



Craxi
Zaffer

Foreign and Commonwealth Office
London SW1

28 March 1980

Thomson

Mr David,

BP/BNOC OIL SALES

Thank you for sending me a copy of your letter of 26 March to the Chancellor with which you enclosed the detailed contractual provisions for implementing the new oil supply arrangements between BNOC and BP.

I am concerned that the arrangements as they now stand do not incorporate some of the basic features which we agreed would be essential if the risk of legal challenge from the Community were to be minimised. I accept the proposals for ringfencing. But the provisions for clawback do not entirely correspond with what we agreed in our correspondence earlier this year. In particular, we agreed that the right to terminate supplies from BNOC to BP would be so exercised as not to affect UKCS crude supplies from BP to their affiliates in EC countries or to other EC destinations; and that this should be put on record informally either in a letter from BP to the Department of Energy or from BNOC to BP. The draft of the side letter from BP which purports to do this does not in fact seem to address itself to what the company would do if clawback were triggered. It merely states

/that

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

that in a period of supply difficulties BP would endeavour to maintain supplies to its Community affiliates while at the same time trying to supply the nominated UK companies. It does not state what the company would do if it were unable to supply the nominated UK companies and if you were therefore forced to trigger the clawback provisions. This undermines the basis for our agreement to the concept of clawback in the new arrangements : namely that it should only be exercised if it did not restrict supplies of UKCS oil to BP affiliates in EC countries or other flows of UKCS oil from BP to EC destinations. (This latter element does not appear at all in the side letter.) My view is that BP's side letter should be amended to make this point absolutely clear.

It is unfortunate that the proposed agreement between yourself and BP on the operation of clawback brings the Government so much into the centre of these new arrangements. It had always been our objective to keep the Government involvement to a minimum and to reduce the potential target which we offer to our EC partners. I accept, however, that there may be no alternative. Nevertheless it does make it all the more unfortunate that the agreement is so explicit about the circumstances in which clawback would be invoked. This is contrary to our original intention (OD(E)(79)43) and to Michael Havers' advice in his letter of 10 December. I would be grateful if you could arrange for this aspect of the agreement to be amended so as to refer to the issue in more general terms.

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

your ✓
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