



Note. They seem to have  
 arise from a confusion  
 over the word "ships"  
 which refers to pipelines  
 not ships.  
 AT 7/15

CCMH 19/304/18588 (2)

DEPARTMENT OF TRADE AND INDUSTRY  
 1-19 VICTORIA STREET  
 LONDON SW1H 0ET  
 Telephone (Direct dialling) 01-215 5144  
 GTN 215  
 (Switchboard) 215 7877

From the Minister for Trade

C D Powell Esq  
 10 Downing Street  
 LONDON  
 SW1

Prime Minister  
 You are recommended  
 not to raise this 30 April 1985  
 at the Summit.  
 C.D.P.  
 1/5

Dear Charles

**ECONOMIC SUMMIT**

As requested in your minute to Hatfield in the Cabinet Office, I am enclosing a short note on the settlement announced on 24 April of the dispute between the owners of the Trans-Alaska Pipeline, including BP; and the State of Alaska, about the charges levied for the transmission of oil along the Pipeline.

Neither we nor the Department of Energy would recommend the Prime Minister to raise this point at the Summit, for the following reasons:

- (a) BP have said publicly that they can live with the settlement;
- (b) The settlement involves no discrimination between domestically-owned and foreign-owned companies among the joint owners of the Pipeline;
- (c) The dispute arises from the concern of the State of Alaska that it is not deriving enough tax from the Pipeline. It is not an example of a more general tendency in the USA towards greater protectionism or discrimination against foreigners;
- (d) There has recently been criticism from Bechtel about the condition, introduced into the latest round of North Sea licences, that new technology developed for the North Sea must be rooted in the UK. The Government has strongly rebutted this criticism. But it might be repeated to the Prime Minister if she raised the Alaska dispute.

I am copying this letter to recipients of yours and to the Private Secretary to the Secretary of State for Energy.

Yours

Matthew

MATTHEW COCKS  
 Private Secretary to the  
 Minister for Trade (Paul Channon)



## Background Note

### TRANS ALASKA PIPELINE

The Trans-Alaskan Oil Pipeline, in which BP and Sohio together have a 50 per cent interest, opened in 1977. The State of Alaska immediately filed a suit that the tariffs charged for shipping oil from the Prudhoe Bay oil field through the Pipeline were too high, and were unduly depressing the well-head price of the oil on which State taxes are levied. (The well-head price is determined on the basis of realised market price in the "lower 48" States after deducting shipping costs).

2 The settlement BP Pipelines Inc reached with the State of Alaska announced on 24 April (and reported in yesterday's FT) includes a repayment to the oil producers in respect of past Pipeline shipments. Arco, another oil producer which owns a share (21.4 per cent) of the Pipeline, reached a similar settlement in February. The effect is to produce a higher well-head price, and an increased tax liability for the oil producers who will be required to pass on part of the rebate they thus receive to the State of Alaska as underpaid tax arising from the higher well-head price.

3 There is no discriminatory trade practice in favour of US companies involved in the Alaskan Oil Pipeline tariff or State tax arrangements.

OT2/1

30 April 1985

WALL STREET JOURNAL

Monday April 29 1985

*BP North America, Alaska  
Settle Pipeline Rate Dispute*

*By a WALL STREET JOURNAL Staff Reporter*

WASHINGTON—BP North America Inc. said it agreed to a settlement of a trans-Alaska pipeline rate dispute that will require it to pay rebates to shippers and lower rates for future shipments on the pipeline.

A spokesman for the British Petroleum Co. subsidiary, which owns 16.5% of the pipeline, said the settlement with the state of Alaska calls for it to pay \$110 million in rebates to shippers. He didn't say whether these include units of BP.

The settlement must be approved by the Federal Energy Regulatory Commission, but hasn't yet been formally filed. If the U.S. commission approves the settlements, it is expected to order the rate reductions applied to the pipeline as a whole.

The U.S. Justice Department has said it will try to impose the same terms on the pipeline's other owners: Exxon Corp., Standard Oil Co. (Ohio), Amerada Hess Corp., Mobil Corp., Phillips Petroleum Co. and Unocal Corp.

The settlements call for small retroactive rate reductions and larger cuts in the future. In recent years the rate has been near \$6 a barrel. Justice Department attorneys say that under the settlement terms, the rate could fall below \$2 a barrel during the 1990s.

If approved, the settlement would net Alaska about \$206 million in retroactively adjusted royalties and taxes, according to Robert Maynard, an assistant state attorney general.