

SECRETARY OF STATE FOR ENERGY  
 THAMES HOUSE SOUTH  
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01 211 6402

3rd April 1980

Rt Hon Sir Ian Gilmour Bt MP  
 The Lord Privy Seal  
 Foreign and Commonwealth Office  
 Downing Street  
 London  
 SW1A 2AL

*Dear Sir*

BP/BNOC OIL SALES

Thank you for your letter of 28th March.

I believe the concern you express may be the result of a misunderstanding about the nature of the clawback arrangements. What we are doing is to ensure that some of the extra oil which BNOC are supplying to BP, or equivalent volumes, can be made available for use in the UK in a supply crisis falling short of the 7% trigger point at which internationally agreed sharing arrangements would come into effect. Neither we nor BP see any difficulty about this and the clawback will be effected, as earlier agreed, by BP diverting additional supplies into the UK rather than disturbing the flows of UKCS crudes to EEC affiliates, so as to reduce the risk of detection and challenge. The arrangements for clawback necessarily contain the ultimate sanction of cutting BP's supplies, but it is highly unlikely in a sub-trigger shortfall that BP would be unable to fulfil its supply obligations in the UK by other means.

The side letter, which relates specifically to the claw-back arrangements, is accordingly directed at BP's ability to meet its supply commitments in Europe and is drawn up in a form which both BP and we believe is likely to provide the best defence, namely that we have satisfied ourselves that BP would expect to be able to continue to meet their European commitments. This is the point on which we agreed in our correspondence at the end of January. But as I made clear then, this whole agreement is conditional upon the extra oil at BP's disposal which is the subject of the bilateral agreement with Government in the last resort being available to meet UK needs in a supply crisis. We have agreed to consult before this ultimate right is exercised.

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I do sympathise with your views about the elaboration of Government involvement in the new arrangements negotiated with BP, but there is as you say no alternative if we are to be certain that we shall be in a position to act effectively and quickly to protect UK interests in any supply crisis. It would not make sense to have an agreement in general terms, only to find in a crisis that further time consuming negotiation and definition was required before it could be brought into operation. Our preferred solution of an agreement which would have given BNOC an unqualified right to terminate supply, leaving the circumstances undefined, was simply not negotiable in the event.

As I made clear in my letter of 26th March I believe the arrangements as negotiated meet our objectives and are generally in accordance with the Attorney General's advice. I accordingly propose to authorise my officials to proceed on the basis of the agreements as drafted.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, other members of OD(E), the Attorney General and Sir Robert Armstrong.

D A R Howell

*Yours**Dair*

APR 3 1980

