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THE MINISTER OF STATE

Hamish Gray Esq MP

The Rt Hon Sir Ian Gilmour, Bart., MP
Lord Privy Seal
Foreign and Commonwealth Office
LONDON SW1

10th January 1980

Dear Ian,

RW

BP/BNOC CRUDE OIL SALES

Thank you for your further letter of 3 January to David Howell, who is as you know visiting the Middle East this week.

David saw your letter before his departure and we are both extremely disappointed that you have still not accepted the proposed arrangements in full, despite Michael Haver's advice. As I understand it, your main concern is the high risk, as you see it, that use of the clawback provision would be detected and would provoke a legal challenge which would go wider and take in other legally vulnerable aspects of the arrangements between BP and BNOC.

As David Howell made clear in his letter of 21 December, the circumstances of BP's internal supply arrangements would effectively disguise what was happening, should the claw-back provision be implemented, since the existing flows of UKCS crudes to BP affiliates would not be affected nor would BP Trading necessarily need to stop the flow of UKCS crudes to the Antwerp and Rotterdam refineries which they themselves own and operate. The evidence of this is that BP Trading felt no need to expose this element of the arrangements when they briefed their affiliates before Christmas. The risk of detection would therefore be small. BP of course would also have the option of providing the UK with equivalent quantities of crude or product from elsewhere in their system in the event of any shortfall in supplies to the UK - something they did last year without attracting unwelcome attention from the Community.

absolutely

The provision for clawback remains, in our view, / essential and an integral part of the arrangements to help BP. Without it, we would feel obliged to re-open the basic commitment to BP under the new agreement. This would be a bad breach of faith, would exacerbate BP's crude supply difficulties, would put their major contribution to BNOC's advance payment arrangements in jeopardy and, I am sure, is not the course you would advocate. It would also send us back to square one in tackling the problem of how to ensure that BNOC's oil could be redirected to the UK in times of shortage.

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While therefore I understand your concern about the possible political risks attaching to the implementation of clawback, I believe the potential benefits significantly out-weigh those risks and I wish to give such instructions without further delay to those involved in the negotiation of the new supply arrangements between BNOC and BP.

Much detailed work remains to be done, and it is now becoming a matter of urgency to get on with the contractual implementation of the Principles of Understanding agreed last November. I see no need to take this narrow and complex issue back to colleagues collectively. If your anxieties persist, perhaps we can meet in the next couple of days to clear up the matter.

Copies of this letter go to the Prime Minister, members of ODE, the Attorney General, the Lord Advocate and Sir Robert Armstrong.

Yours sincerely,

Hamill



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Constitution of the United States, Article I, Section 2, Clause 3. The House of Representatives shall be composed of Members chosen every second Year by the People of the several States, and the Electors in each State shall have the Qualifications requisite for Electors of the most numerous Branch of the State Legislature.

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