

S E C R E T



12

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

13 March 1985

Michael Reidy Esq
Private Secretary to the
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1

Dear Michael

BNO

The Chancellor of the Exchequer has seen the draft Statement attached to your letter of 12 March. He has also seen your Secretary of State's letter of the same date to the Foreign Secretary.

The Chancellor is concerned that the line of argument in the fourth and fifth paragraphs of the draft Statement (and in the corresponding section of the draft telegram) could prejudice the use of market related, or average realisations, pricing in the period during which the participation options have not been completely removed. In view of this, the Chancellor would prefer the second sentence of the fifth paragraph to be expressed in terms of the change not enabling BNO to contribute to stability, rather than in terms of being destabilising. This points to amending the sentence to read "Such a system would mean that BNO could no longer contribute to stability in the markets." A similar change would be needed to the end of the second paragraph of the draft telegram.

Apart from that, the Chancellor is concerned that the references to RIK in the draft Statement will not enable us to return to this issue in the future. As you will have seen from his minute to the Prime Minister of 12 March, he attaches importance to this point. He would, therefore, prefer to substitute

S E C R E T



"we have the power to receive oil" for "oil is received" in the first sentence on page 2 of the draft. This reference to powers in relation to RIK picks up the point in the final paragraph on page 1 and parallels what is being done in relation to participation agreements.

I am copying this letter to Andrew Turnbull (No 10), Janet Lewis Jones and David Beamish (Lord President's Office), Len Appleyard (FCO), Richard Mottram (MOD), David Morris (Lord Privy Seal's Office), Murdo MacLean (Government Whips' Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

13 MAR 1965

11 12 1
9 2
8 3
7 4
6

CONFIDENTIAL

100



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

13 March 1985

NMPM

Dear Peter,

BNOG

I have seen the proposed text of the statement you will be making this afternoon about BNOG.

I note that you have elected to retain the commitment to introducing legislation this session, which I would have preferred to see excluded. This preference was not based merely on the convenience of the Business Mangers. There have been many occasions when the introduction of a Bill has been delayed because difficulties have arisen that were not foreseen when policy approval was given. Were that to happen to this Bill the consequences could be severe.

I understand that you expect to be able to provide drafting instructions by Easter; and on that basis am content for the phrase in question to be included. I must, however, make it clear that I regard its inclusion as an undertaking that your Department will adhere to that deadline.

I am copying this letter to the Prime Minister, the Lord President of the Council, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Defence, the Chief Whips in both Houses and Sir Robert Armstrong.

JOHN BIFFEN

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy

Rowe



11 12 1
2
3
4
5
6
7
8
9
10

13 MAR 1995

SECRET

Copy No 1 of 10



MM AT 1413 9

SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 7214

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

12 March 1985

Dear Andrew

I attach the text of the statement on BNOC to be made by the Minister of State for Energy tomorrow at 3.30 pm.

Copies also go to Janet Lewis-Jones, Len Appleyard, Rachel Lomax, Richard Mottram, David Morris, Murdo Maclean, David Beamish and Richard Hatfield.

Yours sincerely
M. F. Reidy

M F REIDY
Private Secretary

SECRET

With permission, Mr Speaker, I wish to make a statement about the British National Oil Corporation. I hope it is for the convenience of the House that I should make this statement now in view of the debate arranged for tomorrow.

In the summer of last year the Government reviewed the institutional arrangements and operations of BNOC. It then concluded that the balance of advantage lay in retaining the Corporation in its present form, given the contribution it was able to make to deriving full benefit from our oil resources.

Since then the environment in which BNOC has to operate has undergone important changes. BNOC has traditionally operated by purchasing and selling oil under term contracts at prices fixed for a period of months ahead. Its purchases under participation contracts have been in this form which, as I explained to the Select Committee on Energy, has enabled BNOC to make a contribution to stability of markets in the short term.

There has however now been a major change in the structure of the oil market away from term contracts and towards spot and similar short-term transactions. This trend is unlikely to be reversed in the near future.

In these circumstances BNOC could avoid the risk of losses only by linking its prices for participation oil closely and continuously to movements in the spot market. Such a system would be more likely to increase instability in the markets than to contribute to stability. The Government has concluded that this shifts the balance of advantage decisively against the retention of BNOC in its present form. I see no advantage in retaining a public sector body to operate on that basis.

The change in market structure I have described has led me to the conclusion that BNOC should no longer purchase oil by exercising its options under participation agreements. Dealing in participation oil has been the dominant part of BNOC's activities.

The Government considers it essential to retain powers that would enhance security of supply if that proved to be necessary. We will therefore retain the participation agreements themselves so that we can activate them to have access to these oil supplies should the need arise.

We will also retain the arrangements under which oil is received from Continental Shelf licensees as royalty in kind.

These two factors together mean that security of supply will continue to be safeguarded.

I see a need in present circumstances to retain one other function of BNOC, namely the management as agent for the Government of the Government oil pipeline system. This system is important for both defence and civil purposes.

The retention of these three functions - custody of the participation agreements, disposal of oil received as royalty in kind and management of the Government pipeline system - requires the establishment of a small Government Oil and Pipelines Agency as a successor body to BNOC. The abolition of BNOC and the establishment of the Agency for the purposes I have described will require legislation and I intend to introduce this in the present Session of Parliament.

Finally I wish to express the Government's thanks for the valuable work carried out by the Chairman, Board and staff of BNOC.

AAA