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Treasury Chambers, Parliament Street, SW1P 3AG
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21 June 1984

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

A handwritten signature in cursive script, appearing to read 'Peter Walker'.

BNOC REVIEW

You wrote to me on 13 June enclosing the report by officials on the future of BNOC.

We were forced to use the security of supply argument for BNOC during the Parliamentary debates on the privatisation of Britoil, since the only alternative - the abolition of BNOC at the same time as we were privatising Britoil - would have been far too difficult in political terms. But I have to say that I have never regarded our security of supply as in fact depending on BNOC to any significant extent.

I am also keenly aware of the wider political and diplomatic difficulties to which we are exposed as a result of the existence of BNOC. Although the events of the spring of 1983 worked out very satisfactorily in the end, they could easily not have done, and we were put on the spot internationally in a way that the United States, despite being a very much larger non-OPEC oil producer, never was. We had a very difficult hand to play.

But I recognise that abolishing BNOC could still generate a good deal of political heat. We would certainly be accused of endangering the nation's security of supply, weak though that argument is. And BNOC is still of use to us in establishing the tax reference price on which the North Sea fiscal regime is based. So on balance I would agree that we should retain BNOC at about the present size and with its current objectives at least until the debates on the Oil and Gas Enterprise Bill have receded further into the mists of time. But I am sure you are right that we should review the position in two or three years' time.

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I agree that officials should consider the terms of an early announcement and undertake a further study of the guidelines for BNOC commercial trading. I also think it would be worth picking up the suggestion in the Report for an independent check on the form and level of the management controls on BNOC's traders. The capacity of BNOC to lose massive sums of taxpayers' money is something of which you will be keenly aware.

I am copying this letter to the Prime Minister, Geoffrey Howe, George Younger, Norman Tebbit and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read "Nigel Lawson".

NIGEL LAWSON

ENERGY : BNOC : PLS,



22 JUN 1984



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Secretary of State for Trade and Industry

26 June 1984

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
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London SW1

NDA
AT 27/2

R. Peter.

BNOC REVIEW

You sent me a copy of your letter of 13 June to Nigel Lawson. I support your proposal that BNOC should be allowed to continue subject to another review in two or three years' time.

BNOC has a useful role to play in promoting stability in the oil market and in helping to safeguard security of supply in the event of a crisis. To abolish it now would risk a disproportionate reaction in the market place and could incur hostility from OPEC and other oil producers to the detriment of our exports and overseas investments in these countries.

There seems no point in running such risks now; if we wish to disengage from intervention in the oil market, a time may come in the future when it would be easier to do so.

I am copying this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson, George Younger and to Sir Robert Armstrong.

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