



SECRETARY OF STATE FOR ENERGY
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The Rt Hon Sir Ian Gilmour Bt MP
 Lord Privy Seal
 Foreign and Commonwealth Office
 London SW1

23 January 1980

Dear Ian

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BNOC/BP OIL SUPPLY

Thank you for your letter of 16 January.

I have thought about your proposals very carefully because I am sure we both want to get on. The basic objective of this part of the arrangements is to protect UK security of oil supply and without satisfaction on this point I am not prepared to allow BP and its affiliates to enjoy the advantages of the other aspects of the arrangements. Provided it is clear that I am not going to shackle my negotiators with BP with constraints which defeat this basic objective, I think we can move this difficult issue forward much as you propose without troubling colleagues further.

We are agreed that there should be no reference in the contractual documents to claw-back as such, that we should instead be thinking in terms of a right of termination and that any reference to the circumstances of termination should be drafted with care. Our negotiators know that they must avoid echoing the claw-back provisions of the Principles directly in the contract and need no formal restatement of that point from us. I confirm that it is BP's firm intention to organise their oil flows so that their own exports of UKCS crude to other Community countries would remain unaffected in the circumstances envisaged in the claw-back provision. It would not, however, be appropriate to write into a contract between BP and BNOC the constraint you propose on how BP will organise its remaining disposals in the event of termination of one part of the supply from BNOC. To do so would be to introduce restrictions into the contract documentation which would have the undesirable effects of making it unlike a normal commercial arrangement. I therefore propose to omit the words you proposed under your second point, while not disputing that their spirit echoes BP's intent as they have expressed it to us.

I share the expectation that, as you say in your letter, we now have sufficient understanding to make it unnecessary to refer this matter back to colleagues collectively in OD(E). I propose accordingly to instruct my negotiators to proceed on the basis set out above, taking full account of the legal advice available to us; but I will not take



this action before Thursday lest you should have yet further reservations which you judge it necessary to put formally to OD(E) for resolution. If so, I trust we can settle the matter on Thursday.

I am sending copies of this letter to the recipients of yours.

Howell
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D A R Howell

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