIN AND SELAMAT. VARNEY'S APPROACH WOULD CERTAINLY GRATE WITH THESE PEOPLE AND AROUSE SUSPICIONS. I THINK VAN DIJK SHARES MY VIEW THAT BAHRIN'S OWN APPROACH HAS NOT BEEN ENTIRELY NEGATIVE. SHELL NOW NEED TO HELP HIM BY CONVINCING HIS COLLEAGUES IN THE TEAM THAT SHELL ARE FAIR AS WELL AS TOUGH. I HAVE ENCOURAGED VAN DIJK TO ENSURE THAT HIS DIRECTORS WORK HARD ON THESE PEOPLE AS WELL AS ON THE SULTAN.

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PS/MR RENTON

SIR W HARDING

MR WILSON

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