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SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ 211 6402

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Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

26 March 1980

Dear Sir

BP/BNOC OIL SALES

You will be pleased to know that my officials and BNOC have now concluded negotiation of the detailed contractual provisions for implementation of the new oil supply arrangements between BP, BNOC and the Government set out in the Principles of 31 October.

These arrangements fall into five parts. BP and BNOC have agreed that the forward payment will be made available this week and we are also aiming to conclude all the other arrangements in the same time scale. The agreements providing for sale to BP oil of royalty oil and the new oil sales agreement under which BNOC makes substantial new oil sales to BP are in conventional form and require no further comment.

The provisions in the Principles for "clawback" were the subject of further correspondence between myself and Ian Gilmour; in the form now negotiated there would be an agreement between the Government and BP under which the company can be obliged to provide oil supplies to nominated recipients in the UK in the event of a supply shortfall under defined terms. Supplies to BP from BNOC under the new sale agreement would not be affected provided BP fulfilled their obligations; if they fail I may instruct BNOC to reduce those new supplies accordingly. The company has also provided a side letter giving a broad measure of assurance that supplies to their affiliates, in particular those in the EEC, will not be affected if they have to meet their obligations under the agreement.

I am advised that this proposed arrangement is within the guidelines laid down by the Attorney General in his letter of 10 December; the optimal solution he proposed, of an unfettered power for BNOC to reduce the new supplies, was not negotiable with BP. Given the importance to UK security of supply of the "clawback" provisions as now expressed, my judgement is that the new form of arrangement is satisfactory, given the necessity of government involvement in some form to secure the operation of these arrangements in the national interest and to fulfil the provisions of the Principles.



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The other area of interest is the "ring fencing" arrangement under which BP dedicates its available UKCS production to meeting the needs of its UK refining and marketing affiliate BP Oil. This will give an important element of supply security. The new arrangements involve internal changes in BP's corporate structure through the creation of a new trading affiliate, BP Oil Trading, to handle UKCS crude, but the flows of BP's UKCS crude to its EEC affiliates will not be affected. BP Oil's needs for foreign crudes will be secured through exchange arrangements. BP have satisfied themselves about the new arrangements in relation to EEC risk. There will be no direct government involvement, as advised by the Attorney General, but my officials will be satisfying themselves that the detailed contractual arrangements meet the objectives of ring fencing as expressed in the Principles.

The sensitive parts of these arrangements will be kept confidential by the parties and I do not intend to make any statement beyond acknowledging that new supplies have been made available to BP by BNOG.

I believe the arrangements as negotiated and set out in the attached drafts meet the objectives of the Principles and are generally in accordance with the Attorney General's advice. It would be desirable if all the arrangements could be signed together later this week and I therefore propose to authorise my officials to proceed subject to BP satisfying them on their internal ring fencing arrangements.

Copies of this letter and the associated documents go to the Prime Minister, the Lord Privy Seal, the Attorney General and Sir Robert Armstrong and copies of the letter only to other members of OD(E).

D A R Howell

Handwritten signature:
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Dard
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