



Foreign and Commonwealth Office

London SW1A 2AH

1 April 1985

Dear Mr Miller,

Thank you for your letter of 13 March to the Prime Minister about your employee who comes from Brunei. I have been asked to reply on the Prime Minister's behalf.

I expect you will have seen the letter of 6 December from the Parliamentary Under-Secretary for Foreign and Commonwealth Affairs, Mr Renton, to Sir Paul Byran MP who wrote on your behalf, setting out the legal position concerning Brunei Chinese.

As you mention, the Prime Minister will shortly be visiting Brunei in the course of a tour of South and South East Asia. The Prime Minister and her party will spend only a few hours in Brunei but you may be sure that they will be fully briefed on matters such as you have raised.

Yours sincerely

Andrew Henderson

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Brunei Seen Planning More Control Over Oil and Natural-Gas Industries

By A.J. TRONER

SINGAPORE (AP-DowJones) — Brunei plans to exert more control over its oil and natural-gas industries by creating an energy control board and possibly by reducing the extensive influence of the Royal/Dutch Shell group, according to industry insiders.

If the plan goes ahead, the energy board will oversee the operations of Brunei Shell Petroleum Co., the main energy concern in Brunei. The concern is half owned by the government and the rest is controlled by Shell.

Brunei officials are negotiating with two U.S. companies to help draw up a framework for the proposed board. An international energy consulting concern would supply technical advice to the board and would make the first independent assessment of Brunei's energy reserves.

The government is considering increasing its stake in Brunei Shell Petroleum, perhaps to as much as 65%, and is said by industry insiders to be talking with several large international oil companies, including British Petroleum Co. and Compagnie Francaise des Petroles Total of France, to establish a new oil company.

Brunei is also said to be considering an expansion in the role of Sahabas Co., a trading company with ties to the Brunei royal family, in marketing the country's oil. An oil-industry insider says, "Shell can claim that everything's never been better, but they're whistling in the wind. Big changes are coming, and there's little that Shell can do about it."

Dominating the Economy

Energy dominates Brunei's economy, accounting for 99% of total exports of \$6.81 billion in 1983. Last year, the country produced 155,000 barrels of crude oil a day, although a conservation program and weak oil prices have cut current output to 88,000 barrels. Industry insiders estimate the country could increase output to 230,000 barrels fairly easily.

Brunei exports liquefied natural gas to Japan. Contracts running through 1993 call for the sale of five million metric tons a year.

Shell dominates Brunei's energy business. Indeed, the country sometimes is dubbed "the Shellfare state."

An energy expert in the region says Brunei no longer feels comfortable doing all its business with one company. "They want some independent technical evaluation of their reserves, production and day-to-day oil operations. They don't think they've been cheated but would like some second opinions," he says.

Brunei is important to Shell. A recent study by Salomon Brothers Inc. of the U.S. estimates Shell earns about \$240 million a year from energy production in Brunei, and a substantial amount of Shell's refining and

marketing earnings, perhaps as much as a further \$110 million, can be traced to Brunei operations.

Shell officials won't comment on the government's plan to set up an energy board, because they say they haven't been told about it. But they have heard about proposals to bring other international oil companies into the energy industry.

Andrew Hall, financial controller of Brunei Shell Petroleum, says, "No doubt they're interested in bringing other people into Brunei. But there's a structural, physical limit to the amount of pipe you lay, storage tanks you build, wells you drill. How any new company's activity can fit in here with us is a difficult question to answer."

Discord in Royal Family

Officials close to the Brunei government say changes to the energy industries were to be disclosed in a five-year economic development plan expected to be announced soon. But disagreements within the royal family have delayed the approval needed from the sultan for the energy plans.

Some industry observers say a fundamental change is likely in the relationship between Brunei and Shell. That generally close relationship recently has come under some pressure.

One point of contention is a government program to bring more Brunei citizens into Brunei Shell Petroleum. Only 15% of the company's senior staff in 1984 were local people. Shell officials say few Bruneians want to work in the oil industry because it can't match the employment benefits offered by the government, which is the main employer after Brunei Shell Petroleum.

"It's not altogether Shell's fault," says a foreign diplomat in Brunei. "There aren't that many people in Brunei (fewer than 200,000), less who are educated, and few who want to work in the oil industry. It's much easier to take a soft government job."

Shell officials estimate Brunei's commercially recoverable oil reserves at about 709 million barrels and natural-gas reserves at 221 million cubic meters. They concede these estimates could be underestimated by 10% and point out that what is commercially recoverable depends on the price at the time.

"It depends on how you look at the numbers," a Singapore-based oil geologist says. "I suspect the reserves are considerably higher than Shell would admit."

A few other foreign companies have explored for oil in Brunei in recent years, but they haven't found commercial amounts. Last year the government granted a new exploration agreement to a consortium including Phillips Petroleum Co. of the U.S. and Jasra Jackson, a concern owned by Jackson Exploration Inc. of Dallas and private U.S. investors.



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10 DOWNING STREET

From the Private Secretary

April
2 ~~June~~, 1985.

I enclose a copy of a letter to the Prime Minister from the General Secretary of the Catholic Institute for International Relations asking her to raise the question of East Timor during her visit to Jakarta.

I should be grateful for a draft reply.

*See + Martin
to note*

(C.D. Powell)

P.F. Ricketts, Esq.,
Foreign and Commonwealth Office.

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Memorandum to the Prime Minister - SRI LANKA

I visited Sri Lanka in February 1985 at the request of the Parliamentary Human Rights Group, together with Robert Kilroy-Silk. On our return we held a press conference at which we reported our findings but this received little coverage at home. As there is press censorship in Sri Lanka, it is unlikely to have been reported there although the BBC World Service carried it. Our written report is at present being printed but will not be published until after your visit. The report, summarised below, was written jointly and represents the impressions of both of us. The added comments are my own.

We had a relaxed and frank 45-minute meeting with the President, an hour with Lalith Athulathmudali, Minister of National Security, and three lengthy meetings with the Foreign Minister, Mr. A.C.S. Hameed. Amongst the places we visited were Welikada prison in Colombo and the army camp at Boosa, south of Colombo, where terrorist suspects from the north are detained. We were not able to visit the north, travelling being said to be dangerous. However, we spoke to a number of people from the north and members of the various communities in the country. We concluded that human rights are violated in Sri Lanka in a number of respects.

The Terrorists - known as Tigers - blow up trains and lorries carrying soldiers and blew up a police station, killing all the occupants. They have also raided villages in traditional Tamil areas occupied by Sinhalese, killing some of the inhabitants and causing the remainder to flee.



The Army are accepted by Ministers as being untrained in dealing with terrorism and ill-disciplined. There have been several instances where, following a terrorist incident, soldiers have taken revenge into their own hands, lining up local civilians and shooting them, then running riot. In at least one case the Army have effectively admitted responsibility by paying compensation. We were told that, following indiscipline of this sort, 177 soldiers and 6 officers have been summarily discharged. (But the authorities will not publicise this in Sri Lanka for fear of causing unrest in the Army.)

In the north there has been forced evacuation from a "prohibited zone" strip whilst further inland there are severe restrictions. Thousands of people have lost their livelihoods as fishermen and their homes and there is widespread hardship and disruption of normal life. The justification for these measures is the Government's belief that trained terrorists and weapons are reaching the north in fishing vessels across the narrow straits from southern India.

The Emergency Regulations allow arrest and detention for 90 days for almost any reason, such as distributing leaflets.

The Prevention of Terrorism Act enables those suspected of being involved in terrorism to be detained without trial for up to 18 months. It is quite usual after a terrorist incident for all men between 16 and 35 in the area to be detained and interrogated and many are kept in detention at Boosa in the south. We were satisfied that a number of such detainees were tortured during interrogation. We also learned that many found to be innocent after interrogation, or after their cases had been reviewed by the Advisory Board, were still detained for many weeks through bureaucratic delay.



The foregoing cannot convey, as our full report tries to, the atmosphere which we found amongst business and professional people as well as representatives of, for example, the Ceylon Workers Congress. Amongst all, including those who have in the past supported the President, there is concern at the way the Government is handling the situation. In some we encountered a genuine fear.

The President has abandoned attempts to find a negotiated solution to the "Tamil problem" and is committed to dealing with the separatist movement by military means. This is the Government's policy though Hameed (who is a Moslem) spent a lot of time explaining to us the details of the proposals which emerged from last year's all party conference. Hitherto the British Government has kept out of these internal problems. But the situation could very easily develop into a disastrous and tragic civil war and it seems to me that the time may well be ripe for a third party to intervene. India is, of course, much involved but the links between the state of Tamil Nadu and northern Sri Lanka make its impartiality suspect. Britain is well respected in Sri Lanka.

The purpose of your visit is to see the Victoria Dam of which the Government are very proud and for which they are most grateful. No doubt other projects involving British aid are under consideration. You may think it appropriate to draw the President's attention to the concern in the UK, particularly amongst parliamentarians and the very vocal Tamil community, about some of the things that are happening in his country. In a terrorist situation dreadful things will happen but some of the aspects to which our report draws attention are the result of lack of



training, lack of discipline, lack of imagination,
bureaucratic delays and sometimes sheer incompetence.

Neither the police nor the Army have experience or
training in dealing with terrorism. I believe a few
soldiers and police come to the UK for routine training
but perhaps this is an area where we could offer the
Sri Lankan Government more help?

Roger Sims

ROGER SIMS

3rd April 1985