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9th October, 1985

The Rt Hon Margaret Thatcher MP,  
No. 10 Downing Street,  
London SW1.

Dear Prime Minister,

As you are aware from your April visit to Brunei, the Brunei Government requested in October 1984 a review of their oil and gas arrangements. These negotiations have been protracted and are not going very well. I therefore thought you ought to know the present position prior to any conversations you may have with the Sultan at the Commonwealth Heads of Government Meeting.

The upstream (or producing) oil and gas arrangements which involve Brunei Shell Petroleum (jointly owned by the Government and Shell) had been last modified in 1983 following protracted negotiations. The downstream (or liquefaction and trading) gas arrangements involving Brunei Liquefied Natural Gas and Brunei Coldgas (jointly owned by the Government, Shell and Mitsubishi) were last modified in 1980/81.

The Government team in the negotiations has been advised by Shearman and Sterling (lawyers) and A.D. Little (energy consultants). The principle lawyer, Mr. R.A. MacCrindle, Q.C. has acted as the Government's main spokesman. The Government team has not shifted from their initial view that the arrangements are and have been too generous to the private investor.

Naturally, we have watched the evolution of the stresses and strains within the Royal Family. We have been concerned that the Government team appears to lack clear guidance from the Sultan and thus falls into the hands of their advisers whose interests are in a short term success and not in the long term welfare of Brunei. Despite our firm conviction that the current terms are fair and comparable with those in Indonesia and Malaysia, we have made an attempt to make some concessions in the hope that this will help restore harmony between the Government and ourselves. These overtures were rejected and thus we felt we had no choice but to seek an audience for our Regional Co-ordinator (Mr. K.A.V. Mackrell) with Prince Jefri and an audience for my colleague Mr. J.H. Choufoer with the Sultan.

I understand that Mr. Mackrell has spoken to Sir William Harding at the Foreign Office and that you are being briefed by them on events in Brunei. We fully understand the wider British interests in Brunei, and welcome the excellent co-operation given by the British High Commissioner in Brunei.

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If the opportunity were to arise with the Sultan, I would hope you could reassure him that Shell have, and are, giving the Government's views very serious examination. However, the international energy market situation, the proximity of the recent reviews with Government, and the danger of creating precedents which could be used elsewhere give little room for manoeuvre. Moreover the current Brunei terms are comparable with those in Indonesia and Malaysia. I am concerned that some of the younger elements, maybe egged on by their advisers, have unrealistic expectations.

Brunei has benefitted in Japan from the Government's record for stability and consistency. It would be a pity if its privileged position in the Japanese market and the very important extension of the current LNG arrangements were to be endangered by any unreasonable stance. I should add that our concerns are shared completely by Mitsubishi.

I hope the above clarifies the present situation for you.

Yours Sincerely,

Peter Holmes

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10 DOWNING STREET

*From the Private Secretary*

ack 9 October 1985

I enclose a copy of a letter to the Prime Minister from the Chairman of Shell about the position in negotiations between his company and the Brunei Government over the oil and gas arrangements. He asks the Prime Minister to raise these problems with the Sultan of Brunei in the margins of the Commonwealth Heads of Government Meeting.

I should be grateful for a draft reply which the Prime Minister could send before her departure. She will, I am sure, want to agree to raise the matter. It would also be helpful to have a brief prepared for the Prime Minister's use with the Sultan.

I am copying this letter and enclosure to Geoff Dart (Department of Energy).

(Charles Powell)

Peter Ricketts, Esq.,  
Foreign and Commonwealth Office.

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10 DOWNING STREET

*From the Private Secretary*

9 October 1985

I am writing to thank you for your letter of 9 October to the Prime Minister about Shell's negotiations on oil and gas arrangements with Brunei. I shall show this to the Prime Minister as soon as she returns from Blackpool. I am confident, however, that she will want to raise the problem with the Sultan in the margins of the Commonwealth Heads of Government Meeting and have asked for full briefing to be prepared for her.

(Charles Powell)

P.F. Holmes, Esq.