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Energy



15 January 1982

Dear Nigel

Your letter of 14 January to Geoffrey Howe concerning the proposed participation agreement between BNOC(T) and Britoil arrived here late yesterday. As I indicated on the telephone, there is no way in which I can give you any legal advice on a problem of this complexity by noon today.

On the same day, without any prior warning, I received a lengthy case to advise from your lawyers which was of course copied to the Lord Advocate. James and I are extremely concerned over the novel elements in this agreement and the consequential Treaty of Rome implications. We must get this advice right and we will need to confer. James will be in Court in Luxembourg for most of next week, therefore you cannot expect considered advice within the next ten days.

However, I shall do my utmost to form some preliminary view before Tuesday's debate. I must emphasise that this will be at best preliminary and may well be changed after I have had an opportunity to consider the proposal in detail and consult with James.

I am sending a copy of this letter to the recipients of yours.

May I beg of your Department to  
give us reassurance which is a different  
case like this.

Yours  
Michael.

Rt.Hn.Nigel Lawson M.P  
Secretary of State for Energy.

Handwritten: Prime Minister

Handwritten: MS 25/1

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
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CONFIDENTIAL

Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON SW1

Handwritten signature

14 January 1982

Dear Chancellor,

BNOC'S ACCESS TO BRITTOIL'S OIL

Back in July, E agreed that ENOC should acquire a normal 51% option over Britoil's oil so as to put it on the same footing as other independent oil companies covered by participation agreements. It also accepted that those agreements, which give access to 51% of North Sea oil, are essential to our policies on oil pricing and security of supply.

In most cases where BNOC or BGC has an equity interest in a licence, ENOC has participation options to less than 51% of the private licensees' oil. In such licences, options to 51% of Britoil's oil will not give ENOC(T) access to 51% of all the oil produced from that licence. At the extreme, ENOC(T) has no options to any of the oil produced by private licensees from the 5th and 6th Rounds and therefore participation of 51% in Britoil could reduce Government access to only 25% of the total oil produced from such licences.

There can be no question of seeking options to additional oil from the private licensees. Their co-operation is essential to the privatisation of Britoil; they have every reason to suppose that the current arrangements fully satisfied the previous administration's requirements; if we were to come back for more, we would imperil the whole exercise. It is my view that we equally cannot seek more than 51% of Britoil's oil in affected licences of the first 4 rounds. To seek 51% of the total licence production would add insignificantly to our security of supply, increasing ENOC(T)'s oil by only some 2m out of 46m tonnes. But it would reduce Britoil's availabilities to less than half of what that company would have under 51% participation and might effectively destroy its marketing independence.

It is more difficult to know what to do with the 5th and 6th Round licences. In principle there could come a time when nearly all the UK's oil would be produced from those licences and seeking only 51% participation in Britoil could reduce government access to only 25% of total UKCS production. In practice, only Clyde will be producing from such licences this decade, and the acreage and its prospects are such that it is extremely unlikely that

production from those licences will ever predominate. In any case, if it does so, it will probably not be until next century. Nevertheless, I judge that we should not expose ourselves unnecessarily to the charge of diluting the Government's access to oil. I accordingly propose to require BNO(T) and Britoil to set up a participation agreement which will give the former access to up to 51% of all the oil from those licences. Insofar as BNO(T) or Britoil can obtain additional oil from private licensees in the 6th Round through use of BNO(T)'s special privileges such as rights to call for additional oil or increase equity, such oil would be allowed against the 51% and thus Britoil could be sure of retaining some of the licence production.

I shall have to announce my intentions in general terms in the Second Reading Debate next Tuesday on the Oil and Gas (Enterprise) Bill. I shall need to let Mr Shelbourne know them in advance. Unless I hear from you by noon on Friday 15 January, I shall assume that you and other colleagues are content with my proposals.

I am sending copies of this letter to the Prime Minister, the Secretary of State for Scotland, the Secretary of State for Industry, the Attorney General, the Lord Advocate and Sir Robert Armstrong.

*Yours sincerely,*

*Janet Chadwick*

PP NIGEL LAWSON

(Approved by the Secretary of State  
and signed in his absence)

† 4 JAN 1982



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*Secretary of State for Industry*

15 January 1982

Rt Hon Nigel Lawson MP  
Secretary of State for Energy  
Thames House South  
Millbank  
London SW1P 4QJ

Dear Nigel,

BNOC'S ACCESS TO BRITOIL'S OIL

Thank you for the letter of 14 January dealing with the terms of a participation agreement between BNOC (T) and BRITOIL when plans to privatise the oil-producing business of BNOC are implemented. I am content with the proposals.

I am sending copies of this letter to the Prime Minister, the Secretary of State for Scotland, the Attorney General, the Lord Advocate and Sir Robert Armstrong.

Yours ever  
Patel

15 JAN 1982

