

Confidential filing

The future of BIOC

Proposed Sale of BP assets  
Continental short  
Petroleum and ~~Submarine Pipelines~~ Bill

309.

ENERGY

Part 1: July 1979

Part 4: July 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>8.7.80</del>		<del>4.2.81</del>					
<del>9.7.81</del>		<del>4.3.81</del>					
<del>14.7.80.</del>		<del>23-3-81</del>					
<del>24.7.80</del>		<del>14.5.81</del>					
<del>7-8-80</del>		<del>18.5.81</del>					
<del>4.8.80</del>		<del>22.5.81</del>					
<del>9.9.80</del>		<del>4.6.81</del>					
<del>15.9.80.</del>		<del>5.7.81</del>					
<del>18.9.80</del>		<del>30.7.81</del>					
<del>26.9.80</del>		<del>3.8.81</del>					
<del>2.10.80</del>		<del>14.10.81</del>					
<del>9.10.80</del>		<del>21.10.81</del>					
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<del>31.12.81</del>							
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PREM 19/453

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DO NOT DEL.

~~ENDS~~

● PART 4 ends:-

s/s Energy to ch of Ex of 22/12/87

PART 5 begins:-

s/s Energy to ch of Ex of 14/1/82



TO BE RETAINED AS TOP ENCLOSURE

**Cabinet / Cabinet Committee Documents**

Reference	Date
E(80) 80	30/07/80
E(80) 29 <sup>th</sup> Meeting, Item 3	04/08/80
E(80) 95	05/09/80
E(80) 32 <sup>nd</sup> Meeting, <i>Minute 2</i>	10/09/80
E(80) 98	10/09/80
E(80) 33 <sup>rd</sup> Meeting, Minute 3 (Extract)	15/09/80
E(80) 142	11/12/80
E(80) 149	12/12/80
E(80) 44 <sup>th</sup> Meeting, Item 2	16/12/80
L(81) 13	29/01/81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed *Wayland*

Date *31 March 2011*

**PREM Records Team**

## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Green Paper  
Petroleum and Continental Shelf Bill

29/01/81

Signed Wayland Date 31 March 2011

**PREM Records Team**



Energy

A. Duquid

J. Verket.

Prime Minister

2

I find this a

very obscure letter.

Mus 23/12

01-211 6402

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

22 December 1981

Stan Smith

ms

BNOG PARTICIPATION IN METHANE AND NATURAL GAS LIQUIDS

We need to settle urgently the question of future BNOG participation in the gas streams from the UK continental shelf, both so that I can be in a position to say something about this if necessary in the course of the second reading of the Oil and Gas (Enterprise) Bill next month, and so that operational decisions can be taken on particular options whose exercise falls due within the next few weeks.

/with

The approach hitherto has been to allow BNOG to participate in the gas streams to the maximum extent the various participation agreements allow. Last winter, Hamish Gray announced that the Government would not stand in the way of participation in those streams falling within the ambit of the then projected integrated gas-gathering pipeline; but more recently he concluded, in accepting Leon Brittan's concurrence the renewal of certain liquid petroleum gas (LPG) options, that in future such options should only be exercised cautiously and gradually, where this seemed likely to be in the national interest.

I believe we now need to take a fresh overall view on this issue in the light of the latest developments. Accordingly, my officials, in consultation with their counterparts in the Treasury, the Department of Industry, the Scottish Office, Inland Revenue and the CPRS, have prepared the attached paper, which examines the position in respect of each of the main gas streams - methane, ethane and LPGs. The starting point has been that we should avoid compulsory public sector intervention, through participation, in the markets for the various gas streams unless this can be shown (as it can in the case of crude oil) to achieve some public policy objective. The conclusions of the paper, which I endorse are:

- (i) there should be no question of BNOG participating in methane;



- (ii) BNOC should not participate in ethane streams coming ashore before 1988, since this would risk getting in the way of desirable petrochemical developments; and
- (iii) there would seem to be no advantage in exercising further options in LPGs for the time being. But the market is changing rapidly, and it would be appropriate for participation rights to be negotiated in new LPG streams even though we would not expect that it would be desirable to exercise the options for some years. To the extent that BNOC see opportunity for profitable sales of LPGs, or for advantageous exchanges of LPGs for crude oil, it would be better, and less risky, for the Corporation to secure the material needed through market purchases rather than through the machinery of participation. We will, however, need to keep this under regular review.

Yn <sup>Gr</sup>  
Nigel

NIGEL LAWSON





*fein*  
*Energy*

10 DOWNING STREET

*From the Private Secretary*

21 December 1981

NORTH SEA OIL BONDS

Many thanks for your letter of 17 December about the Economic Secretary's written answer to Mr. Skeet of 17 December.

I showed this to the Prime Minister over the weekend who read it without comment.

M. C. SCHOLAR

Miss Carolyn Jutsum,  
Private Secretary to the  
Economic Secretary to  
the Treasury.

*A*



Prime Minister

2

MUS 17/12

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq  
10 Downing Street  
LONDON  
SW1



17 December 1981

Dear Michael

NORTH SEA OIL BONDS

You will wish to be aware that the Economic Secretary will announce that we are not after all to proceed with these bonds, when he gives a Written Answer to a Parliamentary Question from Mr Skeet this afternoon. Please find attached the text of the Question, which happened to appear on the Order Paper at a convenient moment, and the reply which will be given. This announcement has been agreed with the Secretary of State for Energy and as the announcement makes clear it follows from the decision to proceed with the offer of shares in BNOC's oil producing business.

Yours sincerely

Cashlyn Tutsum

C H JUTSUM  
Private Secretary



MR TREVOR SKEET: To ask the Secretary of State for Energy, whether he proposes to proceed with the sale of North Sea Oil Savings Bonds announced by the former Secretary of State for Energy in the Official Report of 3 November 1980, columns 947-8.

MR JOCK BRUCE-GARDYNE

I have been asked to reply. In view of the plans which my Rt. Hon. Friend the Secretary of State for Energy has announced to offer shares in the British National Oil Corporation's oil producing business directly to the public through the measures proposed in the Oil and Gas (Enterprise) Bill published today, I have decided there is now no need to proceed with the National Savings Instrument of North Sea Oil Bonds previously envisaged.

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Energy  
VUB

21 October 1981

Transfer of BP Shares  
From the Bank to the Treasury

The Prime Minister has seen and noted the Chancellor's minute of 19 October, recording his decision to transfer as quickly as practicable the Bank's holding of some 311 million BP Shares.

I am sending copies of this letter to the Private Secretaries to the Home Secretary, the Foreign and Commonwealth Secretary, the Secretary of State for Energy, the Attorney General, and Sir Robert Armstrong.

M. C. SCHOLAR

John Kerr, Esq.,  
H.M. Treasury.

CONFIDENTIAL

JFA



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cc Alan Walters  
Bernard Ingham



Prime Minister

To note.

MCs 19/10

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

A handwritten signature in blue ink, appearing to be 'M. S.', written over the typed address.

TRANSFER OF BP SHARES FROM THE BANK TO THE TREASURY

Now that Burmah have announced that they do not intend to appeal against the High Court judgement in favour of the Bank of England, I have decided, in agreement with the Bank, to transfer to the Treasury as quickly as practicable the Bank's holding of some 311m BP shares.

2. I plan to announce my intention as soon as Parliament returns, by means of an inspired Written Question. This should be no surprise, since we have made clear, for example most recently in the offer document for the BP rights issue, that it was the intention to transfer the shares in due course. The actual transfer cannot take place before the approval of a Winter Supplementary Estimate for the purchase of the shares. But an early announcement will help to show that the transfer is only a logical tidying up of business between the Government and the Bank, now that the legal case is out of the way. If the announcement were delayed until later in the year, it could lead to speculation about a further BP share sale, with adverse stock market effects. The Estimate will need to provide the Treasury with funds to pay the Bank a sum equivalent to the shares' stock market valuation in order to maintain the statutory backing for the note issue, together with associated stamp duty. The amount of the Estimate will be around £1bn depending on stock market prices. The payments will be transfers between Central Government accounts. They will not affect the CGBR or the PSBR and will have no monetary effects.

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3. I am sending copies of this minute to Willie Whitelaw, Peter Carrington, Nigel Lawson, Michael Havers and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be "G.H." with a flourish.

(G.H.)

19 October 1981





Top copy  
Parliament, Pt 8  
Legislation

FROM THE LEADER OF THE HOUSE  
HOUSE OF LORDS

✓ 14/10  
Energy

14 October 1981

Dear Francis,

I have seen your letter to Nigel Lawson of 9 October and also the earlier correspondence on the parliamentary handling of next session's legislation on gas and BNOC.

Despite the advantages of merging the legislation into a composite Bill, I entirely agree with you that if such a Bill is not ready until January, the chances of achieving Royal Assent by July are slim. Our experience this session clearly suggests that unless the Lords can receive a major Bill by the Whitsun recess, its final stages will have to be completed in a spillover period.

As you know, I should regard it as very difficult to persuade the Lords to return more than one week earlier than the Commons next October. The House has now sat for five complete weeks without the Commons in just over a year and to impose a third consecutive burden on them next session would be unprecedented, at least in recent years. I hope you will agree that this is a point which must be borne in mind in any discussions about the shape of the legislation programme for 1981-82.

I am sending copies of this letter to the recipients of yours of 9 October.

Yours sincerely  
Baroness Young

BARONESS YOUNG

The Rt Hon Francis Pym MC, MP  
Lord President of the Council



Top Copy: Pathanet  
Legislation Pt 8.

PRIME MINISTER

CONFIDENTIAL

cc Mr Hoskyns  
Mr Howe

Mr Lawson seeks your authority for the line he would like to take at the Conference on energy policy. Cecil Parkinson has assured him that energy will be one of the balloted motions.

He wants to centre on the privatisation moves in oil and gas. As a residual point, he would like to make it clear that the gas showrooms issue would have to wait longer, because there will not be time for the necessary safety legislation in the coming session.

Mr. Lawson has consciously not copied his minute to Mrs. Oppenheim or Mr. Biffen. I am told that he wanted to persuade Mrs. Oppenheim of the case for handling matters this way before showing her how he proposed to put it to you, but he was unable to contact her yesterday because of Yom Kippur. He intends to speak to her today. In Mr. Lawson's view, the prime objective is to avoid a gas strike, and he believes this presentation will do so.

There have been a number of exchanges over the showroom legislation point while you have been away. The papers are elsewhere in the weekend box, with a report on the legislative programme as a whole. You may want to look at those before agreeing to Mr. Lawson's proposal. If you are then content with what he has in mind, would you like to agree subject to Trade Ministers and the Employment Secretary concurring?

---

Yes and

MJD

9 October 1981

CONFIDENTIAL



*eg A. H. ...*

Top copy:  
Parliament, Legislation, p 8.

CONFIDENTIAL

PRIME MINISTER

I understand from Cecil Parkinson that one of the two balloted motions for debate at the Party Conference will be on the Government's energy pricing policy. On the scheduled programme, of course, there is no Energy debate at all.

While I will defend our policies to their best advantage, this can only be a damage limitation exercise - and the damage caused by an energy price debate, however limited, would still be considerable.

There is, however, one way out of this predicament. That would be for me to broaden out the debate and to unveil the privatisation and monopoly-breaking moves on the oil and gas front on which we have decided - particularly those agreed at Cabinet on 24 September. These will be warmly welcomed by the Conference and give encouragement to our supporters. There is also a clear connection between the BGC monopoly and the energy price problem.

At the same time, I think I should make it clear that, partly in consequence of this, we will have to delay action on BGC's gas showrooms since there will not be time for the necessary safety legislation in the coming Session. Provided we make it clear that we still intend as soon as practicable to deal with the problem of the BGC retail monopoly, I believe that all this can be presented as a single coherent package which our supporters will accept as a whole, rather than as a climbdown in the face of union pressure - which is how the showroom decision, on its own, would inevitably be interpreted.

In this context Norman Tebbit has already written to me suggesting that against the mounting volume of threatening noises from the

/unions.....

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unions about an all-out strike, it is important that we should make an early statement of our new position on the gas showrooms. I believe that the approach I am proposing will meet Norman's concern, and do so in the way that is least damaging to the Government.

I should be most grateful for your agreement to the course I am proposing.

I am sending a copy of this minute to the Home Secretary, the Lord President of the Council, the Chancellor of the Duchy of Lancaster and the Paymaster General.

NR.

Secretary of State for Energy

8 October 1981



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Energy



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Mike Pattison Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
Whitehall  
LONDON SW1

3 August 1981

Dear Mike

BNOC: SALE OF SHARES

24/8

The Chancellor sent to my Secretary of State a copy of his minute to the Prime Minister of 24 July about the proposal by the Secretary of State for Energy to privatise BNOC's oil producing business.

While, as the Chancellor suggests, there may be the possibility of a clash with the flotation of the British Transport Docks Board this is a matter we can only address when we are clearer on the likely date of sale of BTDB. In the meantime it would be helpful if the Department could be kept in touch with BNOC developments.

I am sending copies of this letter to the Private Secretaries to the recipients of the Chancellor's minute.

C R EDWARDS  
Private Secretary

CONFIDENTIAL

cc: EN  
DOE  
MOD  
HMT (Ch Sec)  
TRADE  
MAFF  
EMP  
LPO  
IND  
HMT  
FCO  
HO  
CO  
Robin Ibbs, CO



file

HS.

10 DOWNING STREET

*From the Private Secretary*

30 July 1981

BNOC: sale of shares

The Prime Minister has now considered your Secretary of State's recent minute in which he sets out his plans to privatise the oil producing business of BNOC. She has also seen the Chancellor of the Exchequer's minute of 24 July, the Secretary of State for Industry's minute of 24 July and the Foreign and Commonwealth Secretary's minute of 27 July.

The Prime Minister has asked me to say that, for her part, she is content for Mr. Howell to proceed on the lines he proposes.

I am sending copies of this letter to the Private Secretaries to the members of E Committee and to David Wright (Cabinet Office) and Robin Ibbs (Central Policy Review Staff).

T. P. LANKESTER

J.D. West, Esq.,  
Department of Energy.

BK.





FCS/81/99

SECRETARY OF STATE FOR ENERGY

BNOC: Sale of Shares

1. You sent me a copy of your recent minute to the Prime Minister about your plans for the privatisation of BNOC. You know from our earlier discussions my worry that the separation of the operating and trading activities of BNOC might draw attention to some of its activities liable to challenge under Community law. We shall need to look carefully at the details so as to minimise that risk. Otherwise I am broadly content with what you propose, subject to the two points below.
  
2. First, in paragraph 12 of your memorandum you refer to the need to protect the proposed BNSO against unacceptable changes in control which might prejudice its character as an independent British oil company. I entirely sympathise with this aim, but we must be sure that the means chosen to fulfil it are in conformity with our Community obligations. You refer to advice received from merchant bankers that the necessary safeguards can be secured without infringing our international obligations; I assume that this is also the view of your own Legal Advisers. When it comes to the drafting stage, I shall wish FCO Legal Advisers to be involved in consideration of the language on this point in BNSO's Articles of Association. I would also suggest that we need to be cautious in Parliamentary statements or answers about this aspect of BNSO. We shall need to tread carefully between giving Parliament the assurance (which will undoubtedly be sought) that BNSO will remain under British control: and running the risk of provoking complaints, and possible legal challenge, that what we are doing discriminates against other EC nationals.





3. Secondly I see there is now some doubt that privatisation could take place in the lifetime of the present Parliament, if the separation of BNOC's upstream business is to be the subject of negotiations with BNOC's partners. You propose instead to empower BNOC to make a statutory vesting of those interests thereby cutting our negotiations with BNOC's partners. I accept your advice that this is probably inevitable, but again I should like to be sure that you have given due consideration to the possibility of hostile reaction, particularly from the foreign companies which have entered into participation agreements with BNOC.

4. I am sending copies of this minute to our colleagues on E Committee, and to Sir Robert Armstrong and Mr Ibbs.

A handwritten signature consisting of a large, stylized letter 'C' with a diagonal stroke underneath it.

(CARRINGTON)

Foreign and Commonwealth Office  
27 July 1981





Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

BNOC: SALE OF SHARES

I have seen David Howell's recent minute to you proposing that we should press ahead with plans to privatise BNOC's oil-producing business. I too believe that the time is ripe for a decisive step in this direction. Not only is there a strong political case for action, but I am convinced that if BNOC's oil producing business is to prosper, it is more likely to be able to do so in the private sector.

2. BNOC's oil-producing business is in an anomalous position in the public sector: now that the Corporation is established, there is evidence that it is finding it hard to form coherent and convincing corporate objectives. The Corporation would benefit from the financial discipline of exposure to the private market, in place of the administrative and bureaucratic constraints of the public sector. I share David's view that, but for the present Corporation's oil trading business, there is no convincing role for BNOC's oil-producing business in the North Sea which requires it to remain in the public sector. I therefore fully agree with the intentions of his memorandum, that he should be ready to present fully thought-through proposals to the House when the re-introduced Petroleum and Continental Shelf Bill is given a Second Reading next Session.

3. Against this background, I am broadly content with the approach to privatisation set out in the memorandum attached to David's minute. There is clearly much work to be done, and my officials will continue to be associated with the working up of the proposals including questions of timing. There will doubtless be questions which David and I will want to look at further together as the proposals are developed,





but there are one or two points which I should like to make at this stage.

4. The memorandum makes it clear that the privatised company, BNSO, should be "moved right out of the public sector and the PSBR, by selling a majority of shares and by making it clear from the outset that it will be free from Government control". I fully endorse that objective. But with nearly half the shares held at the outset by the public sector, acceptance of BNSO as a private sector firm will depend on acceptance that it was not being controlled by its principal shareholder - whether that was the Government or BNOC. Unless such independence can be established, it would be necessary to consider BNSO as a public sector company. I therefore favour a firm commitment to disposing of substantially more than 51 per cent of BNSO, and reducing to a minimum the public sector's role in the Company, even if market conditions did not permit a larger initial disposal. There would need to be clear statements in the House, and ultimately in the prospectus, about the way in which the residual shareholding would be used. We should need to demonstrate that the Boards of the Company and Corporation were truly independent of each other (ruling out for example, the Chairman of either being a member of the other). These measures together with a declaration at the outset that we intend to reduce the public sector shareholding well before 49 per cent would provide the market with the reassurance that BNSO was a private sector company.

5. I am content to leave for later consideration the question of who holds the residual shareholding to BNSO. But the arguments for the Government holding the shares should not be overlooked. It is quite as important that BNSO should be independent of BNOC as to be independent of Government: the rest of the oil sector would after all be rightly concerned if there was any question of BNSO having undue inflation with BNOC, and therefore over the disposition of royalty and



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participation oil. A statement that the Government as shareholder did not intend to use its shareholding to control the company or intervene in day to day commercial decisions might be more convincing than one by the Corporation in equivalent circumstances. I should incidentally also wish to reflect further on the need for Government-or BNOC - nominated directors on BNSO.

6. I note that it is now proposed to transfer the relevant assets of BNOC to BNSO through a statutory vesting power. I see the advantages that this holds, in avoiding protracted negotiations with BNOC's partners. The absence of such negotiations should not, however, encourage us to pass on to BNSO assets which we know their private sector competitors would regard as appropriate only to a public sector oil corporation. For example, even had we not already decided that it was appropriate to retain the participation agreements within the public sector because of the benefits they bring to national security of supply, I doubt whether it would have been appropriate to pass these obligations, through a vesting power, to BNSO - in effect giving one private sector company disproportionate rights over the assets of the rest of the oil sector. There may be other similar rights and privileges which it would not be appropriate to pass through to BNSO in this way.

7. Another question which I should like to see explored more fully before accepting it is the concept that BNSO should retain the character of a "flagship" national oil company. If we are to put BNOC's upstream operation firmly into the private sector as an independent British oil company, free of Government obligations or intervention, there is surely no question of the Government automatically discriminating in favour of BNSO in relations with overseas Government, in preference say to BP?

8. Lastly, it is important to ensure that the oil trading

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Corporation which remains in the public sector is fully viable. As we know from recent experience over North Sea price levels, the rump oil trading Corporation will face a difficult task, without the financial and other resources of the upstream operation behind it. I am conscious that individuals in the present Corporation may tend to identify with BNSO, both in terms of the advice they give during the coming months, and in terms of individual careers. Careful separate consideration will clearly need to be given to the obligations, resources and financial structure of the remaining Corporation.

9. I have mentioned a number of points which we see needing careful thought over the coming months. But I would not expect overwhelming difficulties to emerge, and none of my comments detract from my view that it is now time to end the uncertainty over BNOC's future and proceed broadly on the lines proposed in David Howell's minute.

10. I am sending copies of this minute to other members of E Committee, to Sir Robert Armstrong, and with a copy of David Howell's to Norman Fowler since the prospect of a BNSO launch next year could have an impact on the timing of his privatisation measures.

(G.H.)

24 July 1981





2 pps B

PRIME MINISTER

BNOC: SALE OF SHARES

I have seen a copy of David Howell's minute to you about his plans to privatise the oil-producing business of the British National Oil Corporation. I strongly support these proposals which will make a significant contribution to our general initiative on privatisation.

I am copying this letter to other members of E Committee, Sir Robert Armstrong and Mr Robin Ibbs.

KJ

K J

24 July 1981

Department of Industry  
Ashdown House  
123 Victoria Street

Either

(I)

1st June, 1982

Effective date for implementation of Scheme.

June, 1982

Underwriting of Offer for Sale.

Offer for Sale of 51 per cent of ordinary share capital of the Company payable in two instalments, the first on application and the second later in 1982.

Autumn 1982

Second instalment payable.

Or If June proves impracticable; then

(II)

30th June, 1982

Balance sheet date for Accountants' Report.

1st July, 1982

Effective date for implementation of Scheme.

By mid August, 1982

Updated Accountants' Report available based on 30th June 1982 balance sheet.

By 31st August, 1982

Prospectus in advance draft.

Autumn 1982

Underwriting of Offer for Sale.

Offer for Sale of 51 per cent of ordinary share capital of the Company payable in two instalments, the first on application and the second early in 1983.

Early 1983

Second instalment payable.

Note: If Royal Assent is received later than March 1982, an offer for sale in June 1982 would probably be ruled out.

15 July 1981





DEPARTMENT OF ENERGY  
Thames House South  
Millbank  
London SW1P 4QJ

Tel: Direct Line: 01-211  
Switchboard: 01-211 3000

Pl attach to letter 16 July  
David Howell → P.M.

BNOC PRIVATISATION

*With the Compliments of*

the

Secretary of State



CONFIDENTIAL

develop and expand both here and overseas in the interests of Britain. The Corporation itself will remain a public sector body but its business will be greatly narrowed down to trading in participation and royalty oil. For background on BNOC see Annex A.

5. We do not need to decide the name of the privatised subsidiary at this stage, but for the purposes of explaining my proposals below I use the title British North Sea Oil (BNSO).

6. I would like to see this privatised company, BNSO, moved right out of the public sector and the PSBR, by selling a majority of shares and by making it clear from the outset that it will be free from Government control. This will no doubt provoke the Opposition. But I can see no role for BNOC's oil-producing business in the North Sea which requires it to remain in the public sector. It would be much better to give it independence.

7. The disposal should be limited to 51 per cent of BNSO's share capital in the first instance. BNOC's merchant bankers advise that an issue of this size should be capable of being sub-underwritten in the UK market but that it approaches the likely maximum capacity of that market. We should however make it clear that there is a prospect of our selling further tranches later on.

8. In arranging the flotation the aim will be to achieve a wide spread of ownership. Preference will be given to small investors and employees in the allocation of shares.

9. The residual shareholding in BNSO could be held by BNOC or myself. Decisions are not needed now but I am inclined to favour BNOC to emphasise the lack of Government involvement in the Company.

#### RELATIONS WITH THE COMPANY

10. The new Company's relationship with the Government and BNOC will need to be settled in a number of areas.

11. First, BNOC should acquire the normal 51 per cent option over BNSO's oil so as to put it on the same footing as other independent oil companies covered

CONFIDENTIAL





Energy  
(can it be dealt  
in

10 DOWNING STREET

Prime Minister

correspondence?  
not.

You asked why

Mr Howell needs to

come back to E They  
with a paper on will  
try.

BNOC. He needs

clearance from colleagues.

for his proposal to 67

sett of the up-stream  
part. This has been cleared

with you and in general terms  
with the Chancellor, but not  
with others. A short discussion should  
be sufficient. Contact 2



Prime Minister.

Geoffrey

Would you like to  
discuss this with the  
Chancellor and Mr. Howell?

PERSONAL AND CONFIDENTIAL

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

I agree with  
D.H. MS.

J.P.S.  
H.V.

14 May 1981

PRIVATISATION OF BIOC

The time is ripe in my view for a decisive step towards the privatisation of BIOC.

The Party wants it. The legislation is drawn up and ready and has a firm slot early in the next Session. The Chairman of BIOC is anxious to go this way and tells me that many of his staff feel the same. It fits squarely into our wider strategy.

I have been thinking further how we should proceed. I would like to see the upstream organisation right out of the public sector, and therefore away from the PSBR, but with a substantial Government stake, say 49%, with some rights reserved to Government and possibly with a couple of Government directors on the Board of the new company.

I would want the company to be proof in practical terms against predators and in particular against passing under foreign control (which I currently believe can be ensured without coming up against the Treaty of Rome albeit at some cost through the share valuation), and to retain as far as possible certain "flagship" qualities, which the Chairman believes would be ensured by the Company's origins, name and large Government interest. (In dealing with certain countries, eg the USA, one in fact needs to play this the other way and emphasise its private sector nature).

I believe these objections can be achieved, though a special effort will be needed to demonstrate this publicly. The part of the Corporation which deals with the participation agreements, the trading component, should stay in the public sector. That involves about 60 people out of the total BIOC staff of some 1900. Philip Shelbourne sees no difficulty in this operating as a separate Government entity. The major part of the Corporation would form a new oil



company, British National Oil, and 51% would be put on sale.

As well as attracting support in our party, this scheme will of course arouse strong feelings amongst the Opposition and perhaps some public concern. There will be talk of loss of "control" of UK oil. But since I propose retaining the participation agreements our present degree of security will be little affected. Assuming that the new company has a participation agreement like other oil companies then it is only the other half of its equity oil (about 4m tonnes a year) which will pass out of the kind of Government control under which it is at present deemed to be. But this too will be criticised. There will also be ill-founded criticisms of the loss of the Corporation's revenue to the Exchequer and the loss of a state body to undertake uncommercial activities "in the national interest". We will be accused by opponents of "selling off" a national asset.

Against all this, there will be a large capital sum for Exchequer, reducing the PSBR and therefore having its own earning power. There will be wider general public ownership. And in particular, there will be a lively British oil company, relatively small by multi-national standards still, but with excellent prospects and freedom to develop and expand both here and overseas to the benefit of Britain. There is in fact no doubt in my mind that those who are genuinely interested in the future health and viability of BNOC as a business support the present Chairman's view that it will only prosper outside the public sector.

There is no point in my proceeding with the final work on this scheme and putting officials, bankers, BNOC staff, and, indeed, colleagues, through the hoop again, unless Cabinet is likely to give it firm support. In particular I do need and value your own commitment to a privatisation measure of this kind.

If your reaction is clearly positive I will tell my officials to complete work swiftly, to clear it with your officials, and present a detailed scheme. In taking the already prepared BNOC legislation through Parliament in the next Session I would then indicate that we had now settled on a scheme, the sale to occur as soon after Royal Assent as market conditions allowed.

I would be extremely grateful for your early personal comments. In view of the nature of this letter I am of course not copying it around. But I am sending a copy to Margaret.

Yours ever

David  
- 2



THURSDAY 18 JUNE 1981

TREASURY

C - Lincoln

No 151 MR KENNETH CARLISLE: To ask  
Mr Chancellor of the Exchequer, if he will make a statement about  
expected proceeds from the sale of public sector assets.

MR NIGEL LAWSON

The British Petroleum Company Ltd has announced today a rights issue to raise £624 million. It would have cost the Government and the Bank of England together some £280 million to subscribe for the rights in respect of their shareholdings in the Company. This expenditure could not have been justified at a time when the Government is giving priority to containing public expenditure and the public sector borrowing requirement. The Government and the Bank are therefore not taking up their rights.

In order to provide for the disposal of the Government and the Bank's rights in an orderly manner, shares which would otherwise have been offered to the Government and the Bank will, subject to an additional payment of 15p per share, be offered to the Company's other shareholders and the participants in their Group share schemes for employees.



This offer has been underwritten and the additional payment will produce net proceeds of some £14 million, which will be collected by the Company on behalf of the Government and the Bank.

The Company's offering circular for the rights issue records that, while HMG's policy of selling publicly-owned assets to the private sector is regularly reviewed, HMG has no plans at this stage to sell any more of its present holding in the Company and will not do so in the financial year ending 31 March 1982, nor does the Bank of England have any plans to sell, other than to HMG, any of the shares in BP representing the holding acquired by the Bank in 1975 from Burmah, which acquisition is currently the subject of litigation. The offering circular also records the Government's re-affirmation of its intention to maintain its relationship with BP in a way which does not breach the traditional practice of non-intervention in the administration of BP as a commercial concern.

An Estimate for a token amount will be presented to the House in due course to provide for the Government's expenses of the sale. The net receipts from the additional payments will be credited to the public sector asset disposals programme. The Government stated in the Public Expenditure White Paper (Cmnd 8175) that sales planned for 1981-82 were expected to yield some £500 million in outturn prices.



SECRET



5 A

Treasury Chambers, Parliament Street, SW1P 3AG

T Lankester Esq  
Private Secretary  
to the Prime Minister  
No. 10 Downing Street  
LONDON  
SW1

17 June 1981

Dear Tom,

BP RIGHTS ISSUE - BRIEFING FOR PRIME MINISTER'S QUESTIONS, 18 JUNE

As the Prime Minister is aware, BP plan a rights issue to be announced on the morning of Thursday 18 June. In case the matter is raised in the House during the Prime Minister's Questions that day, you may wish to have the attached material.

The line to take is based on a Written Answer being given by the Financial Secretary before the Prime Minister's Questions. We shall notify you urgently if matters develop so that the answer is not in fact to be given until later in the afternoon, in which case we shall provide an alternative line to take.

BP will announce the rights issue and indicate that the Government and Bank are not taking up their rights at 9.30 on Thursday morning. Opposition MPs will therefore have had time to think up questions, eg criticising the Government and the Bank for not taking up their rights and so diluting the Government's shareholding in the Company. much. The Financial Secretary hopes that the Prime Minister will be able to avoid discussion of these matters during Questions since threats from individual Opposition members eg to "renationalise" the shares sold, would obviously not be helpful to the success of the issue. It is also relevant that the underwriting and subunderwriting operations may not be finally concluded until later in the afternoon.

The Financial Secretary therefore suggests that the Prime Minister deflects questioning by reference to his answer, which has been cleared in detail with BP and the lawyers.

The missing figures in the attached brief depend on the exact details of the issue, which have yet to be finalised. I shall telephone them through to you on Thursday morning.



SECRET

The attached material and this letter should be treated on the strictest "need to know" basis until after the announcement of the issue. ~~\_\_\_\_\_~~

~~\_\_\_\_\_~~  
Yours,

David Willetts

D L WILLETTS  
Private Secretary



## BP RIGHTS ISSUE - LINE TO TAKE

Why is the Government not taking up its rights?

In answer to a question today, my Hon Friend the Financial Secretary to the Treasury said that it would have cost the Government and the Bank of England together some £[280]m to subscribe for the rights in respect of their shareholdings in the British Petroleum Company Ltd. This expenditure could not have been justified at a time when the Government is giving priority to containing public expenditure and the public sector borrowing requirement. The Government and the Bank are therefore not taking up their rights.

Does this change the Government's relationship with BP?

No. The Company's offering circular to shareholders records the Government's re-affirmation of its intention to maintain its relationship with BP in a way which does not breach the traditional practice of non-intervention in the administration of BP as a commercial concern.

Does the fact that the Government's voting strength moves below 25 per cent threaten the Government's control over BP?

The Government does not control BP. The slight reduction in the Government's shareholding is unlikely to make any practical difference.

Does the Bank's not taking up their rights have any implication for the litigation with Burmah?

I shall draw the Hon Member's question to <sup>the attention of</sup> my Rt Hon Friend the Chancellor of the Exchequer whom I have asked to handle this matter for the Government, in view of Mr Thatcher's connections with the Company.



Does the decision not to subscribe show a lack of confidence in BP's future?

The reason the Government and Bank are not taking up their rights is the need to contain public expenditure and the PSBR. This is no reflection on the future prospects of the Company.

/NB Important not to seem to give advice to other shareholders one way or the other about subscription for the issue. 7



## BP RIGHTS ISSUE - BACKGROUND

Thursday 18 June is the impact day for BP's rights issue to raise £[624]m. The press statement from the Company, announcing the size and price of the issue and the fact that the Government and the Bank will not be taking up their rights, will be released at 9:30 am. The Financial Secretary will answer an arranged PQ on the afternoon of 18 June (before Prime Minister's Questions) setting out the Government's and Bank of England's involvement in the issue. His answer [a copy of which is attached] explains that the Government and the Bank are not subscribing because of the public expenditure cost of doing so. It explains that arrangements have been made with BP to arrange for the disposal of these rights in an orderly manner, bringing in additional payments amounting to some £[14]m<sup>(net)</sup> to the Government and Bank. It includes guarded wording on the Government's future intentions regarding sale of BP shares, and a re-affirmation of the Government's traditional relationship with the Company.

2. The Financial Secretary's answer has been carefully drafted between the Treasury, the Bank and BP, and their respective lawyers, and reflects statements in the BP offer documents. The fact of non-participation will bring the Government share of Ordinary voting capital to around 22 per cent, from almost exactly 25 per cent. It may be suggested that this reduces the Government's control over the Company, since the power to appoint directors and their power of veto are enshrined in the Company's Articles of Association, which can be amended by 75 per cent majority on a special resolution. This is highly hypothetical; for the present, the Government's effective voting strength is above 25 per cent, since under an agreement with the Take Over Panel the Bank's shareholding will not be voted.

Since the blocking percentage is <sup>in any event</sup> 25 per cent of the votes actually cast, and it is most unlikely that all shareholders other than the Government would ever be mobilised on a special resolution, a percentage some way below 25 per cent should be reasonably secure, even if the Bank did not have its shareholding.



CEA David  
A. White  
J. Jones



Prime Minister Energy 1

MBOM 24  
D  
17/1

You have already agreed  
in principle to these proposals.  
The Chancellor, <sup>Flag A Foreign Secy (C)</sup> and <sup>Flag B</sup> Sir Keith  
also support them, though the  
Chancellor <sup>and Foreign Secy</sup> have a few caveats.  
Can I tell other members of E that

PRIME MINISTER

BNOG: SALE OF SHARES

As you know, I believe the time is ripe to press ahead with plans to <sup>you are content</sup>  
privatise the oil-producing business of the British National Oil Corporation for  
(BNOG).

Yes Mr  
Mr Hume  
to proceed?

It fits squarely into our wider strategy. There is a strong political demand  
for it. We have the full co-operation of the Chairman of BNOG, Mr Shelbourne.

I attach a memorandum seeking colleagues' agreement to my proposals and to  
an announcement of our intentions when the Petroleum and Continental Shelf  
Bill to which we are committed as a high priority is given a Second Reading  
next Session.

D  
27/17

I understand that you would like this matter, which we have already discussed  
thoroughly on a number of occasions, to be cleared by correspondence out of  
Committee.

I am accordingly circulating this minute and my memorandum to other members of  
E Committee, Sir Robert Armstrong and Mr Robin Ibbs, and would be grateful for  
early approval of my proposals. The timetable for this major exercise is very  
tight.

OK  
2

Secretary of State for Energy  
July 1981



MEMORANDUM BY THE SECRETARY OF STATE FOR ENERGY

BNOC: SALE OF SHARES

1. I propose that we should press ahead with plans to privatise the oil-producing business of the British National Oil Corporation(BNOC).

DECISIONS SO FAR

2. We have already decided:

a. that BNOC's oil-trading activities should remain in the public sector: E(79) 6th meeting. Its participation agreements with oil companies, which give access to 51 per cent of North Sea oil, are essential to our policies on oil-pricing and security of supply.

b. that statutory powers should be taken to enable us to privatise BNOC's upstream operations: E(79) 6th and E(80) 32nd meetings. Legislation has been deferred twice because of pressure on the Parliamentary programme. The Petroleum and Continental Shelf Bill, now published, contains these powers and we are committed to its reintroduction next session as a high priority.

c. that North Sea Oil Bonds linked to revenues from BNOC's oil should be launched this autumn: E(80) 32nd meeting. These national savings certificates, designed to give the small investor a chance to share in our North Sea wealth, will be complementary to privatisation but no substitute for it.

3. We now need to decide the main features of the scheme to be implemented, so that preparatory work (which is complex) can go ahead and I can explain our plans when the Bill has its Second Reading. Unless we reach decisions, privatisation of BNOC in the lifetime of this Parliament will not seem credible either to our supporters or our opponents when the Bill is reintroduced.

PROPOSED APPROACH

4. The legislation envisages the transfer of BNOC's oil-producing operations to a subsidiary company formed under the Companies Acts in which shares are then sold to the public. This will establish a lively new British oil company, relatively small by multi-national standards but with good prospects, free to



by participation agreements. BNSO would retain commercial freedom to dispose of the rest of its oil (likely to be about 4 million tonnes a year).

12. Secondly, I would want BNSO to be proof against unacceptable changes in control which might prejudice its character as an independent British oil company. The possibility of it passing into foreign hands will be particularly sensitive in Parliament. Although discrimination against nationals of other EEC Member States would breach the Treaty of Rome the advice of merchant bankers is that the necessary safeguards can be secured without infringing our international obligations by giving BNOG certain passive reserve powers in BNSO's Articles which could be used in time of crisis, together with the right to appoint up to two directors. The conditions attached to offshore production licences would also give me relevant powers, for instance if there was a change in the control of BNSO or the location of its central management or if there was a disposal of its licence interests to a third party. See Annex B.

13. Thirdly, it would be desirable if BNSO could retain the "flagship" quality of a national oil company in its overseas dealings, particularly in developing countries but also in Europe. This quality should largely be ensured by BNSO's origins, name and minority BNOG (or Government) shareholding, but it is also envisaged that there should be a supporting provision in the Company's Articles and Memorandum.

14. Finally, arrangements for the carrying on of BNOG's trading activities, including transitional arrangements, will need further consideration.

#### TRANSFERRING BNOG'S ASSETS

15. Transferring BNOG's upstream business to a subsidiary will be a major task because of the complexity of the many legal agreements governing these activities.

16. In earlier discussions we assumed that the separation would be achieved by negotiations with BNOG's partners, a process expected to take at least a year or more but not regarded as insuperable. BNOG now consider however that because of the delay in the legislation it is not certain that privatisation could take place in the lifetime of this Parliament if we follow this route.



17. It is difficult to quarrel with this conclusion given the complexity of the agreements and the risk that oil companies would seek to exploit the tight timetable for negotiations. I therefore propose that the provision in the Bill enabling BNOG to transfer interests to the upstream subsidiary for the purposes of disposal should be expanded to enable BNOG to make a scheme for that transfer which, subject to my approval, would bring about a statutory vesting of those interests, thereby cutting out the negotiations with BNOG's partners. There will still be problems to be overcome but this should greatly shorten the timetable whilst enabling us to keep the Bill very much in its present form.

## TIMETABLE

18. Merchant bankers advise that we should aim to float the new Company, BNSO, in the course of next year and that the sooner we can do so after Royal Assent the better the prospects for a successful launch. An illustrative timetable is in Annex C.

19. Timing will depend on world oil and stock market conditions but the legislation should be enacted as soon as possible, to keep our options open. Apart from the modification in paragraph 17, a further minor adjustment on which I shall be consulting colleagues shortly and detailed drafting changes, the Bill is now ready. I shall be seeking agreement that it should be reintroduced as soon as practicable in the new Session. Preparations for setting up and floating the Company will need to go ahead in parallel with the passage of the Bill.

## FINANCIAL IMPLICATIONS

20. BNOG's merchant bankers have valued the upstream Company at £1,500 million or more, so that the sale of a 51 per cent holding if carried out in one tranche could raise £750 million to the benefit of the PSBR in 1982/83. There will be a loss of surplus cash of £60 million in 1983/84 but the Corporation expect to have a positive requirement for external finance from 1984/85 onwards. So the loss of cashflow over the next few years is not significant compared with the potential benefits to the PSBR from the sale. Indeed the main benefit of BNOG to the Exchequer in this period is through the tax system and this will not be affected.



CONCLUSIONS

21. Privatisation of ENOC's upstream operations will be the largest exercise of its kind that we undertake as well as the most complex. Time is short and the work must go ahead now.

22. I seek agreement to the proposals in this paper and to an announcement of our intentions when the Petroleum and Continental Shelf Bill is given a Second Reading next Session.

DH

July 1981



INDEX OF ANNEXES

ANNEX A : BACKGROUND INFORMATION ABOUT BNOC

ANNEX B : BRITISHNESS

ANNEX C : ILLUSTRATIVE TIMETABLE

Note

Further background material and discussion of relevant issues are in earlier papers for the Committee including:

E(DL)(79)6

E(79)67 and E(79)80

E(80)22, E(80)80 and E(80)95



## BACKGROUND INFORMATION ABOUT BNOC

1. BNOC was established on 1 January 1976 under the Petroleum and Submarine Pipe-lines Act 1975.

## UPSTREAM ACTIVITIES

2. BNOC began its upstream operations in 1976 when it took over the North Sea assets of the National Coal Board and Burmah Oil Company. Since then it has acquired other extensive licence interests, both by purchasing interests from third parties and through the 5th, 6th and 7th licensing rounds. The 5th and 6th rounds both gave BNOC a 51 per cent interest in all licences.

3. As a result of its acquisitions BNOC has equity interests in the following North Sea fields:-

BNOC Share		
	%	
Thistle	18.9	in production
Dunlin	9.8	"
Ninian	20.8	"
Statfjord (UK sector)	33.3	"
Murchison (UK sector)	33.3	"
Viking (gas field)	50.0	"
Beatrice	28.0	under development
Brae	20.0	"
Hutton	20.0	"
Clyde	51.0	awaiting development

4. In all the Corporation has interests in over 150 offshore blocks which comprise about 17% of currently licensed acreage. It is operator for more than 40 of these blocks. By comparison, BP and Shell each have interests in about 8% of licensed acreage and Texas Eastern, a major US company, 1%.

5. The Corporation is estimated to have access to oil from its equity holdings of some 6 million tonnes this year, representing about 7% of total UKCS production, rising to over 7 million tonnes in the mid-1980s. By comparison BP's share of total production is presently about 25% and Texas Eastern's just over 1%.

6. BNOC is also beginning a gradual expansion in its overseas activities. It already has an equity interest in an exploration venture in Dubai and is seeking an interest offshore France. It is also exploring the possibility of becoming involved in waters offshore the Republic of Ireland, Denmark and perhaps Indonesia. It has also provided management services to Petronas, the Malaysian state oil company, and has seconded staff to Malaysia and Venezuela.



## TRADING ACTIVITIES

7. BNOG is the largest trader of UK Continental Shelf (UKCS) crude oil, mainly by virtue of its right through participation agreements with other oil companies to purchase 51% of most of the oil produced on the UKCS, and the Corporation's role as agent for the Government in taking 12 $\frac{1}{2}$ % royalty-in-kind.

8. In 1981 BNOG will be responsible for the disposal (after selling oil back to producing companies under the terms of some participation agreements) of some 35 million tonnes of oil, about 40% of total UKCS production. BNOG presently disposes of about 50% of its oil to UK companies, with the balance going to companies in Europe and N America.

9. The Corporation also started trading in certain oil products during 1980, and subject to Ministerial agreement, will have access to increasingly significant quantities of Natural Gas Liquids (NGLs) for disposal over the next decade or so through participation agreements. The proposed Gas Gathering Pipeline would greatly increase the availability of NGLs.

## STAFF

10. BNOG has over 1900 staff of which 900 are based in Glasgow (where the Corporation's headquarters are located), nearly 800 in Aberdeen (BNOG's operational base) and the remainder in London. Only about 60 staff are engaged in trading activities.

## FINANCIAL POSITION

11. The Corporation's financial requirements were met initially from the NLF. But since 1976 BNOG's capital investment has been financed from three main sources;

- a. royalty receipts in the National Oil Account (NOA);
- b. the proceeds of the Britoil Forward Oil Purchase Agreement (a financing agreement with a consortium of US and UK banks) some of which was used to repay borrowings from the NLF; and
- c. more recently, its own internally generated resources.

12. The Corporation has been self financing since 1979. Its development over the past five years is illustrated by the following table:

	1976	1977	1978	1979	1980
	All figures £m out-turn except where stated				
Equity sales volumes (million tonnes)	-	-	0.5	3	4
Equity sales revenues	-	-	53	265	511
Profit (loss) before tax	(32)	(30)	(26)	77	309
Net profit (loss)	(16)	(15)	(15)	21	88
Capital Expenditure	387	169	190	226	216



	<u>1976/7</u>	<u>1977/8</u>	<u>1978/9</u>	<u>1979/80</u>	<u>1980/81</u>
External financing requirement	218	192	269	(27)	(217)

13. BNO's EFR forecast for 1981/82 amounts to -£220m, after payment of nearly £140m by way of Supplementary Petroleum Duty.

14. Since 1976 the Corporation has invested over £1,200 million on the UKCS, of which about £900 million is represented by fields now under production. Much of the present capital expenditure is devoted to three fields now under development but expected to produce oil within the next 2/3 years.

15. The Corporation expects to continue to generate cash surpluses in the next two financial years, though at a much reduced level (around £60 m pa) as it begins to pay PRT. On current forecasts, however, it foresees a positive requirement for external finance by 1984/85. Its latest five-year forecasts are summarised in the table below.

#### SUMMARY OF BNO'S FIVE YEAR FORECASTS

<u>£m outturn</u>	1981/82	1982/3	1983/4	1984/85
Equity sales	907	986	1216	1412
Total internal resources (after tax)	589	501	572	620
Capital expenditure	(363)	(454)	(503)	(670)
External financing requirement	(221)	(60)	(62)	57
Forecast profit after tax and interest	52	67	81	101



## BRITISHNESS

1. My Department and BNOC have sought merchant bank advice on ways of safeguarding BNSO against unacceptable changes in control after privatisation, taking account of the need:

- a. to comply with the Treaty of Rome and stock market procedures;
- b. to establish the commercial independence of the Company;
- c. to avoid reducing the price at which shares are sold or their transferability;
- d. to keep proposals simple so that investors will understand and accept them.

## APPROACH

2. In the light of these discussions I propose that BNSO's Articles and Memorandum should incorporate the safeguards set out below. These safeguards will be passive reserve powers for use only in times of crisis where there is a real prospect of an unacceptable change in control, regardless of the nationality of the parties involved. What would constitute such a change in control would need careful definition but in essence it would be any change which if it went ahead would alter the character of BNSO as an independent British oil company based primarily on the North Sea with a wide spread of ownership and sufficient standing to help promote competition in the oil industry.

## SAFEGUARDS

3. First, the Articles should provide for BNOC's shares to carry a temporary majority of votes (50 per cent plus one vote) in the event of a takeover bid. The takeover bid would trigger the provision. BNOC could not initiate the circumstances in which it obtained this temporary majority.
4. Secondly, to help detect the situation where two or more shareholders were acting in concert with a view to bringing about an unacceptable change in control, the Articles should specifically include powers (in line with the Companies Bill) to enable the directors - two of them appointed by Government - to discover the identity of beneficial owners of the Company's shares or failing that to disenfranchise the shares.
5. Thirdly, to frustrate attempts by shareholders acting in concert to gain unacceptable control of the Board, the Articles should give BNOC a purely negative power to prevent the passing of any resolution in general meeting to appoint, re-elect or remove any director; and the Articles would also limit the power of the Board to co-opt any Director. This would be a passive power of veto, not appointment, designed to underpin the independence of BNSO.
6. Finally, the Articles should provide BNOC, regardless of its size of shareholding, with a power of veto over any resolution in general meeting:
  - a. to alter the key provisions of the Memorandum and Articles of Association; and
  - b. to wind up the Company.



OTHER POWERS

7. There are other more general powers which could be relevant in the event of a change in control of the Company. The conditions attached to offshore production licenses, for instance, could be important:

a. I have power to revoke a production licence if a company which is a licensee ceases to have its central management and control in the United Kingdom;

b. I also have power if there is a change in control of a company which is a licensee to serve notice requiring a further change in control to take place within three months or, failing that, to revoke the licence;

c. my consent is required if a licensee wishes to assign licence interests to any third party.

EFFECT ON SALE OF SHARES

8. My Department's merchant bank advisers, S G Warburg, would not expect provisions on these lines to have any detectable adverse effect on the valuation of the company on flotation.

15 July 1981



ILLUSTRATIVE TIMETABLE FOR FLOTATION

Warburgs and Rothschilds have both given very similar advice, summarised below, on the timetable leading up to an offer for sale of 51 per cent of the upstream company.

July, 1981	Main policy decision to proceed with privatisation taken.
July/Aug/Sept/Oct 1981	Draft of Scheme prepared. Vesting clause and schedule to Petroleum and Continental Shelf Bill drafted. Drafts prepared of all Contracts between Secretary of State/BNOC/the Company. Decision taken on interests to be transferred to the Company under fifth and sixth round licences. Negotiation with Inland Revenue concluded.
November, 1981	Petroleum and Continental Shelf Bill reintroduced in Parliament.
December, 1981	Petroleum engineers instructed to produce report for prospectus.
31st December 1981	BNOC's financial year ends.
January, 1982	Reporting Accountants instructed to produce long form report.
March, 1982 (or later)	Royal Assent to Bill.
April, 1982	Accountants to have produced long form report based on 31st December 1981 balance sheet. Draft Scheme finalised, including capital structure of Company. Secretary of State invited to approve Scheme. BNOC's Accounts to 30th December 1981 published.
by 30th April 1982	Petroleum Engineers' report available. Draft Prospectus to be available based on 31st December 1981 position. Employee Share Scheme in final form.





Energy

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

4 June 1981

The Rt. Hon. David Howell MP  
Secretary of State for Energy

MBM

on ~~Mr. ...~~ } with letter  
          ~~Mr. ...~~ } 14/5/81

12

4/6

PRIVATISATION OF BNOG

Thank you for your letter of 14 May about the privatisation of BNOG.

Quite coincidentally we have been thinking about the future of BNOG and we too had reached the conclusion that the time is ripe for a decisive step towards the privatisation of the upstream assets of BNOG. There is clearly a strong political case for this and it is what many of our supporters expect. Furthermore, I am convinced that if BNOG is to prosper, it is more likely to be able to do so in the private sector than in the public sector.

The views of the Treasury Director on the BNOG board are of some interest here. He has advised me that the Corporation's workforce have their hands very full in running their relatively small operation in the North Sea. Management is very stretched and new talent for North Sea work is scarce. In these circumstances it is unrealistic to believe that the upstream part of BNOG is likely to be a suitable instrument for the Government to use in influencing development in the North Sea. That will have to be done through other means.

The Treasury Director has also formed the view that the Corporation badly needs the financial discipline which exposure to the financial market ought to give it. The Corporation has no well thought out corporate objectives. The obvious *raison d'etre* of the early days - the mere establishment of the Corporation - has lost its validity. A new approach is needed. He believes it unlikely that this could be provided in the framework of the public sector given the inevitable PSBR financing constraints, and the bureaucratic encumbrances of Government control over what is essentially the entrepreneurial activity of running a North Sea oil company.

/I see force



CONFIDENTIAL



I see force in these points which add to the compelling political case for privatising the upstream part of BNOG. I agree that the Trading component of the Corporation should stay in the public sector.

I note that you consider that the Government should retain a 49 per cent stake in the privatised company, some rights over the new company should be reserved to the Government and there should possibly be a couple of Government directors on its Board. Furthermore, the new company would retain "flagship" qualities, which would emphasise the continuing Government interest and it would have the name British National Oil.

You might be able to persuade me that there is a case for putting two Government directors on the Board of the, privatised company - as in the case of BP, though experience with the BP directors suggests that they carry out no real functions for the Government. But the other features in the Company/Government relationship which you suggest could expose the new Company to more Government influence than was desirable. If it turned out that the new company was neither under ministerial control nor under private sector control, responsibilities would inevitably become blurred, and frictions would develop. On that basis the new relationship would seem to be very much a halfway house and might be seen as not having put BNOG's upstream activities into the private sector in any real sense. I am sure we should want to avoid that judgment.

I suggest therefore that we might consider a more thorough going form of privatisation whereby a larger proportion of the company's shares were sold to the public in tranches over a period of time and the new company broke all its links with the Government other than through a relatively small residual shareholding. One possible argument against this more thorough going form of privatisation is that it might provoke even a "Social Democrat" type of opposition to pledge themselves to reverse privatisation, which would be a pity. I am not sure how strong an argument this is, but it is perhaps one to bear in mind.

As you suggest, the next step is for our officials to prepare a detailed scheme so that subject to colleagues' agreement, the sale can occur as soon after Royal Assent as market conditions allow.

I am sending a copy of this to the Prime Minister.

*Yours sincerely*

*Geoffrey Howe*

*fr*

GEOFFREY HOWE

(Approved by the Chancellor & signed in his absence)





File AH  
cc. Tsy

10 DOWNING STREET

From the Principal Private Secretary

22 May 1981

PERSONAL AND CONFIDENTIAL

Dear Julian,

PRIVATISATION OF BNO

Your Secretary of State sent a copy of his personal and confidential letter of 14 May 1981 to the Chancellor of the Exchequer about the privatisation of BNO to the Prime Minister.

She has read the letter and has said that she agrees with what Mr Howell wishes to do.

I am sending a copy of this letter to John Wiggins.

Yours ever,

Marie Whitman.

Julian West Esq.,  
Department of Energy.

AH



SECRET



4

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ  
TELEPHONE: 01-211 3000  
01-211-6402

Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
London  
SW1P 3AG

*R*  
*14/5*  
18 May 1981

*Dear Sir*

BP RIGHTS ISSUE

Thank you for sending me a copy of your minute of 11 May to the Prime Minister.

I am content with your proposals in respect of the Treasury's and Bank's rights. As you know I have minuted the Prime Minister on depletion policy and production cuts. I will of course bear in mind the Attorney General's advice about the timing of any announcement on this in relation to the rights issue.

I am sending copies of this letter to the Prime Minister, Peter Carrington and Michael Havers.

*G. H.*  
*D. R. H.*  
D A R HOWELL



Energy

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SECRET



10 DOWNING STREET

Mr Knight

See para 13.

I misled you.

A statement on  
depletion policy can

be well after

the rights issue.

T

JP



Prime Minister.

Would you like to  
discuss this with the

Chancellor and Mr Howell?

I agree with  
D.H. MS.

Yes  
H.V.

PERSONAL AND CONFIDENTIAL

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

14 May 1981

Dear Geoff

PRIVATISATION OF BNO

The time is ripe in my view for a decisive step towards the privatisation of BNO.

The Party wants it. The legislation is drawn up and ready and has a firm slot early in the next Session. The Chairman of BNO is anxious to go this way and tells me that many of his staff feel the same. It fits squarely into our wider strategy.

I have been thinking further how we should proceed. I would like to see the upstream organisation right out of the public sector, and therefore away from the PSBR, but with a substantial Government stake, say 49%, with some rights reserved to Government and possibly with a couple of Government directors on the Board of the new company.

I would want the company to be proof in practical terms against predators and in particular against passing under foreign control (which I currently believe can be ensured without coming up against the Treaty of Rome albeit at some cost through the share valuation), and to retain as far as possible certain "flagship" qualities, which the Chairman believes would be ensured by the Company's origins, name and large Government interest. (In dealing with certain countries, eg the USA, one in fact needs to play this the other way and emphasise its private sector nature).

I believe these objections can be achieved, though a special effort will be needed to demonstrate this publicly. The part of the Corporation which deals with the participation agreements, the trading component, should stay in the public sector. That involves about 60 people out of the total BNO staff of some 1900. Philip Shelbourne sees no difficulty in this operating as a separate Government entity. The major part of the Corporation would form a new oil



company, British National Oil, and 51% would be put on sale.

As well as attracting support in our party, this scheme will of course arouse strong feelings amongst the Opposition and perhaps some public concern. There will be talk of loss of "control" of UK oil. But since I propose retaining the participation agreements our present degree of security will be little affected. Assuming that the new company has a participation agreement like other oil companies then it is only the other half of its equity oil (about 4m tonnes a year) which will pass out of the kind of Government control under which it is at present deemed to be. But this too will be criticised. There will also be ill-founded criticisms of the loss of the Corporation's revenue to the Exchequer and the loss of a state body to undertake uncommercial activities "in the national interest". We will be accused by opponents of "selling off" a national asset.

Against all this, there will be a large capital sum for Exchequer, reducing the PSBR and therefore having its own earning power. There will be wider general public ownership. And in particular, there will be a lively British oil company, relatively small by multi-national standards still, but with excellent prospects and freedom to develop and expand both here and overseas to the benefit of Britain. There is in fact no doubt in my mind that those who are genuinely interested in the future health and viability of BNOC as a business support the present Chairman's view that it will only prosper outside the public sector.

There is no point in my proceeding with the final work on this scheme and putting officials, bankers, BNOC staff, and, indeed, colleagues, through the hoop again, unless Cabinet is likely to give it firm support. In particular I do need and value your own commitment to a privatisation measure of this kind.

If your reaction is clearly positive I will tell my officials to complete work swiftly, to clear it with your officials, and present a detailed scheme. In taking the already prepared BNOC legislation through Parliament in the next Session I would then indicate that we had now settled on a scheme, the sale to occur as soon after Royal Assent as market conditions allowed.

I would be extremely grateful for your early personal comments. In view of the nature of this letter I am of course not copying it around. But I am sending a copy to Margaret.

Yours ever

David  
- 2



SECRET



2  
of Mr Wright C.O.

10 DOWNING STREET

*From the Private Secretary*

14 May 1981

BP RIGHTS ISSUE

The Prime Minister has now considered the Chancellor's minute of 11 May. She is content with his proposal for disposing of the Treasury's rights. She has noted what the Chancellor is proposing to do in respect of the Bank's rights; but because of the Burmah aspect she must leave this for the Chancellor to decide.

I am sending copies of this letter to Julian West (Department of Energy), George Walden (Foreign and Commonwealth Office) and Jim Nursaw (Attorney-General's Office).

T. P. LANKESTER

John Wiggins, Esq.,  
H.M. Treasury.

SECRET



Mr Wright Co.



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

PRIME MINISTER

BP RIGHTS ISSUE

BP have told us that they wish to mount a rights issue to raise some £500m-£700m. Provided that market conditions are right, they plan the issue to take place on about 18 June.

2. It would cost the Treasury some £125m-£175m to subscribe for our share of the issue and the Bank some £100m-£140m for their share of the BP stock acquired from Burmah. Extra public expenditure of £225m-£315m is highly likely to result in a breach of the Contingency Reserve later in the year in view of the other threats on the Reserve in prospect. I believe it essential to avoid such an increase, and indeed to sell certainly the Treasury's rights, and if possible the Bank's, for the best possible price in order to obtain a small, but useful, public expenditure benefit.

3. In this minute I recommend how this should be done.

#### Reasons for the Rights Issue

4. Without a rights issue, BP's debt/equity ratio would rise to levels which they would regard as unacceptable. Their judgement of stock market conditions is that the sooner the rights issue is mounted, the better for their commercial interest. I think that we cannot avoid accepting BP's commercial judgement about their need for a rights issue of £500m-£700m.

Prime Minister

Are you content with Chancellor's proposals, subject to your usual disclaimer that you have to leave the handling of the Burmah aspect to him?





Effect of the Rights Issue on the Treasury and Bank's Shareholding in BP

5. The Treasury and the Bank's percentage shareholding in BP is as follows:

	<u>Ordinary Shares</u>	<u>% Votes</u>
Treasury	25.0	24.9
Bank	19.6	19.5
Total	<u>44.6</u>	<u>44.5</u> (rounded)

(i) The percentage share of votes in general meetings is very slightly lower because of the voting rights of the preference shareholders.

(ii) For the reasons explained in paragraph 7(ii) below, the Bank's shares are for the moment disenfranchised.

6. If both the Treasury and the Bank take up their full entitlement of shares under the rights issue, their respective percentage shareholdings would not change. But if neither take up their rights, the effect on their shareholding is as follows:-

	<u>Ordinary Shares*</u>		<u>% Reduction</u>	
	£500m - £700m		£500m - £700m	
Treasury	22.6	21.8	2.4	3.2
Bank	17.7	17.1	1.8	2.5
Total	<u>40.4</u>	<u>38.9</u>	<u>4.2</u>	<u>5.7</u>

\*This assumes a rights issue price of £3.00. If the issue price was e.g. £2.50, the Treasury's holding would fall by a further 0.5 per cent and the Bank's by 0.4 per cent.

7. The table above demonstrates that if the Treasury do not





take up their rights, the Treasury's voting strength in the Company, excluding the Bank's holding, would fall further below the 25 per cent which is required to block special resolutions. A special resolution is necessary to change the Articles which empower the Treasury to appoint two directors to the Board with a power of veto. But the significance of the 25 per cent should not be exaggerated for two reasons.

- (i) In practice, a voting strength some way below 25 per cent should prove sufficient to block such resolutions, since it is unlikely that their proposers would be able to muster all the remaining votes in support of the resolution.
- (ii) The Government's effective holding would only fall below 25 per cent in the longer term in what the lawyers have advised us is the unlikely event of Burmah succeeding in their claim against the Bank for the BP shares. If the Bank win and their shares are transferred to the Treasury, the Government's voting strength would be well above 25 per cent even if the Treasury (and the Bank) do not take up their rights, as is demonstrated by the total figures in the first table in paragraph 6 above. Meanwhile, while the Bank's shares are disenfranchised under the agreement reached with the Take Over Panel when the Bank took over the Burmah shares - and this can continue during the Court action - the Treasury's share of the votes which can be cast at meetings would remain above 25 per cent (or only a little below if we followed the course referred to in paragraph 12 below).

#### The Treasury's Rights

8. I do not believe that expenditure of some £125m-£175m





for subscription to the Treasury's rights could be justified at a time when our top priority must be to contain public expenditure and the PSBR. Indeed, our aim should be to sell the Treasury's rights. The amount received will depend very much on market conditions at the time of the issue.

*Agreed*  
9. I should be glad of your agreement to this course.

#### The Bank's Rights

10. The Bank's rights arise from the shares acquired from Burmah, now the subject of litigation due to begin in the High Court on 2 June. A decision on the Bank's rights must inevitably take account of the Burmah case. You have already told me that you must leave matters to do with the Burmah litigation entirely to me. But you may wish to know how I propose to avoid the increase in public expenditure of £100m-£140m from the Bank's subscription since the payment counts directly as public expenditure.

11. Sir David Steel has agreed that Sir Alastair Down and the Burmah Board can be told in advance about the rights issue with a view to seeking Burmah's co-operation in the sale of the Bank's rights. Without such co-operation, Burmah might seek to frustrate the sale of the rights, e.g. by disputing legal title, and there could also be political criticism from the Shareholders' Action Group.

12. I am still considering whether such an approach should be made to Burmah, and if so its prospects of success. If the approach was not made, or if it failed, e.g. because Burmah insisted on attaching unreasonable conditions to their co-operation, the Bank would have to subscribe for their rights in the normal way. If BP agree the mechanics - and this is by no means certain - it should be possible to offset the public expenditure cost of £100m-£140m by a sale of a small part of the Treasury's existing holding of BP shares.





This would bring the Treasury's holding, after taking account of the sale of the Treasury's rights, to some 19-20 per cent. The Bank's holding in BP would remain at its present 19.6 per cent.

13. Finally, you should know that David Howell will be minuting you shortly about the timing of decisions and announcements on depletion policy on which the rights issue has an important bearing. The Attorney General has advised that any decision and statement on depletion policy should be made at least three weeks in advance of the announcement of the rights issue or well after it to meet SSC and stock exchange requirements.

14. I am sending a copy of this minute to Peter Carrington and David Howell. I know that they will appreciate the importance of keeping knowledge of the rights issue to as few people as possible in view of its commercial sensitivity. I am also sending a copy of this minute to the Attorney General with whom I have already discussed the legal aspects involving the Burmah case.

(G.H.)

11 May 1981

I will be  
putting this  
in to you  
at the weekend

D.





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*With the Compliments of*

the

Secretary of State





SECRETARY OF STATE FOR ENERGY  
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Energy  
✓  
WJS

The Rt Hon Francis Pym MP  
Chancellor of the Duchy of Lancaster  
Privy Council Office  
Whitehall  
London SW1A 2AT

23 March 1981

*Dear Francis*

PETROLEUM AND CONTINENTAL SHELF BILL

Thank you for your letter of 18 March.

I am content with the way you propose to make your announcement about the progress of this Bill and the form of words you propose to use.

I am copying this letter to the recipients of yours.

D A R HOWELL

*Yours*

*David*



THE STOCK EXCHANGE



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THE CHAIRMAN'S LECTURES

"THE UK'S FUTURE DEPENDENCE ON NORTH SEA OIL"

delivered unscripted by  
**PHILIP SHELBOURNE,**  
*Chairman and Chief Executive*  
THE BRITISH NATIONAL OIL CORPORATION

*In the Chair*

MR. NICHOLAS GOODISON, Chairman, The Stock Exchange.

Wednesday, 18th March, 1981.



THE CHAIRMAN: Ladies and Gentlemen, thank you for coming and welcome to The Stock Exchange. It is good to see you all here this evening. As many of you know, we do from time to time hold lectures given by distinguished speakers to an invited audience and the lecture which you will hear this evening will in fact be delivered to a much wider audience later.

I am delighted to welcome Philip Shelbourne here as Chairman of the British National Oil Corporation and I am sure that like me you all greatly look forward to hearing his lecture, which will undoubtedly be of great topical interest.

#### **Introduction**

MR. PHILIP SHELBOURNE: Thank you, Mr. Chairman. Chairman, ladies and gentlemen, I am fairly sure that all your previous lecturers have said that this is a very great honour to give the Chairman's Lecture at The Stock Exchange, and I am sure that they were absolutely right about that. I think it is absolutely true that it is a great honour to be asked to give this lecture. I think people who are asked have to accept out of respect to your Chairman and all that he has done to enhance the already high reputation of The Stock Exchange and the City. I know he does his fair share of lecturing and he knows what is involved. I think I can summarise this by saying that his word is my command.

I would, before starting, just like to refer to the really splendid Exhibition that is on show down on the second floor. It is the result of cooperation between BNOC, Shell and B.P., and I think it is a very happy cooperation. I hope you all have the time to see it.

#### **History**

I think I should necessarily start with the history of this matter, and the first occurrence was the passing of the Petroleum (Production) Act 1918 on the 21st November of that year, i.e. ten days after Armistice Day.

This Act made provision with respect to the getting of petroleum within the United Kingdom and the first petroleum was actually produced in the U.K. on a commercial scale in 1919 at Hardstoft in Derbyshire. Then there was the Petroleum (Production) Act in 1934 which really just enhanced the earlier Act. It might be worth reading out some figures on petroleum production in the years between 1918 and when the history of the North Sea starts. 1919 154,000 tonnes per annum from Shale Oil; 1929 169,000 tonnes; 1939—by which time they had actually found crude oil—133,000 tonnes; 1949 161,000; 1959 144,000, and in 1969, and this to me is the most fascinating figure of all, 77,000 tonnes. So, just before we come to our present history, there occurred the lowest production point in the U.K.

As you all know the really critical moment was the discovery of gas at Groningen in 1959. Then everybody started taking notice in the North Sea. The field came into production in 1964 and peak annual production of 9.2 billion cubic feet a day occurred in 1976.

It is here worth referring to The Continental Shelf Act of 1964, which extended the existing legislation (which was really land bound) to the U.K. Continental Shelf and that was when things really started to happen as far as we were concerned in the North Sea. I do not think I need take you through the award of licences under that Act because it is on page 2 of the charts. As we know we are now two thirds or so through the 7th round.

Here I would refer you to Chart 1. The first thing that happened was the discovery of the big southern gas fields. The gas was piped ashore initially at Easington in 1967 and thereafter mainly at Bacton. That gas has been feeding into our domestic gas system ever since. It was an absolutely major job to bring that gas in because, as we all know, it is much hotter when it burns. Furthermore, most of the gas pipes in this country had all disappeared and, in fact, the old town gas was being piped through the hole left by the pipes which had rotted years ago. So the British Gas Corporation had to put in new pipes; they had to amend all our gas stoves. I



would like to pay tribute here to the Chairman of the British Gas Corporation, Sir Denis Rooke. He is a great engineer; he is a great planner, and I think it is fair to say he is a great negotiator. He in his own lifetime has seen the gas industry, largely under his leadership, come from an early 19th Century outfit to an industry which is now right at the front of technology in the 20th Century.

After that great burst of activity in the early 1960's in the southern area, there was then a certain amount of exploration in the middle North Sea and nothing really of any significance has ever been found there.

The next big event was the discovery of Montrose in 1969 in the northern North Sea and then Argyll was the first into production in the same area in 1975. I think at this stage it is worth looking at Chart 3, because you will see the rough scatter here of the fields as they came in. The three great fields are B.P. at Forties; Shell/Esso at Brent; and Ninian which is shared between a lot of us, including BNOC who have approximately 20%.

#### **Present Position in North Sea**

To date about £15 billion has been spent on the North Sea. £11 billion of that has been spent on 26 fields currently in production or under development and of these most of it has naturally been spent on Forties, Brent and Ninian. Another further £10 billion is committed at this moment to projects that are under way and John Raisman, of Shell, has recently published his own estimate—which I see no reason whatever to doubt—that another £60 billion will be spent in the North Sea in the next 15 years to extend self-sufficiency beyond the year 2000. That is, of course, a huge investment programme. I think all the companies in the North Sea have been very well supported by their bankers, and without the support they have had from their banks we could not have achieved this. But it has been achieved. And, of course, now cash flow is coming in to help as well. That is a very brief history of the U.K. sector of the North Sea.

#### **OPEC**

Let me now switch to the wider picture. While all this was going on at home, OPEC was organised in 1960, largely as a result of the low price of oil in the 1950's, which was about two dollars a barrel. Initially, OPEC did not have much effect. The great event in the history of OPEC was really the Arab/Israeli war of 1973. As a result of that OPEC put on an embargo. When the war ended OPEC found out it had been very successful as a cartel in imposing this embargo and launched itself then as a price fixing cartel. I think I can illustrate this with only two figures: the average price of oil, of Arabian light crude, on the 1st October, 1973 was three dollars and one cent a barrel, and on the 1st January, 1974 it was ten dollars and 95 cents. Of course that is an absolutely astonishing change which percentagewise has never been equalled again, and I hope never will be. But at the same time I am bound to say that we must welcome those increases in prices because, quite frankly, at three dollars a barrel far too much oil, which is a finite and very valuable product, was being used and this brought the world up with a great shock. The remainder of the history follows on from that great increase.

#### **Initiation of BNOC**

Now we will come closer home again. As we all know in the 1973 war, the then Prime Minister attempted to divert the supplies of what he regarded as the two British oil companies from where they were contractually bound to deliver their supplies to the U.K. and he met with the perfectly proper answer from those two great oil companies that they were contractually bound to deliver it and they would go on delivering it pursuant to their contracts. And I think they were absolutely right to say so. This put into the mind of the then Conservative Prime Minister the idea we must have a national oil company to deal with the North Sea. Needless to say that was welcomed by his successor the Labour Party Prime Minister. So the legislation was passed, namely the Petroleum and Submarine Pipelines Act 1975, which set up the British National Oil Corporation. I do not think it is necessary for me to go through all the details of this, more particularly as they have changed somewhat. Suffice it to say that this set up the structure of the Corporation and gave it a very special relationship with the Government of the day.



It is really best to say that the Corporation simply had the duty to operate in the British area of the North Sea in support of the Government, and the Secretary of State reserved a lot of powers to himself to direct the Corporation what to do. In particular, the financing was through the National Oil Account, from which the Corporation was able to draw its money free of interest, and to which it now has to repay it. More of that anon. The legislation also provided that the Corporation should be exempt from Petroleum Revenue Tax.

Then BNOG started, with the assistance of the interest free money from the National Oil Account, to acquire licence interests.

The Act provided for the National Coal Board's North Sea interests to be vested in the Corporation. These included 33 $\frac{1}{3}$ % interests in blocks containing part of Murchison, Dunlin and Statfjord Fields, and on a unitised basis these give us approximately 28%, 8% and 5% now; and a 50% interest in the Viking Gas Field. In 1976 we acquired from Burmah a 21% interest in Ninian and around 23% in Thistle. In addition, we acquired from both companies some very skilled staff.

We then built up 28% interest in the Beatrice Field, including 10% from Hunt and 13% from Mesa, from whom we took over the operatorship. We also welcomed as partners our good friends in Deminex. That was really the way we started, and now the position is that we are the operator for Thistle; we are the operator for Beatrice and the Nigg terminal. This is nearly complete and will be completed this year. We are also the operator for Clyde, which is at the feasibility stage. Beatrice is particularly close inshore and raises its own environmental problems. We are equity partners but non-operators in Ninian—which is the great source of income to date because Ninian is one of the Big Three—Dunlin, Statfjord, which is, of course, mostly in the Norwegian sector of the North Sea and Murchison.

There are two other oil fields under development, Brae and Hutton, in which we have equity interests, and we are equity partners in the Brent and Ninian Pipelines. So our position is significant in the North Sea in relation to what we call Equity Oil.

In addition the State wanted us to control the disposal of 51% of all the oil got out of the North Sea. This was done in a series of negotiations. I do not perhaps need to go into too much detail of Lord Kearnton's great work in this field. He negotiated a series of agreements with all the oil companies operating in the North Sea, which basically gives us the right to acquire 51% of all North Sea oil—I am summarising a lot of very complicated contracts—at market price. It must be remembered that our right is to acquire this oil at market price, not below market price. The object of these purchases is to put the British Government in a position to ensure the proper use of British North Sea oil. In practice what happens is that, when we have acquired the oil, we re-sell it to a large extent to those who are operating refineries in the U.K. So that this ensures that British oil, at really no cost at all to the companies, is legally acquired by us and then legally re-sold to them for putting through their refineries in the U.K., rather than their refineries elsewhere. That is really the basic object. By the summer of 1978 all of the present 62 participation arrangements, under which this arises, had been secured. Participation in the 5th, 6th and 7th rounds was secured by the conditions of licence awards.

#### **Present Position of BNOG**

To give you the up-to-date figures, in 1980 BNOG has traded around 53% of all oil from the British North Sea. 37% of that is participation, that is the part we acquire in order to re-sell on which we make no money. 11% is the Government royalty which they take in oil and ask us to deal with. Again we make no profit on that. And about 5% is our own equity oil. The result of this is that we are by far the biggest company dealing in North Sea oil from the British zone, and we, therefore, are the price setters. We actually set the price and it tends to be followed by the others. As I say we have to set the price at what we believe to be the commercial price, because that is what the participation agreements say. The other similar oils in the world are from



Libya, Algeria and Nigeria. They are all light oils, like ours is from the North Sea, and, of course, they are all politically reasonably placed, because they are outside the Straits of Hormuz. We try to follow a policy which keeps our price as stable as possible, remembering that it has got to be commercial, and we, therefore, tend to follow behind the other three countries. Certainly we do not run ahead of them. Last summer, for instance, when we thought—as it turned out rightly—that surpluses were developing, we did not go up the last 35 cents. And this last round we did not follow Libya up the last dollar.

I will now give you the figures that we have traded in the last few years. In 1978 we traded 156,000 barrels a day, which was 14% of U.K. North Sea production. In 1979 we traded 939,000 barrels a day, or 59% of production. In 1980 just under one million barrels per day, which was 57%. This includes oil which we traded on our own. For this reason it does not exactly fit the figures that I have given you before.

So that was our position before the Conservative Government were re-elected. They then removed a number of our special privileges, which I have not given you in detail but I will just run through them very quickly because they are now abolished.

- Our right of first refusal of any blocks in which interests were to be assigned
- Our preferential position in licensing rounds
- Our right to apply for 100% licenses outside the licensing rounds
- Our statutory advisory role to the Government
- Our right to sit on every operating committee in the North Sea

They also announced that they would remove our special access to Government funds from the National Oil Account.

Now I welcome all of these, and I think and hope the industry does too, because I believe we are now really on the same basis as any other company operating in the North Sea, with the one exception that, of course, the Government wish to preserve the right for us to acquire 51% of the oil. But, of course, that is not really a privilege, that in a way is a burden on us because we have to do this work for free. So that our special privileges have all been—and I believe quite rightly—removed. The Government have now introduced the new Petroleum and Continental Shelf Bill and this will enable the Government to take powers to sell off part of our undertaking under what is sometimes called “privatisation”. It also abolishes our relation with the National Oil Account, which I particularly welcome, since in the high old days we were borrowing interest free from the National Oil Account and we are now paying all our money into the National Oil Account. We literally do not have overnight money because it goes into the National Oil Account. The sooner we can get rid of that the better. The Bill has now run into a legislative delay and will have to be re-introduced in the next Session.

#### **North Sea Bonds**

Quite separately there is, of course, the proposal by the Treasury to sell bonds and this is really a Treasury idea. The bonds are going to be sold by the Treasury; they are going to pay the interest; they are ultimately going to redeem the bonds, and our activities in the North Sea are merely going to be an index for the interest earned on the Bonds while they are in existence. I will read the latest thing on the bonds which is what the Chancellor said in his Budget Speech: “In October last year the Secretary of State for Energy announced plans for a bond which would allow the public to share in the benefits of the nation’s North Sea oil resources. The Government intends to issue such a bond later this year. It will be aimed at small savers and will be a non-marketable certificate, administered by the Department for National Savings. Its capital value will be fixed but the return on the bond will be linked to the value of the British National Oil Corporation’s North Sea oil”. The latest word on the equity, as I have said, is there are very wide powers in the Bill, but the Bill is not going to make much progress in the immediate future due to the legislative timetable.



Other activities worth mentioning. First is gas gathering. We are cooperating directly with the British Gas Corporation in handling the commercial side of gas gathering. Of course the Organising Group is handling the building of the pipeline, all the way from the North Sea maybe as far as Nigg, and they are also handling the financing. We also do other little activities like managing the land pipelines for the Government, and we now have some overseas activities, of which more anon.

#### **North Sea in Relation to the World**

It is now worth trying to set the North Sea in relation to the world oil picture, and I would invite you to look at Chart 5 which shows our present North Sea production 1.7 million barrels per day; a possible peak suggested by Mr. Dafter and Mr. Davidson of just over 2.5 million; and it shows if we ever did get to that peak how enormously important we would be in world oil. But even if you take us as the bottom of this chart, as you see we are not very much smaller than anything almost up to Iran. It is only when you get to Iraq and Saudi Arabia that we look small in comparison, but we are in that big central block. The way in which the U.K. handles this is that basically we keep 50% of North Sea oil, and we import 50% of lower quality oil for which we pay a lesser price than for our exported oil—a differential of about \$4 a barrel.

The reserves of the North Sea—of fields in production—are estimated to be 8.7 billion barrels, and fields under development 2.8 billion, giving 11.5 billion barrels. How much more there is is really a question of everybody's judgement. I am sure, as I am sure most of my colleagues from the oil industry are, that there is a lot more oil in the North Sea. In particular I think we are all very hopeful about the area west of the Shetlands and the whole history of mineral exploration, and after all oil is a part of mineral exploration, is as you go on you find more.

I would now like to turn more to the future, but, first of all, to fit the future into the immediate past. World consumption of oil rose fivefold from the end of World War 2 to the end of the 1960's for the reason I have already given, namely that it was very cheap. In 1970 oil accounted for 44% of world energy demand, and in the same year the West consumed 65% of world output but produced only 28%.

During the 1970's, despite the Arab/Israeli war and the effect of OPEC, oil consumption still just slightly increased. At the same time the ratio of annual production to reserves has been falling throughout this period, and at the present the bulk of proven reserves of the world lie in the OPEC countries, about 70%, and they only account for 4% of world consumption, while OECD countries have 10% of proven reserves and 65% of consumption. This is not a very satisfactory situation. The U.K. itself accounted for about 0.004% of world production in 1970, 0.4% in 1976 and now accounts for probably nearly 3%; see chart 5. U.K. reserves account for about 2% of world reserves.

The North Sea is politically safe.

BNOC has no downstream activities. I personally doubt whether we ever will have, except absolutely at the margin. There will be no BNOC petrol pumps, at any rate in my lifetime—and the result of that is that we have a significance in world oil that is quite incommensurate with our size, that we are (outside OPEC) one of the largest producers of oil with no downstream capacity. In other words we sell everything that we dig up and this places us in quite a significant position.

#### **Price of Oil**

I would now like to come on to the controversial piece of my little address this evening. First of all I would take the price of oil. Last year there was a temporary surplus during July and August and spot prices started to fall. Which brings me on to the Iraq/Iran war which, of course, followed immediately after the surplus. The surplus was swept away—at least in the mind because, of course, a lot of this is in the mind. There was thought to be a global shortage of 6 million barrels a day, which was the production of Iran and Iraq but there was also about



110 days' supply in store. So really the prices did not move up all that much after the first news and now I think most of us think there is a surplus developing again. But for how long I do not think any of my much wiser friends in the industry would forecast any longer than I would because the real question is when is the next political fuss going to occur? The extraordinary thing is that although OPEC is a very powerful cartel, there have only been three occasions of significant moves in oil price: the Arab/Israeli war of 1973; the overthrow of the Shah and the Iraq/Iran war. In other words all these three events were not caused by OPEC; they just happened, then OPEC rode on the back of them. That is a very interesting fact. So all I can tell you is that there are now signs of a temporary surplus appearing in the spot market. It is unlikely that during the '80's this will continue. During the '80's I think one envisages oil basically in short rather than in long supply, taking a medium term view.

### **Depletion**

Let me now say a word about depletion in the North Sea. The basic aim of the U.K. is self-sufficiency. Now, why self-sufficiency? I think the only answer one can give is what other policy is there really to follow? Because once you get into saying we will produce as much as we can, you deplete the North Sea too quickly. If you say we will produce rather less than we need, you get problems of balance of payments. Anyway what is the logical justification, where do you stop? Is it 10% under what you need? Is it 20%? So I think self-sufficiency is probably the best policy one can have. I, therefore, agree in principle with the Department of Energy.

Chart 7 is our own attempt, produced by my colleague Malcolm Ford, at saying what we think the North Sea is going to produce, and we take 2 million barrels a day as self-sufficiency. What you see there is a peak developing in the middle 1980's, and then there is a trough. I will say more about the trough in a minute. But if you take the peak that is really rather uneconomical and we, therefore, agree in principle with the Department that, if it is possible, move that forward by restricting the amount of oil that is produced in some of the fields. But this must not be done at the expense of exploration and development. I am confident that trough will be filled but it will only be filled if all the oil industry work very hard and spend a lot of money, as you will see from that great figure given by Mr. Raisman. There must just be continuous drilling all through the 1980's and continuous discoveries, more particularly because the figures are going against us. As you would expect the big fields are obviously discovered first.

In the early 1970's the drilling success ratio was 1:3. Today the ratio is probably 1:10, and we believe that to maintain high production levels at around 2 million barrels a day through to the end of the century, we need the development of somewhere between 15 and 25 new fields between '85 and '90. That is a great many fields to bring in.

### **Taxation**

I now turn very briefly to the subject of taxation, which is liable to be controversial, and so what I decided to do was to get one of my colleagues to type out on two sheets of paper all the changes there have been in taxes in the North Sea. I now propose not to read them out but I will just give you the summary. The Labour Government, 1974 to 1979, introduced three changes and had three in their mind when they lost the election. The Conservative Government between 1979 and 1981 has introduced ten changes of which three were really Labour's idea. So you get Labour six changes; Conservative seven; a clear win by the Conservatives by one goal! I have treated tax lightly. It is not a light matter for the oil industry. The present level of taxation, which is now at a marginal 90% or thereabouts, comes at a time when the fields are getting smaller; they are getting deeper; they are in more remote waters. Maybe the best prospect, west of the Shetlands, is going to be very much heavier oil than we have ever dealt with before; it is going to take a lot of getting up. Therefore, when more money is needed for exploration and development, if this is to remain an efficient national industry, less money must be ploughed into tax.

Already we have shelved one small field extension, Block 211/18A Area 6. Much more significantly of course Occidental has just announced its delay of the North Claymore field. So what I might



call the old sneer "Who is withdrawing from the 7th round?" is now starting to come home to roost. Whilst I realise the importance of revenue for the Government at this time, I do think some moderation in their tax policy is needed, in order to avoid killing the goose which lays the golden eggs.

#### **Future of BNO**

So far as our future at BNO is concerned, I see a continuous development programme of petroleum from the North Sea. We shall not be going downstream, as I have said. I believe gas will become more important to us, as it will to everybody else, and the gathering project that we are now involved in is the start of this for us. I believe the North Sea ultimately must be finite. When the "ultimately" is I do not know. As I have said, I am pretty confident that we have got self-sufficiency up to the end of the century. Some of my more confident colleagues would push it at least 20 years further than that, and there will be oil around for a lot of the 21st century. But, that having been said, we as a company cannot exist solely on oil from the U.K. and, therefore, we have already started, with the consent of the Secretary of State, and are continuing a programme of getting into overseas exploration for oil and gas. Eventually, who knows, we may be in coal mining and other mining activities as all our big brothers are. But I do not see that happening in my time.

#### **Alternative Sources of Energy**

Now let me turn to a much more important subject, just as I have said the North Sea is finite, so, indeed, are all the hydrocarbon resources all over the world. More may be discovered, much more is to be dug out. But all the same this is a finite resource. So it is important to look at the alternative energy resources. I think the most important thing one can do now is to economise in the use of hydrocarbons and this country, owing to a vigorous and realistic pricing policy, has between 1973 and 1979 saved 17% in oil consumption, and has saved 1.7% in energy overall. The rest of the world has seen in this period an increase of 10% in oil consumption and 17% in energy consumption. Now this is due to two things, I think: one is, of course, that in the United States until very recently the price of oil was controlled, and one of the finest things, I think, President Reagan has done is to de-control that immediately. But gas is still controlled and this is very serious. Because if you control the price of anything, as we all know from our war-time experiences, it either goes into short supply or else you have to import a lot more of it. And I attribute a large part of the bad balance of payments of the United States to the fact that they have continued to control the price of oil, and this has let consumption continue to rise.

The other factor is, of course, the under-developed countries, which as they become developed have to use more oil, and I would like to refer to a couple of sentences from the Brandt Report which I think really significant. "Energy shortages take many forms. Sudden rises in petroleum prices affect all countries but while pleasure motoring continues on a large scale fishermen in poor island communities like the Maldives may not get oil at all to operate their boats, or farmers in India or Pakistan to work their irrigation pumps." I think that is something we all need to remember in the developed countries. It inevitably means that, if the undeveloped countries are to develop in the next 20 years, they have simply got to have more oil, and it has got to come from somewhere. So economy is one of the ways of increasing energy supplies where they are needed most.

The next source lies in the development of enhanced recovery techniques. This particularly applies to the North Sea, but it applies everywhere else, by methods such as water and gas injection. I think recovery techniques are constantly improving—in my view not far enough and fast enough, because obviously we are now using up oil which, if we have enhanced recovery, would be produced in greater quantity. We may be able to go back later on but that may be rather difficult. At the moment it is generally thought that the recovery rate in the North Sea is 38% of the total reserves in any field, and we hope by the end of the century to raise this to 51%. I very much hope it will be better than that.



Another great source of energy is natural gas. I think we will find that as gas is more attractively priced, as flaring becomes virtually illegal, more and more energy will be produced from gas. But again as I say it is extremely important that gas prices get on an equality with oil, if gas is to come forward in sufficient quantities.

The next source is coal. The thing to remember is that globally the reserves of coal are five times that of the reserves of oil. We can see the big oil companies getting into coal, and I believe in this country we are exceptionally well placed for coal.

Then there are the very difficult oils, of which there are simply enormous quantities. The heavy oil in the Orinoco Basin; the Tar Sands in Canada; the Oil Shales in the United States. They require vast investments of cash but they will be developed eventually, but at great cost. When they come through they will come through in big numbers, and I believe this is in the 1990's. I will say more about pricing in the 1990's later on.

Last of all I would mention what is potentially, I think, the biggest alternative source of energy altogether, and particularly for this country, and that is the Fast Breeder Reactor. The semi-spent uranium already present in this country would be fed through the Fast Breeder Reactor and re-activated. There is a lot of work to be done on the Fast Breeder Reactor. One of the things that has to be done is a Public Enquiry on it, and that will take its time no doubt. The environmentalists, who oppose incidentally nearly every type of increased energy production, are best defined, in my view, in the following phrase:— "an environmentalist is a man who likes to sit in the cold in the dark". They are really seeking to deny to the people of the world a decent standard of living, and I have already laid my emphasis on the under-developed countries. The environmentalists are usually people who are also most anxious about under-developed countries, and yet they are being the most unkind of all by opposing real increases in energy production.

As I have said these special heavy oil deposits of various sorts and the Fast Breeder Reactor are going to require a great deal more research; a great deal of development, probably environmental enquiries. I do not see them being very much in evidence until 1990 or 1995. At which stage I believe they might have a really serious impact on the pricing of other hydrocarbons because these huge sums of money will have been spent on them, and if these huge sums of money have been spent on them, they will have to be used in the national interest.

The renewable resources, hydro-electric; geothermal; solar; wind; biomass; and wave, are best, I think, treated as of marginal interest in general, though new hydro-electric could be discovered in the world, though I think probably most of it has been discovered by now. But all the others are exotic, expensive and liable to be confined to local districts.

#### **The British Economy**

I would like to finish with the effects of North Sea oil on the British economy. First of all it has provided us with self-sufficiency, and this has given us an enormous strategic advantage. It has given us a positive balance of payments. It has given us strong sterling, which I regard as a very good thing, and those people who carry on in public and private upon the importance of sterling going down simply fail to remember 1976. At the beginning of 1976 the official view was that sterling was a bit too high and it should be talked down. Well, it started to be talked down just above \$2 and it did not draw breath until it got down to about \$1.55 and really the whole nation and the Government was driven mad in the process. There have recently been suggestions that the Government should talk it down again, and I am glad to see they have resisted this temptation. One really must think back to 1976 and the near despair of people about the situation of sterling and its effect on the situation in this country.

Oil also contributes, as you may know, to the taxation of this country, and I refer to Chart number 6. It contributes, therefore, to the total tax take and to the reduction of the P.S.B.R.



Oil provides a real enhancement of employment. It now accounts for 4% of G.D.P. If one goes to Scotland one really sees the effect oil has had on what was a backward economy. I, therefore, believe oil to be of the greatest benefit to this country, and I disagree with the prophets of doom. I very much agree with the Governor of the Bank of England in his speech at Ashridge when he said that oil produces new industries. It does, all over the place, and this is a very good thing.

#### **Use of Oil Revenue**

Finally the use of oil revenue. Originally, when I was an innocent banker, I thought let us pay it all into the Treasury and let them use it for the national benefit. Experience, however, has shown that much of the money produced by the oil industry—see Chart 6, please—is wasted on consumption, social security, support of ancient and dying industries, and so on, and so on. I could go on indefinitely. I now believe that we now need a separate energy fund outside the control of the Treasury and the main spending Departments. This fund should be administered by a separate Board of Trustees from the oil and from other industries, and naturally with a representative group of trades unionists. The trades unionists on our Board would do very well, they are excellent Members and they help us a lot. In discussing the source of the funds, we will leave out S.P.D. because I think that might disappear in the process of my reforms. I am not suggesting that this should start until 1982. But certainly royalty and P.R.T. would be paid into this fund, and Corporation Tax would be paid into the Exchequer as for any other business or individual paying income tax. But I believe there would then be created a substantial fund which could be used positively, and not just frittered away.

First of all it should be used on the creation of new energy reserves to supplement the North Sea and eventually to replace it. For instance overseas production of hydrocarbons by companies in this country. The Fast Breeder Reactor, which will cost a lot of money and I believe should be financed out of this fund. In particular the investment in new coalfields. We seem to be discovering them all the time. This is one of the great sources of energy, and I believe this is where North Sea money would be very properly used.

Secondly, it should be used on the creation and support of the newest industries such as micro-chips and biotechnology and not on declining industries on which to a large extent present tax money has been used.

Thirdly, it should be used to rebuild the U.K.'s overseas investment portfolio.

#### **Conclusion**

My conclusion of this address, which I hope follows logically from some of the things I have said, is that by the end of the century we in this country, and others in other countries, should have built up the alternative sources of energy so that oil, which will always be expensive, can be confined to its proper use in transportation and as the petrochemical feedstock.



**THE STOCK EXCHANGE**



**THE CHAIRMAN'S LECTURES**

**"THE UK'S FUTURE DEPENDENCE ON NORTH SEA OIL"**

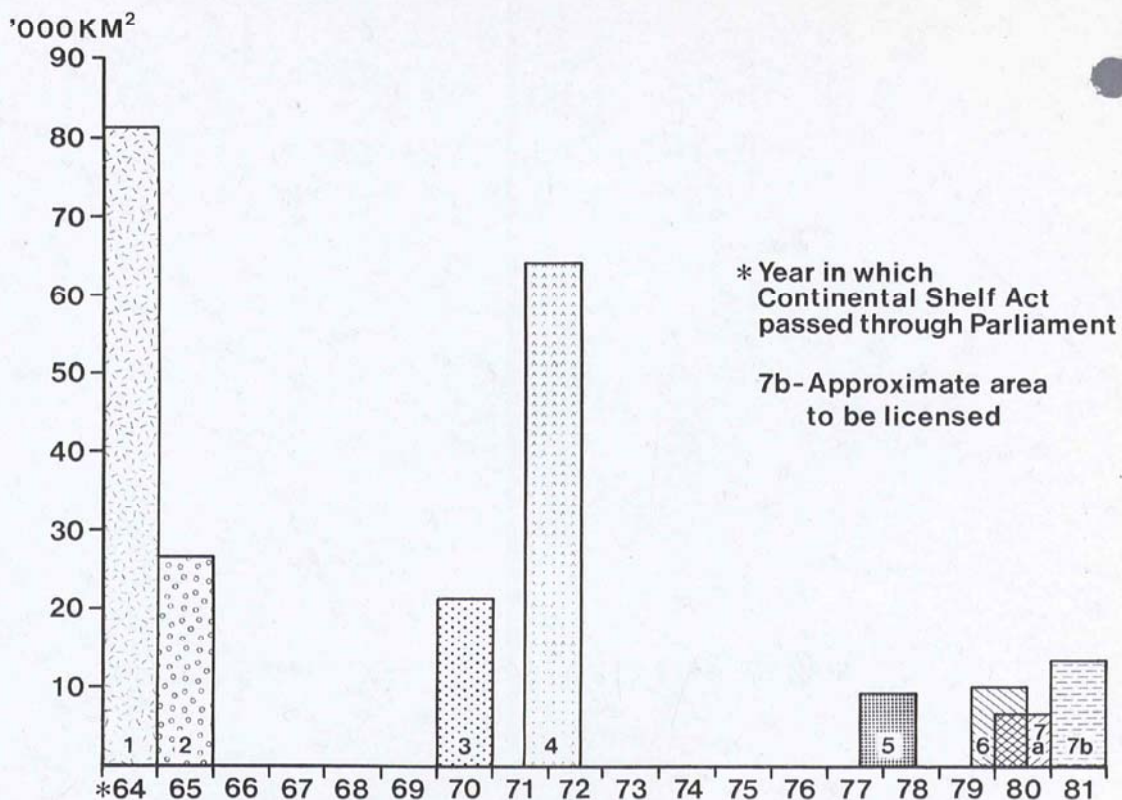
**APPENDICES**

- CHART 1. MAP**
- CHART 2. UKCS: AREA LICENSED BY LICENSING ROUND/YEAR**
- CHART 3. DISCOVERIES OF COMMERCIAL OILFIELDS ON THE  
UKCS AND ESTIMATED RECOVERABLE RESERVES**
- CHART 4. OIL PRODUCTION-(ANNUAL AVERAGE)**
- CHART 5. OIL PRODUCTION-MARCH 1980**
- CHART 6. GOVERNMENT REVENUES**
- CHART 7. UKCS OIL PRODUCTION 1981-2000**

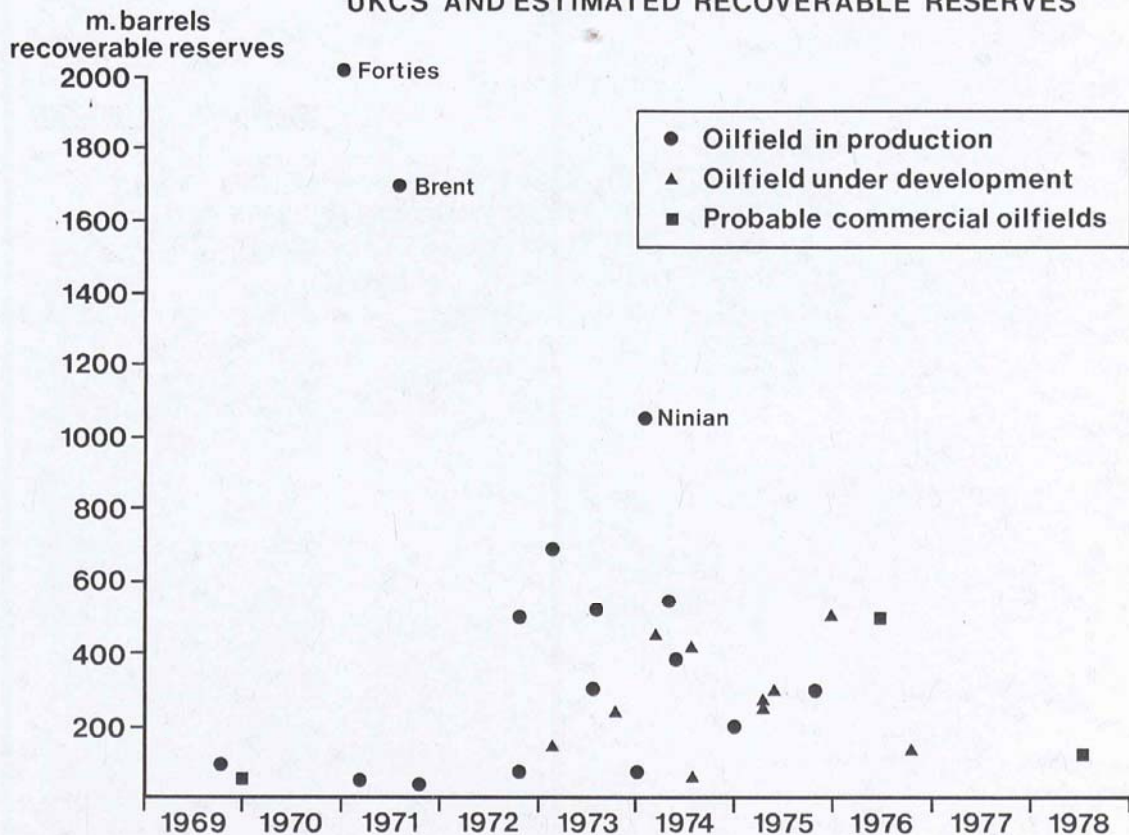
**Wednesday, 18th March, 1981.**



## 2. UKCS : AREA LICENSED BY LICENSING ROUND/YEAR

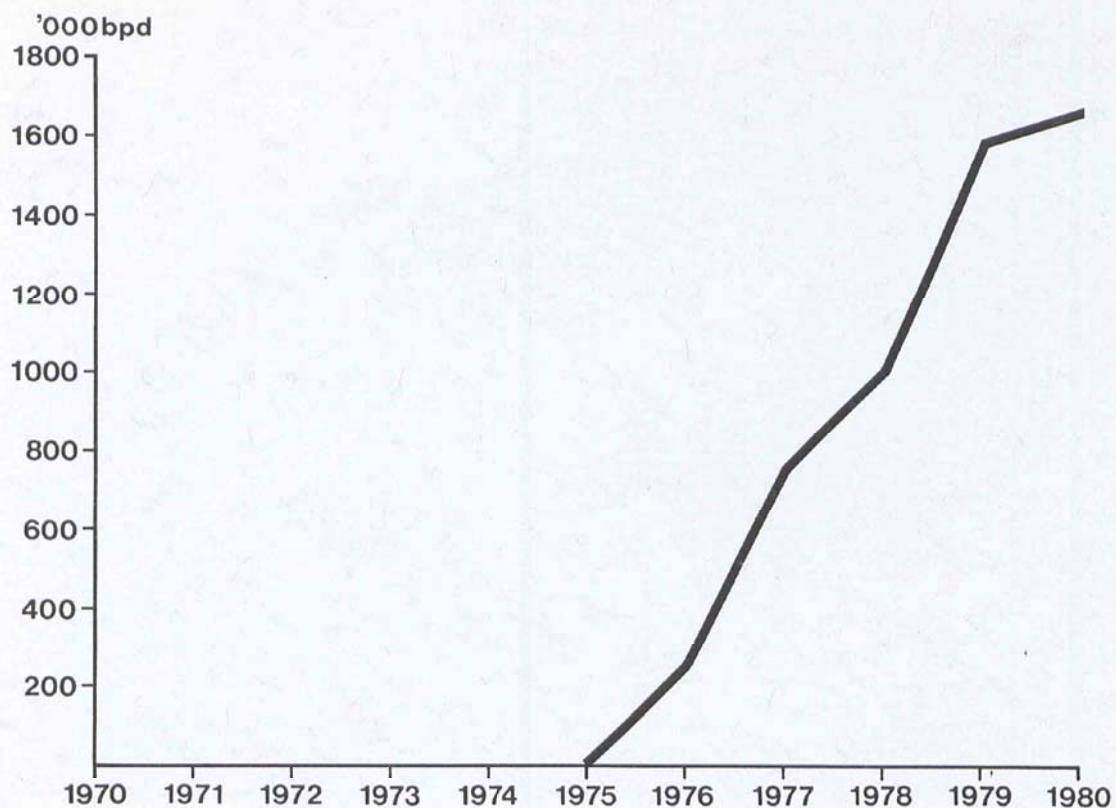


## 3. DISCOVERIES OF COMMERCIAL OILFIELDS ON THE UKCS AND ESTIMATED RECOVERABLE RESERVES

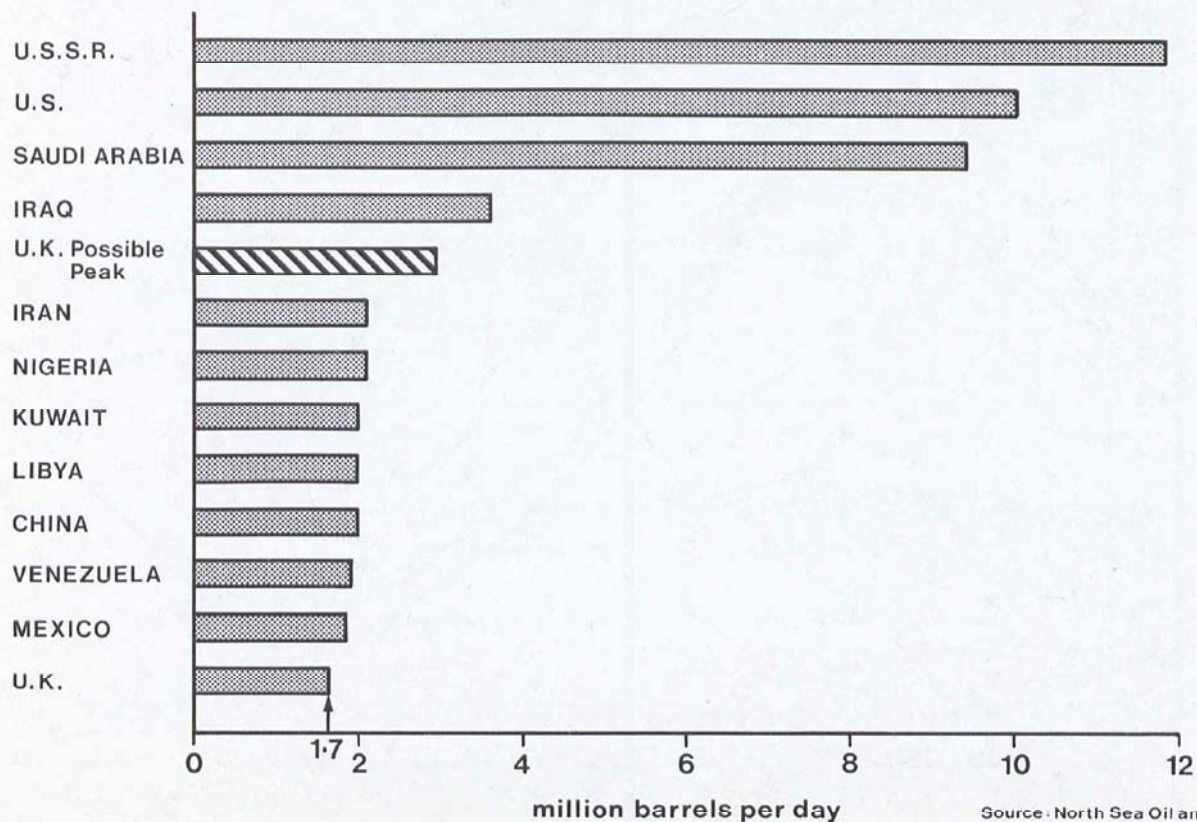




#### 4. OIL PRODUCTION-(ANNUAL AVERAGE)



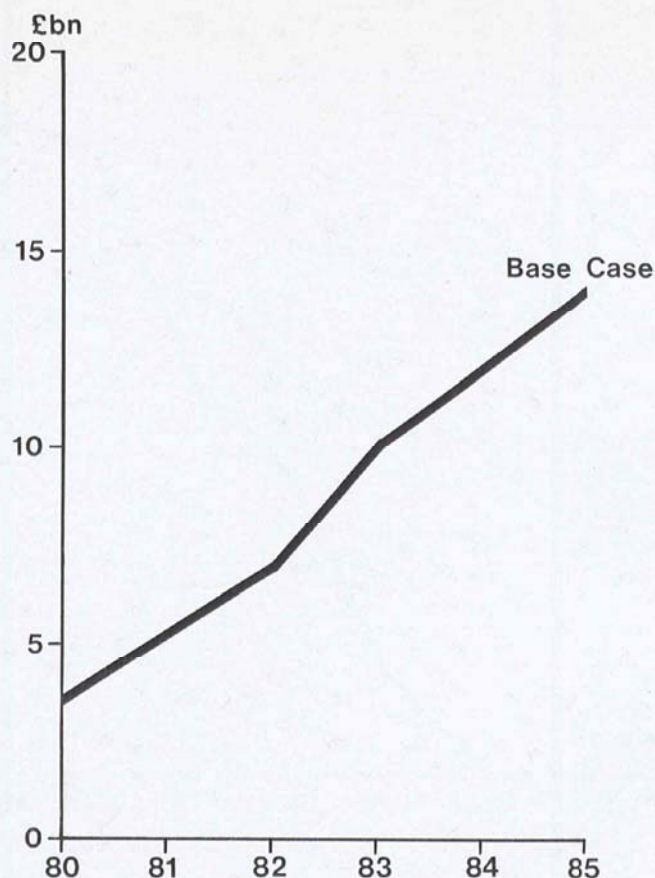
#### 5. OIL PRODUCTION - MARCH 1980



Source: North Sea Oil and Gas and British and Foreign Policy by Ray Dafer and Ian Davidson



## 6. GOVERNMENT REVENUES



### ASSUMPTIONS

Prices - Average price 1980 \$35 per barrel  
escalated at 6% p.a. thereafter  
(All prices quoted in 1981 terms).

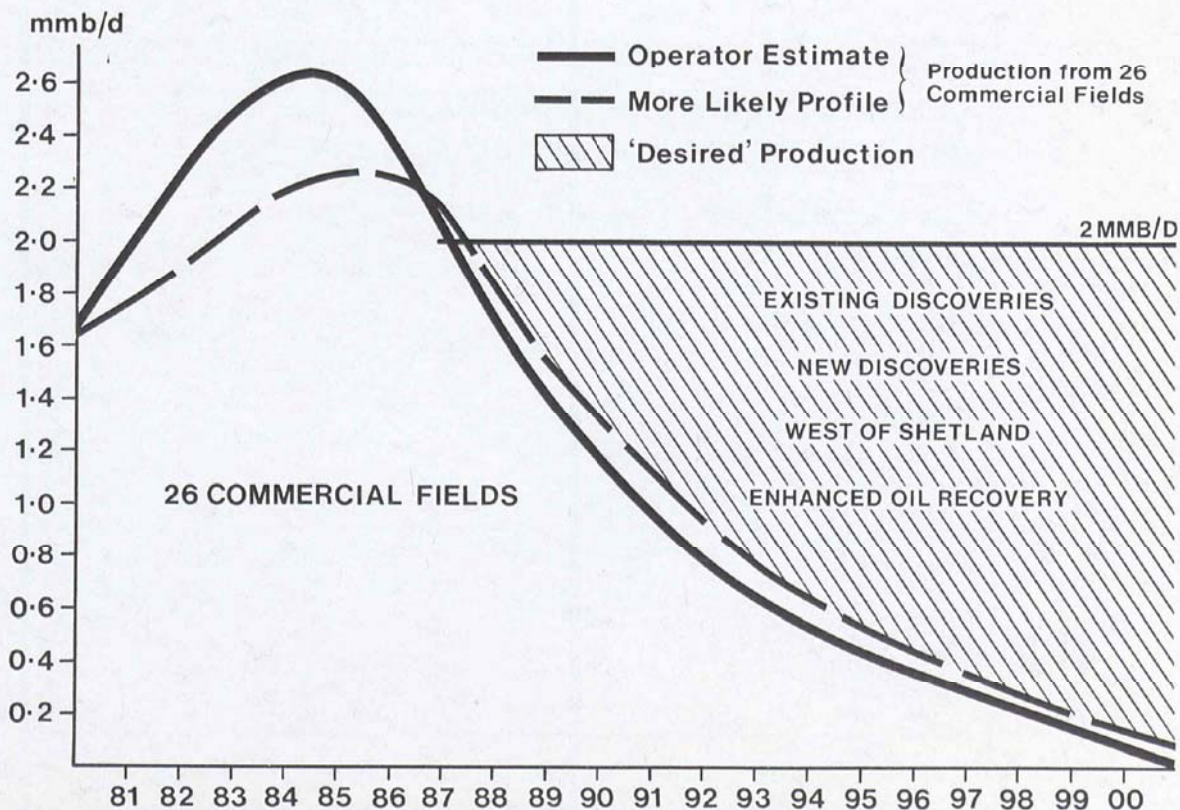
Exchange Rate - \$2.40/£ from 1981 onwards.

Production - 1980 1.7 mbd  
1981 2.2 mbd  
1982 2.4 mbd  
1983 2.7 mbd  
1984 2.8 mbd  
1985 2.9 mbd

N.B. Excludes the proposed SPD and  
effects of changes to PRT.

Source: Wood MacKenzie  
North Sea Report 26.9.80

## 7. UKCS OIL PRODUCTION 1981-2000

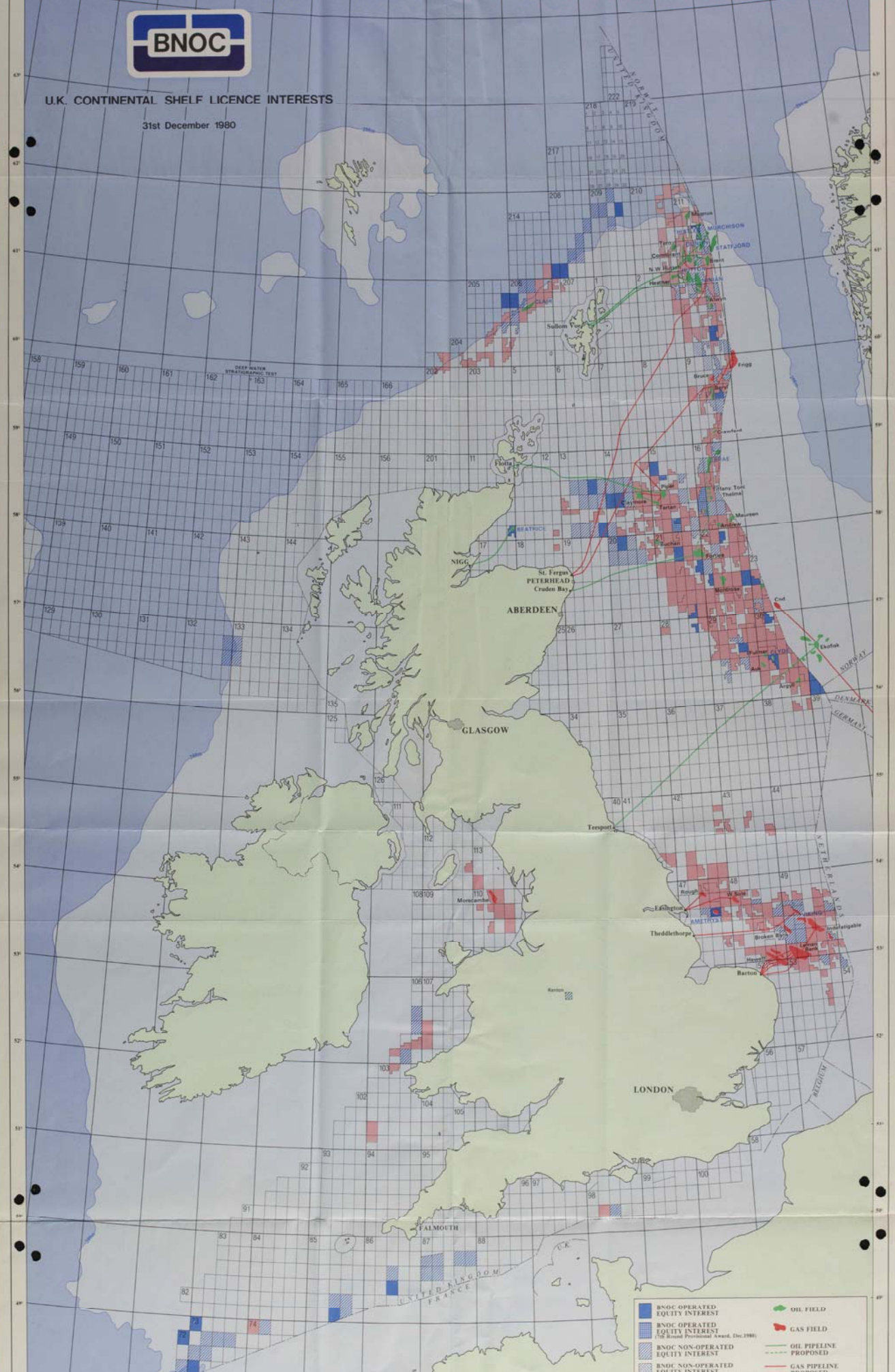






# U.K. CONTINENTAL SHELF LICENCE INTERESTS

31st December 1980



	BNOC OPERATED EQUITY INTEREST		OIL FIELD
	BNOC OPERATED EQUITY INTEREST (2nd Round Provisional Award, Dec. 1980)		GAS FIELD
	BNOC NON-OPERATED EQUITY INTEREST		OIL PIPELINE
	BNOC NON-OPERATED EQUITY INTEREST (2nd Round Provisional Award, Dec. 1980)		GAS PIPELINE
	BNOC NON-OPERATED EQUITY INTEREST (2nd Round Provisional Award, Dec. 1980)		PROPOSED





PRIME MINISTER  
WHITTHALL LONDON SW1

Chancellor of the Duchy of Lancaster

18 March 1981

2

~~PRIME MINISTER~~

Dear David,

The CDL wants to kill the  
BNOC Bill - we will let  
you know if Mr Howell is  
unhappy.

Thank you for your further letter of 16 March about the  
Petroleum and Continental Shelf Bill.

You may have seen that Trevor Skeet raised this issue during  
business questions last week. I gave a non-committal reply  
on that occasion, but I agree that it would be helpful if our  
intentions about the handling of the Bill were made clear  
fairly soon. Subject to your views, I think that the best  
way of emphasising that the lack of progress with the Bill  
this Session is due entirely to pressures on the legislative  
timetable would be for me to make an announcement in response  
to an inspired intervention - perhaps by John Hannam - during  
next week's exchanges on the business statement. I attach  
a draft for this purpose, and shall assume that you and the  
other recipients of this letter are content with its terms  
unless I hear to the contrary by the end of this week.

MJS

20/2

I am copying this letter to Willie Whitelaw (as Chairman  
of QL), to Christopher Soames, to Michael Jopling, and  
to Sir Robert Armstrong.

*Handwritten signature: Francis Pym*

FRANCIS PYM

The Rt Hon D A R Howell MP  
Secretary of State for Energy  
Millbank  
LONDON  
SW1

*Handwritten initials: MB*





PETROLEUM AND CONTINENTAL SHELF BILL:  
DRAFT QUESTION AND ANSWER

Q. Will the Leader of the House make time for a Second Reading of the Petroleum and Continental Shelf Bill?

A. No, Sir. The other pressures on the legislative timetable make it unlikely that further progress can be made with this Bill this Session. The Government remain fully committed to the measures set out in the Bill as published, and intend to reintroduce it in its present form as a matter of the highest priority at the beginning of next Session.



PRIME MINISTER

BNOC OIL BONDS

In E Committee last September we approved a scheme for the sale of revenue bonds aimed at the small saver, which would be free from capital risk but have a rate of return linked to revenues received by the British National Oil Corporation (BNOC) from the North Sea (E(80)32nd meeting). With the agreement of colleagues I announced this decision at the Party Conference in Brighton in October.

2. Work on the scheme is well-advanced, and the Chancellor of the Exchequer and I are in agreement on its main features.

- a. Income on the bonds will be determined by an index based on the sterling value of the North Sea crude oil to which BNOC is entitled under its equity and participation arrangements.
- b. The bonds will have a maturity of 5 years but be encashable at any time through Post Offices.
- c. There will be a minimum holding of £25 and an initial maximum, for the time being at least, of £2,000.
- d. There will be a specified basic annual return which will be guaranteed and indexed. Because it is the coupon and not the capital that is indexed the Government is protected against a sharp rise in the cost.
- e. The instruments will technically be national savings certificates and so exempt from income tax and capital gains tax, but will be marketed so as to give them a suitable image.
- f. The issue will, like a normal DNS issue, be opened both in amount and time but with provision for it to be closed at short notice.

Prime Minister  
 To note: this  
 is intended to in the  
 Bondnot speak.

10/9/80  
 item 2

7/3





2.

3. The possibility of making the bonds tradeable on the Stock Exchange has been explored but it would have unacceptable consequences. In particular there would be a conflict between marketability and our objective of making bonds available to a wide range of the general public, not least because the minimum holding would have to be higher. There would also be a problem of combining a guaranteed return and marketability. The Chancellor and I agree that the bonds should not be marketable.

4. The main problem facing the scheme lies in depletion policy. The Attorney General advises that an adequate disclaimer to preserve the Government's freedom of action could, in a strict legal sense, be drawn up and included in the prospectus; but the Government might still in practice feel constrained if depletion measures under consideration would affect bondholders. This is a problem with any scheme linked to North Sea output. However bondholders would be protected by a minimum rate of return on their bonds and by being able to encash them at any time after the first year with only a minimum penalty if they felt that Government decisions made the future income on bonds look unattractive.

5. Another point is the possibility that privatisation might affect the index by reducing BNOC's equity oil. But this could be met by adjusting the base of the index, though we would not necessarily refer to this in the prospectus.

6. Overall the scheme would be an imaginative addition to the options open to the small saver, giving them a real opportunity to share more directly in our North Sea resources through BNOC.

U 7. The Chancellor proposes to refer to the scheme in his Budget speech tomorrow. Full details will be announced closer to the launch of the scheme in the autumn.

8. I am copying this to the Chancellor of the Exchequer, the Financial Secretary, other members of E Committee, the Attorney General and Sir Robert Armstrong.

J14



told Geoff Dart  
by phone on 9/2  
that the pm had  
seen and not commented.

MS  
9/2

MB

Energy  
~~PRIME MINISTER~~

To see. This is the  
minute from Mr Howell which  
Mr Pym mentioned in Cabinet  
today

MS  
5/2

PRIME MINISTER

PETROLEUM AND CONTINENTAL SHELF BILL

You will recall our discussion about the Petroleum and Continental Shelf Bill in Cabinet on 22 January (CC(81)3rd Meeting).

The Bill itself was approved by Legislation Committee this morning but I understand that doubts were expressed about the wisdom of proceeding with the Cabinet decision to publish and introduce it in the House of Commons as soon as possible.

I still believe that the best course if at all possible would be to enact the Bill this session. We are committed to it in the Queen's Speech and elsewhere, and we must maintain the momentum of our policies.

But I also understand the problems facing the business managers. To help them I have indicated my readiness, as they know, to shorten the Bill from 23 to 10 clauses in length dealing solely with the outcome of our review of BNOG as promised in our manifesto, with the remaining clauses being introduced as a separate Bill early in the next session.

Much of this shortened Bill would be financial, not suitable for amendment in the Lords. The remainder would deal with privatisation and with modification of the last Government's legislation on BNOG. I understand that there would, however, be objection to even this short Bill on business management grounds.

Given these difficulties, it is essential that we at least proceed with the introduction and publication of the Bill. Naturally it would be my hope that time might possibly be found after all for the Bill



to proceed through its various stages. If not, we would have to make it clear to our supporters and others in due course that for reasons of business management it could not proceed. But at least our commitment and intentions would be clear. If contrary to our promises we were to do nothing at all on BNOG this session, not even introduce legislation, it would do great damage to the Government in an area central to our longer term purposes and at a time when it is vital that our firmness of purpose should not be questioned.

I therefore must ask that we should proceed with the introduction and publication of the Bill as soon as possible as agreed by Cabinet, and leave open the possibility of enacting it in the current Session if Parliamentary time unexpectedly becomes available. I shall of course consult with the Chancellor of the Duchy of Lancaster about the separate question of how we make the position known to our supporters.

I think  
we should  
leave this  
as a  
possibility  
mjs

I am copying this to the Lord Chancellor, the Chancellor of the Exchequer, the Lord President, the Chancellor of the Duchy of Lancaster and to Sir Robert Armstrong.

D.H.  
2

SECRETARY OF STATE FOR ENERGY

4 February 1981



OLD  
13-113  
2

Energy



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

01-211-6402

A J Wiggins Esq  
Private Secretary to the  
Chancellor of the Exchequer  
H M Treasury  
Parliament Street  
London SW1

R  
M

30 January 1981

Dear John,

BNOC: SALE OF SHARES AND FINANCIAL PROVISIONS

It may be useful if I summarise the outcome of recent correspondence about the BNOC provisions in the Petroleum and Continental Shelf Bill which will be taken by L Committee on 4 February.

not copied here

My Secretary of State was grateful for the Chancellor's letter of 23 December agreeing the legislative approach to the sale of shares in BNOC's upstream operations which he had proposed. The legislation has been drafted on this basis in consultation with Treasury officials.

Mr Howell has considered the possibility of extending the proposed powers of disposal to the whole of BNOC's activities including the trading arm, as suggested in your letter of 31 December. But he sees serious drawbacks to adding this to this Bill quite apart from the fact that, as you acknowledge, it would go beyond the decision which E Committee took in September. BNOC's trading activities are important to the security of UK oil supplies and the Government has accordingly already announced that BNOC's role as an oil trader will remain a wholly Government owned operation. To go back on this commitment would be a major step. It would also require renegotiation of participation agreements, a highly complex and lengthy process. Your letter made it clear that the Chancellor did not want to press the point if it was going to delay the preparation and introduction of the Bill. In the circumstances, therefore, Mr Howell felt that it would be best not to take the idea further.





My Secretary of State was also grateful for the Chancellor's endorsement of his proposals on ENOC's financial structure. As you know, Mr Howell would have preferred to include a power to issue Public Dividend Capital (PDC) in the Bill, not least to provide flexibility if circumstances changed in the future and as an acknowledgement of the views of ENOC management. Given however the timetable for the Bill, he had decided not to press the point.

I am copying this letter to the Private Secretaries to the Prime Minister, other members of E Committee, and Sir Robert Armstrong.

Yours ever,

J D WEST  
Private Secretary



CONFIDENTIAL



*Energy*

Treasury Chambers, Parliament Street, SW1P 3AG  
. 01-233 3000

14 January 1981

The Rt. Hon. David Howell MP  
Department of Energy

*David Howell*

*see Mr Dennis  
Mr Walker*

*R*

BNOC: FINANCIAL STRUCTURE

*14/1*

Thank you for your letter of 16 December. I am content with all your proposals except that for the inclusion of powers in the Bill for the issue of Public Dividend Capital (PDC).

I say this because I am not convinced by the two reasons you put forward for such a power. First, BNOC say that the absence of PDC would put them at a disadvantage compared with private sector partners and competitors eg when it comes to raising external finance. Surely this argument can be dismissed. It is misleading to look at NLF issues and PDC for a nationalised industry as in some way analogous to debt finance and equity capital for a private sector company. PDC was originally intended to be a source of capital for nationalised industries which are expected to be fully viable and to be especially subject to cyclical fluctuations in their returns as a result of their trading conditions and the nature of their assets. It is not equivalent to risk capital. If BNOC were ever seeking, with our agreement, external finance outside the UK public sector, prospective lenders would certainly be concerned to look for some assurance for the security of his funds. But the presence of PDC on BNOC's balance sheet would be no relevance in a lender's decision. Of far more relevance is BNOC's status as a statutory Corporation with all which that entails.

I sympathise with the argument about keeping options open for determining the Corporation's future role and structure. But I cannot envisage any options which would be closed if BNOC were not permitted PDC and relied instead on NLF debt.

/For these

CONFIDENTIAL



CONFIDENTIAL



For these reasons I do not agree that a case has been made out for the inclusion of powers to issue PDC in the forthcoming Bill.

I am copying this letter to the Prime Minister, Keith Joseph, John Biffen and Sir Robert Armstrong.

GEOFFREY HOWE

Handwritten signature and scribbles, including a large '2' and a horizontal line above the signature.

CONFIDENTIAL



cc Mr. Duguid



Treasury Chambers, Parliament Street, SW1P 3AG

, 01-233 3000

31 December 1980

Julian West, Esq.,  
 Private Secretary,  
 Department of Energy

R #2/1

Dear Julian,

## SALES OF SHARES IN BNOG

The Chancellor has asked that your Secretary of State should be aware of a further comment which he has on your Secretary of State's letter of 5 December about the legislative provisions for the sale of shares in BNOG's upstream operation, to which the Chancellor replied on 23 December.

The Chancellor wonders whether the Bill might not include, in addition to the provisions your Secretary of State proposes, a power whereby private capital could be injected into the whole of the BNOG's activities, including the trading arm. He recognises that this is something that E Committee has not so far considered. This is partly because your Secretary of State's objective has been to sell a majority stake of the Corporation's North Sea assets and to transfer control to the private sector, and this would have been incompatible with the objective of retaining public sector control over the Corporation's trading arm. But it is possible that Ministers might decide to inject only a minority of private sector equity into the North Sea assets and to keep their control in the public sector. This might then leave the way open to inject a minority equity stake into the trading business leaving control also with the public sector.

The Chancellor therefore suggests that your Secretary of State might consider including in the Bill powers to inject equity into the whole of the Corporation's business in order to give Ministers complete freedom of manoeuvre. But he would not want to press this point if it was going to delay the preparation and introduction of the Bill.

I am copying this letter to the Private Secretaries to the Prime Minister and the other members of E Committee, and to Robin Birch (Chancellor of the Duchy's Office) and David Wright (Cabinet Office).

yours ever

John Wiggins

A.J. WIGGINS



010  
TL



SECRETARY OF STATE FOR ENERGY  
CHANCELLOR HOUSE SOUTH  
WILLIAM PITT BUILDING LONDON SW1P 3AA

MMZ 2/11

CONFIDENTIAL

01 211 6402

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

TL  
1/8/11

16 December 1980

*See Summary*

**BNO C: FINANCIAL STRUCTURE**

The attached note - prepared in the light of our correspondence earlier in the year and subsequent discussions between officials - lists the provisions relating to BNO C's future financial structure, powers and borrowing limit which I propose to include in the forthcoming Petroleum and Continental Shelf Bill. I should welcome your endorsement of them. The size of the new borrowing limit cannot be determined yet and I propose that my officials should consult yours about this as soon as further information is available from BNO C.

You will see that, as they stand, the proposals do not allow for the grant of Public Dividend Capital (PDC) to the Corporation. I am, however, convinced that this power is needed for a number of reasons.

First, my general approach to the Bill has been to aim for flexible provisions which will not unnecessarily constrain the range of options open to us in determining the Corporation's longer term role and structure.

Second, BNO C themselves have made a strong argument for PDC based on the highly competitive nature of their business and the volatile market conditions in which they have to operate. They are concerned that without a more conventional equity debt capital structure they may be at a considerable disadvantage beside their private sector partners and competitors (eg if reliant solely on debt financing they might encounter serious practical difficulties in raising external finance). I would like the legislation at least to give us the ability to be able to respond if such worries proved to be justified, or if other difficulties arose, and BNO C's commercial position appeared to be at risk.

C O N F I D E N T I A L



CONFIDENTIAL

2.



I therefore hope you will agree that powers for PDC should be taken in the Bill, on the understanding that use of them would be a separate matter to be decided between us. I would also propose to take power which would allow me, with the approval of the Treasury, to determine the Corporation's dividend in the event of disagreement with the Corporation's proposals. This would offer a desirable safeguard against any risk of BNOC treating PDC as a soft option.

As you will appreciate, I am anxious to introduce the Bill as quickly as possible, and I would therefore welcome your early views.

I am copying this letter to the Prime Minister, John Nott, Keith Joseph and Sir Robert Armstrong.

*Handwritten initials and signature:*  
L  
David

D A R HOWELL

C O N F I D E N T I A L



BNOc LEGISLATION: PROPOSED FINANCIAL STRUCTURE AND RELATED PROVISIONS

1. This note summarises current financial proposals for the forthcoming legislation.

FINANCIAL STRUCTURE

2. It is proposed that the Corporation should be placed on a footing similar to other nationalised industries in its access to Government finance after its link to the NOA has been severed. This would involve:

- a. a power for the Secretary of State to specify by Order the date when BNOc's link to the NOA would be terminated;
- b. a power for the Secretary of State to determine, by Order, the initial capital structure of the Corporation;
- c. no change in BNOc's current borrowing powers as specified in the PSPA, which give it access to the National Loans Fund or, with the Secretary of State's consent, to external borrowings;
- d. a power for the Secretary of State to direct BNOc to pay into the Consolidated Fund such surplus profit or reserves which he shall determine, after consultation with BNOc and with the approval of the Treasury, to be genuinely surplus to the Corporation's requirements. The power would be along the lines of that contained in section 3(7) of the Airports Authority Act 1975 (copy attached).

FINANCIAL POWERS

3. It is proposed that the current control over the Corporation's power to lend (section 2(4)(d) of the PSPA) should be repealed provided that the Corporation give written assurance that it will abide by the administrative rules which govern lending by public sector corporations (attached). Existing controls over borrowing should remain: see 2(c) above.

STATUTORY BORROWING LIMITS

4. It is proposed that the Corporation's statutory borrowing limit should be extended to cover, not only all borrowing and guarantees by BNOc and relevant subsidiaries as at present, but also:
  - a. all financial indemnities;
  - b. the proceeds of forward sales of oil where these are designed to raise medium-term finance for capital investment: that is, where there is a contract for the sale of petroleum under which not all the petroleum required to be delivered is delivered within 12 months of the consideration being paid;
  - c. deferred purchase considerations, at the time when they are regarded as contingent liabilities for the purpose of BNOc's accounts.
5. As customary, the Bill should provide for an initial borrowing limit that may be increased subsequently by Order.

9 December 1980



(6) The Authority may, with the consent of the Secretary of State given with the approval of the Treasury, make charges to capital account representing interest on expenditure of a capital nature, being interest for any period which ends at or before the time when the project to which the expenditure relates is completed.

(7) Any excess of the revenues of the Authority in any accounting year over the total sums properly chargeable by the Authority to revenue account for that year shall be applied by the Authority in such manner as the Secretary of State, with the approval of the Treasury and after consultation with the chairman of the Authority, may direct; and the direction may require the whole or any part of the excess to be paid to the Secretary of State.

(8) Any sums received by the Secretary of State under this section shall be paid into the Consolidated Fund.

The  
commencing  
capital debt.

4.—(1) In this Act "the commencing capital debt" means the debt which was assumed by the Authority on 1st April 1966 under section 4 of the Act of 1965 as a debt due to the Minister of Aviation and which was subsequently reduced under subsection (3) of that section to £52.91 million.

(2) The rate of interest payable on the commencing capital debt, the arrangements for paying off the principal and the other terms of the debt shall be such as the Secretary of State may with the approval of the Treasury from time to time determine.

(3) Any sums received by the Secretary of State by way of interest on, or repayment of, the commencing capital debt shall be paid into the National Loans Fund.

Borrowing  
by the  
Authority.

5.—(1) Subject to the limit in subsection (4) below, the Authority may borrow temporarily, by way of overdraft or otherwise, in sterling or, with the consent of the Secretary of State (which shall require the approval of the Treasury), in currencies other than sterling, such sums as the Authority may require for meeting its obligations or discharging its functions under this Act; but the aggregate of the amounts outstanding in respect of any temporary loans raised by the Authority under this subsection shall not exceed such limit as the Secretary of State may for the time being have imposed on the Authority for the purposes of this subsection by a direction given to the Authority with the approval of the Treasury.

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## INVESTMENT OF TEMPORARY SURPLUS FUNDS

The rules governing the investment of temporary surplus funds were last drawn to the attention of the nationalised industries in 1972. It therefore seems desirable to restate them.

2. As a general rule, nationalised industries with temporary surplus funds should place them with the public sector, and not with the money markets.

That is to say that such funds should be placed in Treasury bills or other central Government debt, local authority debt or loans to other nationalised industries or public corporations.

3. The reason for this rule is that it helps to reduce the financing requirements of the public sector as a whole. Investment of temporary surplus funds outside the public sector increases the public sector borrowing requirement (PSBR) and the monetary aggregates. Moreover, the need to reduce the monetary impact of a higher PSBR by additional sales of public sector debt will tend to increase the general level of interest rates in the economy.

4. At the same time it is accepted that completely rigid adherence to the general rule is not possible. Nationalised industries borrow from the banks; and it is obviously unrealistic to insist that their bank accounts should never go into surplus. As a rule, however, funds not immediately required to meet payments and which are therefore available for temporary employment should be invested in the public sector. If difficulties are encountered in finding suitable public sector outlets, the Treasury would be willing to discuss the situation and in such circumstances may be willing to agree to some alternative investments on a modest scale.

HM. TREASURY  
27 April 1978



Extract from 1978 White Paper "The Nationalised Industries" (Cmnd 7131).

82. The Government sees this control over financing requirements as a proper discipline on the industries' financial management, and the industries accept it as such. It allows departments to keep in close touch with developments in the industries' short-term financial position but to do so in a systematic and orderly way. The publication of the financing requirements in the form of cash limits is a useful step forward towards the objective of greater public accountability.

#### Capital structure and sources of finance

83. To the extent that they cannot meet their financing requirements from their own resources (profits and depreciation), the nationalised industries rely primarily on loan finance; for their medium and long term requirements, from the National Loans Fund or by foreign borrowing; and, for their short term temporary requirements, from the banks. In addition, some of them are also financed by grants; and some of them by Public Dividend Capital, on which they pay dividends to the Government.

84. The N.E.D.O. consider that the methods of financing the industries are not based on a consistent rationale. They argue that the arrangements take inadequate account of risks, that the burden of fixed interest debt can be too onerous in some cases, that the proportion of funding from reserves seems to be based on historic accident rather than principle, and that there are no convincing principles to serve as a basis for the current and future use of Public Dividend Capital.

85. The Government does not accept this criticism. It is true that the proportion of funding from reserves varies, but this results from the very varying financial circumstances and history of the industries. As explained in the following paragraphs, there are longstanding principles for Public Dividend Capital, and the Government does not accept that the majority of the nationalised industries need "risk capital". But it will introduce some greater flexibility in the arrangements for borrowing from the National Loans Fund which will be helpful to the industries.

#### Public Dividend Capital

86. The Government reaffirms that Public Dividend Capital will be made available only to those nationalised industries which are expected to be both fully viable and also especially subject to cyclical fluctuations in their returns as a result of their trading conditions and the nature of their assets. The nationalised industries which are now statutorily eligible to receive P.D.C., as well as loan finance, are: Airways, Steel, Giro, Aerospace and Shipbuilders (The interim basis for financing the British Steel Corporation is described in Cmnd 7149). Apart from Giro, which is in competition in the banking sector, all these industries are operating in highly competitive international markets. It is right that they should have a capital structure which does not create an annual obligation to pay an unduly large fixed amount of interest during the downturn of their trading cycle. Otherwise their published trading results could well affect their ability to win new business in their international markets. This is not to say that the issue of P.D.C. gives them a soft option. The Government would generally expect that over the period of an industry's business cycle, taking the good and bad years together, the average level of gross dividend payments would be at least as much as the interest which the Government would have received if it had advanced the money from the National Loans Fund.



87. The Government does not intend to take new statutory powers to make P.D.C. available to nationalised industries other than the five which are now eligible for issues. It is sometimes argued that nationalised industries should have P.D.C., or some form of equity finance, because a private sector company has risk capital in its balance sheet. But this argument ignores a fundamental difference between a nationalised industry and a private sector company. The latter has to arrange its borrowing so that it is not too highly geared. Its gearing ratio—the proportion of loan to share capital—will vary according to the riskiness of its activities, but if it does not have a sufficient proportion of share capital it will fail to attract further capital, share or loans. A nationalised industry in contrast looks to the Government for all its external finance which it is given either directly or with the Government's guarantee or agreement. To obtain this finance it has to satisfy the Government of the need for it, but this is done by reference to analyses of proposed investment programmes and market and financing prospects, and capital structure as such is irrelevant to the decision.

88. Some nationalised industries would in any event fail the viability test. It has always been made clear that P.D.C. is not suitable for industries which have difficulty in breaking even taking one year with another, because it would then become little more than an interest free non-repayable advance—in effect a grant. There are other industries which are financially much stronger and which no doubt could pay dividends if they had P.D.C. It is true, as N.E.D.O. point out, that these industries are not free from some degree of risk. However, it is risk of a different order from that faced by those nationalised industries which operate in international markets, and which are subject to marked cyclical variations in their trading, and from private sector companies which could in the last resort go bankrupt. The Government has, therefore, decided that those industries which are not now eligible for Public Dividend Capital will continue to be financed by loans and, in some cases, grants. The formal obligation to pay interest on loans is a discipline on these industries and, in the absence of a stimulus from the stock market to pay dividends, it is the best way of ensuring that they remunerate the finance with which the Government provides them. This is by intention a rigorous approach and if, exceptionally, it leads to a capital write-off the circumstances will be fully explained to Parliament. Where grants are made to an industry the reasons will be made public, and explained when the powers are taken and estimates laid before Parliament; and the amounts will be controlled.

#### Financing of the British National Oil Corporation

89. The British National Oil Corporation is in a special position with regard to financing. Government finance for the Corporation is channelled through the National Oil Account, into which all B.N.O.C.'s own revenues also flow, and which is under the direct control of the Government. B.N.O.C. therefore does not possess a conventional capital structure as such. But the Corporation operates in a highly competitive international market and the arguments in favour of flexibility set out in paragraph 86 above apply equally to it. The Government has therefore agreed with the Corporation arrangements whereby in due course 40% of its capital employed will be treated as being subject to interest, and the remainder as equivalent to equity capital on which there will be a variable return depending on the Corporation's profits and prospects.





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Gweny

Ref. A03804

PRIME MINISTER

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BNOC: Timing of the Clyde Oil Field Development

(E(80) 142 and 149)

BACKGROUND

At their meeting on 15th September the Committee invited the Secretary of State for Energy to arrange for the deferral of the development of the Clyde field by five years, unless detailed examination of that prospect convinced him that the Committee should reconsider the question (E(80) 33rd Meeting, Item 3).

2. The Secretary of State for Energy is now so convinced and, in E(80) 142, he recommends delay by two years only so that the first oil would be produced in 1987 rather than 1990. His main arguments are:-

- (i) The public expenditure costs of delay by two years would be the same as for five years, because BNOC would be prepared to undertake sales of oil for advance payment in each year (paragraphs 5-7).
- (ii) A platform order for Clyde would boost the offshore supplies industry, and Scottish employment, in a period of run-down and of uncertainty over the prospects for orders for exploration rigs (paragraphs 8-10).
- (iii) BNOC say that a five year deferral would lead to dispersal of their key project management teams; and that Government intervention in this way could affect the prospects for the Revenue Bonds scheme and the ability in future of BNOC to form partnerships for North Sea exploration and development (paragraphs 11-13). These points are put strongly in the letters at Annexes A and B from the Chairmen of BNOC and of Shell.
- (iv) The bulk of Clyde production will be in the 1990s when production overall is falling (the figures are tabulated in Annex 1(a) and shown graphically in Annex 1(b)). Intervention to defer Clyde, on top of the proposed tax on oil production, could discourage exploration (paragraphs 11-17).

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3. The CPRS in E(80) 149 draw attention to the counter arguments in favour of a five year delay:-

- (i) Although the amounts are relatively small, deferral by five years would help to extend the period of the United Kingdom's net self-sufficiency and avoid adding marginally to our net exportable surplus in 1987. Deferral would also lead to benefits from the increases in oil prices in real terms.
- (ii) They are sceptical over the significance of the implications for employment, exploration effort, and the impact on the offshore supply industry.
- (iii) They suggest that the proposed additional forward oil sales could take place even if Clyde were deferred for five years - though BNOB would strongly resist this.

HANDLING

4. After the Secretary of State for Energy has introduced his paper you will wish to invite Mr. Ibbs to put the counter arguments. You might then ask the Chancellor of the Exchequer whether he is satisfied with the argument that the two courses are now neutral in public expenditure terms. Lord Mansfield (who is representing the Secretary of State for Scotland who is in Brussels) and the Secretary of State for Industry will wish to comment on the employment and industrial implications. The development is subject to Scottish law and the Lord Advocate, together with the Attorney General, is present to deal with any legal questions - although I understand that his view is that there are no legal objections to either two or five years deferral.

CONCLUSIONS

5. In the light of the discussion you will wish to record conclusions:-
- Either confirming the Committee's decision on 15th September that there should be a five year delay;
- or approving the Secretary of State for Energy's recommendation of a two year delay subject to increased advance sales of oil to ensure that the public expenditure costs would be the same as for a five year delay.

RA

(Robert Armstrong)

15th December, 1980





PRIME MINISTER

ENOC: TIMING OF CLYDE OILFIELD DEVELOPMENT

The Central Policy Review Staff have circulated comments on my paper on Clyde which we are due to discuss in E Committee tomorrow (E(80)149 and 142 respectively).

There is much in their paper with which I disagree. I should like to comment on some factual points before we meet.

The CPRS refer to estimated production from Clyde of 6 million tonnes. This needs to be clarified. Peak production from Clyde is not expected to go much beyond 2 million tonnes per annum. The CPRS figure refers to total production over three years. As they say, the quantity is small.

The CPRS refer to the possibility of a 5-year delay easing upward pressure on the exchange rate. It would be quite wrong to rely on this. Our decision will not affect oil flows for 5 years or more and it would be surprising if foreign exchange markets looked this far ahead. Even if they did, it is not clear what conclusion they would draw (press reports so far have emphasised PSBR considerations, not depletion policy). It is arguable that the effect might be the opposite of what the CPRS anticipate, for instance if the markets took confidence from the fact that we were extending our self-sufficiency.

The CPRS refer to a two-year delay as an extremely expensive form of job-creation. This is misleading. Though employment is important, the central point is the need to preserve a core capacity to build platforms. Other platform orders will come up in the next few years, but Clyde is the only one we can be confident will come to the UK. Morecambe Bay and Rough will not require major structures of the kind which platform yards are designed to produce.

Finally, the CPRS argue the merits of developments delays compared with production cutbacks. We have not yet decided our policy in this area but I would not accept that production cutbacks would necessarily have a more





capricious effect on oil companies. They are themselves far from unanimous in their own preferences as between delays and cutbacks. Development delays fall unevenly on only a few companies and can be damaging. The effect on ENOC of a five year delay on Clyde is a case in point.

I am copying this minute to other members of E Committee, and to Sir Robert Armstrong.

*JA*

Secretary of State for Energy  
15 December 1980



01 211 6402

CONFIDENTIAL

Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1

*Not yet*

*12*

5 December 1980 *1/11*

*See Summary*

SALE OF SHARES IN BNOC

*€ (20) 32 Mtg Item 3*

You will recall that we decided in E Committee in September that the forthcoming Petroleum and Continental Shelf Bill should include powers to sell shares in BNOC's upstream operations.

There are several ways in which we might frame the legislation but I believe that in present circumstances, when no decisions on the introduction of equity have been taken, the best course would be to base ourselves on the concept of BNOC setting up a subsidiary, transferring upstream assets to it and then selling shares in the subsidiary. There are a number of reasons for this approach.

First, it would be consistent with our undertaking to keep BNOC's trading arm as a wholly owned Government activity; and although BNOC's operating agreements with North Sea partners would have to be renegotiated, their participation agreements which are important for our security of oil supplies would be untouched. For these reasons alone, I believe that the approach I am proposing is greatly preferable to, say, taking power to sell shares in BNOC itself.

Secondly, I would hope that the necessary provisions in the Bill could be relatively short and simple, perhaps amounting to little more than an amendment to the scope of BNOC's existing powers so as to enable them to sell shares in a subsidiary even though this might run contrary to their other statutory functions (a provision similar in principle to the approach we are adopting on the Radio Chemical Centre). We would also need to make some provision for the situation in which only a minority interest in the subsidiary was to be sold, since in these circumstances we might well need to give prospective investors a clear definition of the future relationship between the subsidiary, BNOC and Government. To meet this I intend to propose a new power to enable me to exempt a subsidiary into which equity is to be introduced from specified provisions of the Petroleum and Submarine Pipelines Act 1975 which could otherwise prove incompatible with such undertakings.



CONFIDENTIAL



2.

Thirdly, the approach I am proposing would leave us considerable flexibility about the precise scheme to be adopted. It would in particular allow us to sell either a minority or a majority interest in the subsidiary, an issue on which we need take no decision now. There would be no implication in the legislation that we would proceed one way or another. It would also leave open the question of what upstream assets should be involved in the exercise.

I would also hope that the legislation would be sufficiently broad to cover the sale of some of the shares to BP in return for BP shares, if we wished to proceed in this way, and also to cover transfer of some or all of the shares in the subsidiary to myself in case we felt that this was desirable in order to demonstrate a break in the link between BNOC and the subsidiary.

There could of course be difficulties. In particular, it has not proved possible to devise a way of ensuring that control of the subsidiary would remain in British hands if we sold a majority interest, given the requirements of the Treaty of Rome. More generally, there is a risk that powers like these, drafted in the abstract without reference to a particular scheme, will later turn out not to permit everything that is required, though this is inevitable unless we spell out a scheme in detail in the Bill.

Overall, I believe that the approach which I have described, which takes account of the extensive discussions which we had on this subject in the past 18 months, is the best basis on which to proceed. The important thing now is to complete the drafting of the Bill which, if it is to have a realistic timetable in Parliament, will need to be introduced as early as possible when Parliament resumes after the Christmas break. Unless you have major objections to the approach which I am proposing, I suggest that our officials who are already in touch should consult closely as drafting proceeds over the next couple of weeks. I am assuming that any tax aspects which might arise will be dealt with as necessary in a Finance Bill.

I am copying this letter to the Prime Minister and other members of E Committee, to the Chancellor of the Duchy of Lancaster and to Sir Robert Armstrong.

D A R HOWELL

*Howell*

*David*





Energy

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

13 November 1980

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

R 14

*Dear David*

UKCS OIL PRICING

Thank you for sending me a copy of your letter of 30 October to Ian Gilmour in which you seek approval to the adoption of the procedures for determining North Sea oil prices set out in paragraph 11 of the officials' note attached to your letter.

This is just to say that I am content to adopt the procedures set out in paragraph 11. As you say, they ought to give us the opportunity to intervene on substance if the need arises while in normal circumstances allowing BNOG an appropriate degree of commercial freedom of specific price determinations.

I have noted that BNOG have reserved their right to invite you to issue a direction if they are exposed to financial risk as a result of Government policy on UKCS oil prices. My only point here is that the Treasury too would have a strong concern in view of the obvious public expenditure consequences.

I am sending a copy of this letter to the Prime Minister, the Lord Privy Seal and Sir Robert Armstrong.

*[Handwritten signature]*

GEOFFREY HOWE





*M. Lannister*

Foreign and Commonwealth Office  
London SW1

7 November 1980

*7.*  
*19-*

*Mrs David,*

UKCS OIL PRICING

Thank you for your letter of 30 October. I welcome the paper which you circulated with that letter and I agree that we should adopt the paper's recommendations for future consultation between the Government and BNOC.

I agree that where there is a risk of financial loss to BNOC because of pressure by the Government to restrain prices it would be reasonable for the BNOC Board to ask for a direction from you. We must be careful, however, not to allow BNOC to get themselves into the position which they were in earlier this year when they fixed their selling prices before agreement had been secured by all producing companies on their buying prices. As the paper which you circulated makes clear (paragraph 10), it was BNOC's judgement which led them to this decision. The fact that the Corporation were exposed to the risk of financial loss was not the responsibility of the Government. This is something on which they should surely have consulted the Government on the earlier occasion, and they should do so in future if ever they contemplate a similar gambit.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer and the Secretary to the Cabinet.

*yes ✓*  
*lan*

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



Energy

GF  
This if (when) they  
are connecting

01 211 400

The Rt Hon Sir Ian Gilmour Bt MP  
Lord Privy Seal  
Foreign and Commonwealth Office  
Downing Street East  
LONDON  
SW1

(TREASURY)

30 October 1980

*Jan*

MBM  
ret  
RLG

UKCS OIL PRICING

When we corresponded in May about a particular change in the level of UKCS oil prices I said that I had asked my officials, in consultation with those concerned in your Department and at the Treasury to examine the way BNO's price determinations work and to report their conclusions and recommendations.

Our officials produced the enclosed paper, which describes the constraints which apply to price setting by BNO and to the Government's involvement in that process and concludes by recommending the procedures set out in paragraph 11. These procedures are designed to ensure that we can give early consideration to any proposed price moves, in case there appear to be any overriding policy reasons for restraining normal market operations. Otherwise they leave BNO free, within the bounds of our pricing policy guidance and after consultation on presentational aspects of price changes, to determine particular buying and selling prices in accordance with shifts in the market. The policy guidance under which the Corporation is currently working requires them to secure full term market prices for UKCS crudes but on a basis which demonstrates that UKCS crude prices are following and not leading the market.

I thought it right to seek the views of the new chairman of BNO before putting the paper to you (though this has had the effect that some of the comment in the paper on current events is now out of date). He has given the matter mature consideration and has consulted his Board. He has now written to say that he agrees with the recommendations drawn up by our officials, subject only to the reservation that should BNO be exposed to risk as a result of Government policy it would be necessary for the Board to consider the position in advance and, if necessary, invite me to issue a direction. This is reasonable, though the Board will need to act fast if the occasion ever arises.



(2)

These new procedures will, in my view, give us the opportunity to intervene on substance if the need arises while in normal circumstances allowing BNOC an appropriate degree of commercial freedom on specific price determinations. Experience since officials drafted them in the summer shows that they work. I hope you and the Chancellor will agree that we should adopt them for the future.

I am sending copies of this letter and enclosure to the Prime Minister, the Chancellor of the Exchequer and the Secretary to the Cabinet.

Yours  
David

D A R HOWELL



## PRICE SETTING FOR UKCS CRUDE OIL

### The Market in UKCS Crude Oil

Nearly 60% of UKCS crude oil passes through BNOC's books. The bulk of this oil is made up of participation crude which producers must sell to BNOC, but also includes BNOC's own equity crude and royalty-in-kind which is traded on behalf of HMG. The balance of 40% remaining in the hands of producing companies is mainly retained for use in their own refinery systems either in the UK or abroad, with only about one quarter, or 10% of the total, sold on the open market by those companies without European refining or other downstream interests. Thus the open market in UKCS crude oil is dominated by BNOC's transactions.

2 BNOC's sales of equity, participation and royalty oil amounted to almost 332 million barrels in 1979, with a turnover of nearly \$6 billion. Apart from its equity crude, however, the Corporation acquires its oil at market prices, and as a result its trading profit on participation oil was only \$12m, or 0.2% of turnover.

### Price Negotiations

3 HMG has no power to determine UKCS crude oil prices except in an emergency or to meet IEA or EEC obligations (Energy Act 1976, section 1(4)). The Petroleum and Submarine Pipe-lines Act 1975 (section 4) empowers the Secretary of State to give directions to BNOC, but this power could not be used to override the Corporation's contractual obligation to pay market prices for the oil it purchases from producing companies under the participation agreements (paragraph 5 below). It is possible that a direction could be given to control selling prices; but insofar as it might lead to a financial loss for BNOC (if selling prices were set below the costs of acquisition) there are legal doubts that compliance with such a direction might lie outside BNOC's powers under section 2(1)g of the Petroleum and Submarine Pipe-lines Act.

4 Under the terms of the participation agreements, producing companies have a contractual right to market prices for the oil they sell to BNOC. If agreement on prices cannot be reached with BNOC, there is provision for expert determination which is binding on both parties. The expert acts as an expert and not an arbitrator.



Whilst in general it could be expected that the expert would determine a price close to the levels suggested by BNOC, there is a real risk that in times when UK interests may be best served by a degree of restraint in pricing, the expert will determine a level higher than that proposed by BNOC. This is particularly true where OPEC producers may be imposing a variety of premia for other than strictly market reasons. BNOC if it is to avoid financial loss must, of course, set selling prices to its customers which reflect its costs of acquisition.

5 The participation agreements and BNOC's selling contracts specify that prices should be agreed prior to the beginning of each Quarter and indeed most provide that where agreement cannot be reached the matter be put to expert determination some 10 to 30 days prior to the commencement of a new quarter. In practice, however, the market is rarely sufficiently settled for this to be possible, and by mutual agreement and goodwill pricing discussions usually continue into the Quarter in the expectation that once agreed prices would normally be effective from the first day of the Quarter. In this process BNOC has to deal with about 40 different companies, and in order to satisfy the various conflicting interests and to bring the price negotiations to an effective conclusion, the Corporation has to be able to take quick decisions based on its own commercial judgement. In present market circumstances the greatest pressure for higher prices comes from some 16 companies, 6 UK, 1 Norwegian and 9 US, who produce the 10% of crude going to the open market referred to in paragraph 1, and who are concerned solely with maximising crude oil prices.

6 Once set for a Quarter prices are not immutable. Many of BNOC's buying and selling agreements/contracts provide for re-negotiation of prices if market prices move. Whereas many participation agreements give producing companies the right to renegotiated prices from the date on which a review is sought, BNOC's selling contracts generally provide for operational reasons for 15 days in which to agree a new price. Whilst this is essential for operational reasons since cargoes cannot be cancelled at short notice, it could lead to trading losses if customers are unwilling to agree the price change and effective date thereof. In fact customers have not so far seriously challenged the effective date of any price increases. Nevertheless BNOC are continually seeking to eliminate this risk by re-negotiating the relevant part of their sales contracts where possible.



7. But whether ENOC is dealing with prices for a new Quarter or with mid-Quarter changes in price, it will always try to bring the negotiations to a speedy conclusion because delay increases the prospect of being forced to expert determination and possibly higher prices than may be considered justified or desirable. Any delay also raises the issue of retrospectivity which creates administrative problems for companies and is open to broader political objections. In this context however it is important to distinguish between ENOC increases which may be made effective from the date on which notice of prospective changes was given to customers and the practice of some OPEC countries from time to time to increase prices retrospectively and without prior notice by a month or more.

#### The Market Price

8. Until last year world oil prices were customarily based on a Saudi Arabian Light marker price, with the prices of other crudes determined by differences in quality and location. The upheavals in the oil market following the Iranian crisis have resulted in price fragmentation, with the light, low sulphur African crudes becoming the market price leaders and opening up a wider price gap over Middle East crudes than the traditional relationship would suggest. UKCS crudes are generally light and low in sulphur, and are regarded in the market as comparable to the main African crudes from Algeria, Libya and Nigeria. They are much in demand in present market conditions and therefore in the forefront of the market alongside African crudes. The absence of consistent price differentials even as between the various African crudes leaves ENOC with difficult problems in assessing and agreeing with its suppliers/customers just where UKCS prices should be at any given moment. To illustrate this point, UK Forties is arguably underpriced at present against Libyan Es Sider but overpriced against Libyan Zueitina and Nigerian Bonny Light (this demonstrates the inconsistencies between various African prices); an acceptable balance has to be struck in relation to the market situation.

#### Government Role

9. As noted in paragraph 3, HMG has no powers to control crude oil prices other than the somewhat doubtful possibility of a direction to ENOC on selling prices. Without a direction ENOC is unlikely to agree to restrict selling prices below buying prices unless Government was prepared to cover any financial loss. In general, therefore, HMG is likely to be in a position to influence only the timing and presentation of price changes. Even this requires sensitive handling, depending on the cooperation both of producing companies and of ENOC.



10 In October/November 1979 the Department of Energy were able to persuade ENOC and the oil companies to hold back an increase in UKCS prices, until the Nigerians had announced their intention to move into line with earlier increases imposed by the Algerians and Libyans, but two companies held out against this pressure for a considerable period. Again in January of this year following consultation with HMG, ENOC successfully resisted pressure for an increase in 1st Quarter UKCS prices. In order to give this position credibility in the market place, ENOC judged it right to fix their selling prices before agreement had been secured from all producing companies on their buying prices. This stand, which exposed the Corporation to the risk of financial loss succeeded only because heavy pressure was applied to producing companies, who were effectively being asked by the Department of Energy and its US counterpart to forego revenue to which they were contractually entitled. In the event the Corporation kept the actual loss to around \$600,000 but their potential exposure was very much greater. A number of companies have since made it clear that HMG should not expect them again to be prepared to forego revenue to which they have a contractual entitlement. It should be noted that whenever Government attempts to hold back price increases in this way, there will always be the risk of exposing ENOC to financial loss and Ministers will need to weigh up the public expenditure consequences of such action.

#### Future Government/ENOC Consultations

11 To sum up, every time there is a shift in market prices, ENOC has to conduct a complex series of negotiations with its suppliers and customers. There is always the danger that Government intervention over the timing of increases could result in higher prices through expert determination than ENOC might have achieved given freedom of action. There could, too, be trading losses for ENOC if Government intervention resulted in crude oil acquisition costs which ENOC was unable to cover completely with its selling prices. Against this background, officials propose that the following approach should be adopted:

- (i) The Government will define to ENOC its broad pricing policy and ENOC will continue to be responsible for seeking price settlements in line with that policy. At present that policy involves securing full term market price for UKCS crudes but on a basis which demonstrates that UKCS prices are following and not leading the market.



- (ii) BNOG will inform the Department of Energy as soon as it perceives any change in market prices and the extent to which this is likely to put pressure on UK prices;
- (iii) Department of Energy will inform other interested Departments. Ministers will be consulted if there appear to be special reasons for attempting to restrain normal market forces;
- (iv) in the absence of any decision within Government to seek to intervene, consequent on the consideration at (iii) above, BNOG will be free to determine the appropriate prices for the crudes it sells in accordance with the Government's pricing policy and with shifts in the market;
- (v) BNOG will inform the Department of Energy as soon as possible, and in any case not less than a full working day, before implementing the precise changes at (iv) above in order to provide an opportunity for the Department and the FCO to make available any appropriate presentational guidance.

Department of Energy

July 1980



original in GR.

6/3/80  
PRIME MINISTER

This letter from Roger Sims is about the Burmah Shareholders' representations.

In the past, you have dealt with all such letters by sending them to the Chancellor. This one is a bit more difficult because Roger Sims is concerned about the attitude of Treasury Ministers.

What would you like to do with it? Would you rather reply yourself, saying that you are in a special position because of your husband's former connection with the company but know that the Chancellor and his colleagues have given a great deal of thought to this question before reaching their decision; or would you prefer us to ask the Chancellor to reply on your behalf?

1 had better write to  
G.H about it. MS

9 October 1980

MS



9 October 1980

I am writing on behalf of the Prime Minister to thank you for your letter of 6 October about the representations which have been made recently by the Burmah Shareholders' Action Group. I will of course place your letter before the Prime Minister as soon as she returns from Brighton and you will be sent a reply as soon as possible.

N.J. SANDERS

Roger Sims, Esq., M.P.



CONFIDENTIAL

u60  
HMT

JR



Energy

10, DOWNING STREET

From the Private Secretary

7 October 1980

BNOC Announcement

The Prime Minister has now considered your Secretary of State's minute of 2 October, and also the Chancellor of the Exchequer's of 3 October. She agrees that Mr. Howell should announce the Government's proposals for BNOC at the Party Conference, on the lines suggested in his minute, but subject to the amendments proposed by the Chancellor (or at any rate their substance).

I am sending copies of this letter to Peter Jenkins (HM Treasury) and David Wright (Cabinet Office).

J. P. LANKESTER

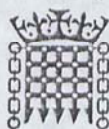
Julian West, Esq.,  
Department of Energy.

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From: ROGER SIMS JP MP

✓setg



original in CR.

HOUSE OF COMMONS  
LONDON SW1A 0AA

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister,  
10 Downing Street,  
London, SW1.

ra

6th October 1980

Dear Prime Minister,

I am very concerned at the Government's attitude to representations from the Burmah Shareholders Action Group, some of whom are my constituents. As you will know from the leaflet which they circulated, a number of Members of Parliament (several of whom are now Ministers) were highly critical of the action taken by the previous Government in 1975 and indicated every support for the shareholders' views.

It really does not seem to me to be good enough for Treasury Ministers now to plead their inability to intervene because the Burmah Oil Company has instituted legal proceedings against the Bank of England. As the Action Group point out, although the Bank of England is the most appropriate body against whom Burmah could proceed, in this instance certainly it was acting on behalf of the then Government and action by the present Government could render further legal proceedings unnecessary.

I am naturally worried at the extent to which the Government's good faith is being brought into question in this matter and do hope that this apparent impasse can be resolved without further disillusionment being allowed to accumulate.

*[Faint handwritten signature and notes]*



CONFIDENTIAL

Ref. A03147

MR. WHITMORE

*MBM*  
*R*  
*7/10*  
BNOG Announcement

*with CAW?*  
With his minute of 2nd October the Secretary of State for Energy has sent the Prime Minister the draft of a statement which he proposes to make at the Party Conference about BNOG revenue bonds.

2. The Ministerial Committee on Economic Strategy (E(80) 32nd Meeting, Minute 2, Conclusion 3) invited the Secretary of State to announce the Government's proposals after he had established whether the revenue bonds could be traded on the Stock Exchange and, if possible, at the Party Conference. The implication was that he should not make the announcement at the Party Conference if he had not by then established whether the revenue bonds would be marketable. What he now proposes, therefore, goes against the Committee's conclusions, since it has not yet been established whether the bonds would be marketable or not.

3. If the Secretary of State makes his announcement in the form he proposes, the implication - by omission - will be that the new revenue bonds will not be marketable on the Stock Exchange. It would be more difficult to add marketability later; but of course less difficult to do that than to announce now that the bonds would be marketable and then to have to say later that they would not be.

4. The Prime Minister should be aware of the implication of going ahead with the statement now without any reference to marketability. But I would not myself wish to advise her on that account to object to the Secretary of State for Energy making his statement. Given that the bonds are to be encashable at par at any time, marketability would be something of a gimmick; and it would no doubt add to the cost of administering this particular form of small savings. I doubt whether anything substantial will be lost if the idea of marketability fails to survive.

*REA*  
ROBERT ARMSTRONG

3rd October, 1980

CONFIDENTIAL





Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

BNOC ANNOUNCEMENT

David Howell has sent me a copy of his minute of 2 October to you in which he seeks approval for the draft of a statement on our proposals for BNOC which would be included in his reply to the debate on Energy at the Party Conference on Thursday morning.

2. I fully agree that David should give full prominence in his speech to our proposals. There is an important and positive political message to be conveyed here which reflects a fundamental plank in our philosophy. But I do believe that the passages in the draft announcement on the powers for equity participation in BNOC's business go beyond the proposals David made in E(80)95 which were agreed by the Committee on 10 September (E(80)32nd Meeting, Item 2). In paragraph 10 of his paper to the Committee David made clear that he had no present plans for the issue of equity shares in BNOC's upstream operations and indeed he sought no decision from the Committee on the use of those powers (see the reference in line 4 of paragraph 10 to "... if we so decide"). The draft announcement assumes that Ministers have already decided to use the equity powers and it is just a question of when they will be used. I think the announcement ought to reflect more directly the agreement in E, particularly since some colleagues found difficulty earlier this year with the proposals which David made, and I supported, for substantial equity participation by the public in BNOC with control passing to the private sector.



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..... 3. I attach a revised draft of the announcement which I hope accurately reflects what we have agreed and which I suggest David should use in his speech.

4. I am sending a copy of this minute to David and to Sir Robert Armstrong.

*Obviously I am not wedded to the  
phrase words of my draft - which is meant to show  
a way to meet my point*

(G.H)

3 October 1980

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BNOC: PROPOSED ANNOUNCEMENT

In my earlier public announcement about the future of BNOC I stated our intention to ensure that the British public were afforded the fullest possible opportunity to share the benefits of the nation's oil wealth. At the same time we must maintain the arrangements we now have for maximising our security of oil supply.

2. Today I am able to announce further details of our plans for BNOC.

3. I will be proposing to Parliament that the forthcoming legislation on the future of BNOC should contain powers to enable the public to be given the opportunity to take an equity stake in the Corporation's North Sea business. The decision on any use of those powers is for the future. And I warn the Conference now that it would be a Promethean task to unravel the labyrinthine arrangements that our predecessors left. But it is a task to which we will give the closest attention in the period ahead.

4. Even if these new powers are used to sell equity to the investing public and the people through their pensions and insurance funds, the sale would not necessarily touch the wider millions of families, whose oil this is and who, we are determined, should form part of the capital-owning democracy. Ours, after all, is the party of genuine public ownership.

5. Therefore, we also plan to offer the public opportunity for a direct share in the benefits of the North Sea. We



will do this through the creation of a revenue bond scheme linked to BNOC's commercial fortunes and performance. Members of the public who buy these bonds will be entitled to interest payments linked directly to the revenues from specified BNOC fields. The return to the holders will thus be dictated by the level of BNOC's oil production and by the price of oil. And savers will be able to buy these bonds in small denominations, and to encash them at any time.

6. This will be a first opportunity for the British public on a very wide scale to share in the risks and rewards of one of Britain's newest and most exciting enterprises; and the bonds which we propose to create in this way will provide a unique investment medium for the small saver.



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Prime Minister

1

PRIME MINISTER

*Agree - as no objection  
by the Chancellor.  
not.*

E Committee agreed that  
Mr Howell should announce  
this at the Party Conference.  
Mr Howell is willing to  
accept the Chancellor's  
comments (Flay A).

*Content?*

BNOC ANNOUNCEMENT

*Th  
G/L*

At E Committee on 10 September it was agreed that I should  
aim to announce our proposals for BNOC at the Party Conference.  
I now attach the draft of a statement which, subject to your  
views, I would propose to include in my reply to the debate  
on Energy on Thursday morning.

The draft does not refer to the question discussed at E  
Committee of whether the revenue bonds we are to issue might  
be traded on the Stock Exchange. Officials and their Merchant  
Bank advisers have been studying this matter urgently. However  
I am advised that the conclusions they have been able to  
reach in the time available are insufficiently conclusive to  
justify public reference to marketability at this stage.

I am copying this letter to the Chancellor of the Exchequer  
and Sir Robert Armstrong.

*D.G.  
~*

SECRETARY OF STATE FOR ENERGY

2 October 1980





## BNOC: PROPOSED ANNOUNCEMENT

In my earlier public announcement about the future of BNOC I stated our intention to ensure that the British public were afforded the fullest possible opportunity to share the benefits of the nation's oil wealth. Today I am able to announce further details of our plans.

Our goal is to give the British people the opportunity for direct ownership of BNOC's oil producing business. Our aim, when the timing is right, whilst maintaining the arrangements we now have for maximising our security of supply, is to give the company roots in the private sector. Accordingly we propose to table a Bill in Parliament which will include powers to sell to the public equity shares in this business.

I have to tell you that this unravelling will be a difficult task. As the Conference knows we would never have created these labyrinthine arrangements that our predecessors left, and it is going to be a Promethean task to break our way out. Moreover, while sale of some of the equity will involve the investing public and the people through their pension and insurance funds, it will not necessarily touch the wider millions of families, who's oil this is, and who, we are determined, should also form part of the capital owning democracy. Ours, after all, is the party of genuine public ownership.

Therefore, we also plan to offer the public opportunity for a direct share in the benefits of the North Sea. We will do this through the creation of a revenue bond scheme linked to BNOC's commercial fortunes and performance. Members of the public who buy these bonds will be entitled to interest payments linked directly to the revenues from specified BNOC fields. The return to the holders will thus be dictated by the level of BNOC's oil production and by the price of oil. And savers will be able to buy these bonds in small denominations, and to encash them at any time.

This will be a first opportunity for the British public on a very wide scale to share in the risks and rewards of one of Britain's newest and most exciting enterprises; and the bonds which we propose to create in this way will provide a unique investment medium for the small saver.





*Energy*

NEW ST. ANDREWS HOUSE  
ST. JAMES CENTRE  
EDINBURGH EH1 3SX

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

*Mark*

26 September 1980

*Dear David,*

I have just seen, on my return from Japan, the minutes of E Committee held on 15 September.

*£60,333 Mrg Jan 3 account*

I am writing to say that I am very concerned at the conclusion reached in relation to the timing of Clyde oilfield development. I fully accept that to give depletion policy credibility it is reasonable to go for some deferment in the fields where we can exercise this option. But I most strongly support the arguments advanced by you at the meeting and in the paper which you tabled for it that this consideration should be balanced with that of the need to temper the employment consequences of deferment of developments. I note that the conclusions record that you should be able to come back to the Committee on their decision if after further consideration you feel that it should be modified. I am therefore putting before you my strongly held view that the economic consequences of deferment for five years could be very grave.

There are currently five operational platform construction yards in Scotland. These employ about 6,000 in remote areas such as Kishorn, Nigg and Ardersier where there is no alternative employment and in other areas such as Fife and Ayrshire where unemployment is already very high. The economic and industrial benefits of course stretch far beyond the immediate locality of the yards to sub contractors based throughout Scotland and the rest of the UK and ultimately to the supply and service industries located primarily on the east coast. The potential shortage of orders has, therefore, very widespread implications. I accept that it would be unrealistic to plan any policy, particularly depletion, on the requirement of a constant workload in all five yards and I would not strenuously challenge your long term concept of "an essential core" of two steel fabricating yards for conventional fixed steel jackets though I think a case could be made for a third yard on the basis of keeping the other two up to the mark and filling any work which might otherwise go abroad.



As your paper made clear, to maintain two yards requires two major platform orders per year. Of the two recently approved fields, Brae will generate a platform order. As you know Hutton, the other field, involves the new technology tension leg platform where the hull section is, I understand, very likely to be placed with a shipyard. There is of course also considerable international interest in the order for the world's first TLP, both for the hull contract and the contract for topside facilities.

Mobile rigs have been suggested as a possible secondary source of work for the platform industry and indeed I believe a couple of yards are investigating the prospects but, as you well know, some of the skills involved and the facilities required are different (better suited I believe to shipyards) and new investment might well be required. For example the McDermott's yard at Ardersier - one of the most successful - would require dry dock facilities. This could well place that particular yard at a competitive disadvantage when bidding for any orders. Even if platform yards were able to win rig orders the widespread interest being shown in that area could simply mean that surplus capacity had been transferred from one sector to another with the consequence of weakening both.

In short the order situation for platforms is difficult. Whilst rig building could provide an alternative source of work such a switch is by no means simple in terms of the skills and facilities required and could create problems both for the platform industry itself and other industries trying to enter the market. The outcome of deferring the order for a large fixed steel jacket for Clyde could be that the very core industry which we would wish to see preserved could be placed in jeopardy with the consequential loss of employment in areas least able to handle such losses. I hope therefore that in the light of these factors colleagues will agree to reconsider their decision on Clyde and to agree that its deferment should be by two years only.

I am copying this letter to the Prime Minister and to other members of E Committee.

Yours ever,

George



010

Energy

PM



PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

Chancellor of the Duchy of Lancaster

18 September 1980

*R. D. Dewar*

*✓ NAD*

Thank you for your letter of 15 September, in which you sought drafting approval for the remainder of the Petroleum and Continental Shelf Bill in the light of the decisions taken at E(80)32nd Meeting.

I readily give authority for the necessary drafting work, and I am glad to see that your aim is to have the Bill ready for introduction early in the new session. The precise timing will depend on the progress with other Bills planned for next session, but your proposals will obviously be highly unpalatable to the Opposition, and I agree that there is much to be said for starting the Bill on its way as soon as reasonably possible.

I am copying this letter to the recipients of yours.

*John A. ...*

The Rt Hon David Howell, MP  
Secretary of State for Energy  
Thames House South  
Millbank





Energy

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

Tel 211 6402

The Rt Hon Norman St John Stevas MP  
Chancellor of the Duchy of Lancaster  
Privy Council Office  
Whitehall  
London SW1

R.  
179

15 September 1980

Dear Norman

Your Private Secretary's letter of 8 January, in response to my letter to you of 27 December 1979, conveyed your approval for Parliamentary Counsel to be employed on drafting the Petroleum and Submarine Pipelines (Amendment) Bill (since re-titled the Petroleum and Continental Shelf Bill).

The intention was to introduce the Bill this session and Parliamentary Counsel began drafting the necessary clauses. In the event, introduction had to be deferred. However, as you will know, Ministerial decisions have now been taken regarding BNOG (E(80)52nd Meeting) and once certain subsidiary points have been sorted out, it should be possible to instruct Counsel on the remainder of the Bill. In the circumstances, I should be grateful if you would confirm that we have your authority to do so.

Since the Bill is likely to be contentious and since, as I said in my paper to 'E' Committee, I have it in mind that the issue of revenue bonds should take place in the second half of 1981 if market conditions permit, I would hope that it will be possible to arrange for the Bill to be introduced early in the new session.

Copies of this letter go to the Prime Minister, the Chancellor of the Exchequer, the Attorney General and to Sir Robert Armstrong.

David

D A R HOWELL



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Ref. A02993

PRIME MINISTER

*Now - 11th paper - 5 - 11th paper - 2 years delay*

BNOC: Timing of Clyde Oilfield Development

(E(80) 98)

#### BACKGROUND

When the Committee discussed the nationalised industries investment and financing review in July (E(80) 24th Meeting) the Secretary of State for Energy was invited to bring forward "in due course" proposals on the timing of the development of the Clyde field. The point is that the Clyde field - of which BNOC owns 51 per cent and is the operator - is one of only two North Sea fields whose development is currently outside the "Varley" assurance of no imposed delay in development: and delay, by deferring capital expenditure, would save money on the PSBR in the short term at the expense of a delayed stream of profits in the long. The case can be argued, and deferment defended, on the basis of "depletion policy" but the quantities of oil are not large in relation to total production and the real question is whether the short-term gains to the PSBR outweigh the other consequences. The arguments for and against delaying development are set out in paragraphs 4 and 5 of the Secretary of State for Energy's paper. Legal advice is apparently that deferment beyond five years is in any case not acceptable and Mr. Howell's compromise proposal is that the development of Clyde should be deferred by two years. We understand that the Lord Advocate is still considering the legal advice on which Mr. Howell's paper is based (the development is subject to Scottish law) but is unlikely to dissent from it. Nevertheless we believe that he has asked Mr. Howell to make it clear that any decision in favour of delay - whether for two years or five - should be conditional on his, i. e. the Lord Advocate's, final legal clearance.

#### HANDLING

2. After the Secretary of State for Energy has introduced his paper you will want the views of the Chancellor of the Exchequer on the value of the PSBR benefits from the proposed course of action, together with those of

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Lord Mansfield (representing Scotland), the Secretary of State for Employment and Mr. Butler (representing Industry). All these latter Ministers are likely to argue against delay on grounds of lost industrial and employment possibilities.

CONCLUSIONS:

3. Only two conclusions are possible:-

EITHER

- (i) to agree to the deferment of the Clyde development for a specified period (two or five years) subject to final clearance with the Lord Advocate about the legality of imposing such a delay;

OR

- (ii) to agree that the development of the Clyde field should not be delayed.

RA

ROBERT ARMSTRONG

12th September, 1980

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Qa 05123

To: MR LANKESTER  
 From: J R IBBS

BNOC: Timing of Clyde Oilfield Development

1. At Monday's meeting of E Committee Ministers are due to discuss a memorandum by the Secretary of State for Energy on "BNOC: Timing of Clyde Oilfield Development". In this Mr Howell seeks colleagues' agreement to deferring the first oil from Clyde by two years.

2. The Clyde Field is not subject to the Varley assurances and development could be delayed by five years in sympathy with the broad principles of oil depletion policy agreed at E(80) 9th Meeting. A five year delay would reduce UKCS production by only 2 per cent over the period 1985/90 but it would reduce the projected production surplus over United Kingdom demand by 10 - 15 per cent. Because of the expected increase in the real price of oil, a five year delay would show an economic benefit in net present value terms (1979 prices) of £110m. In addition to this economic benefit, a delay of five years would reduce the PSBR in 1981/85 by £140m because BNOC would be deferring expenditure. There should also be a further £60m of Corporation Tax receipts from Shell/Esso on the assumption that if they do not invest in Clyde their total capital investment will be correspondingly smaller.

3. In the forthcoming discussions on public expenditure there will be few occasions where there is an opportunity to reduce the PSBR by up to £200m, whilst at the same time obtaining a substantial economic return and implementing a declared Government policy. The CPRS believes therefore that this opportunity should be seized and the development of Clyde be deferred the full five years.

4. The CPRS would raise the following points in response to Mr Howell's arguments in favour of a two rather than five year delay -

- i. a two year delay with a major platform order in 1984 would still leave a major lull in the platform yards from late 1981/early 1982. It is not clear therefore that a two year rather than five year delay is as great an improvement in terms of effect on the offshore service industry in Scotland as Mr Howell's paper implies;





ii. it is arguable that the most important aspect of BNOC operating arm is its exploration rather than development capability; there is no shortage of potential developers once the oil has been found. A five year delay would not disrupt exploration activity;

iii. the fact that Shell/Esso support BNOC's plans is not conclusive since this view represents their own commercial rather than the national interest;

iv. it is inevitable that there will be some fluctuations in workload for the technical staff in BNOC and from time to time arrangements will have to be made to overcome this, for example by hiring people out to other operators;

v. one advantage of having a national oil company is the flexibility it provides in implementing a depletion policy;

vi. because the BNOC revenue bonds are to be related to income from specified fields it is not clear why decisions relating to other fields need affect the launching of these bonds.

5. I am sending a copy of this minute to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'R.A.', is written below the text.

12 September 1980



CONFIDENTIAL



Foreign and Commonwealth Office  
London SW1

12 September 1980

*Mr. David,*

BNOG: DEVELOPMENT OF THE CLYDE FIELD

I regret that neither Peter Carrington nor I can be present at the meeting of E Committee on Monday, as we shall both be in Brussels for a meeting of the Foreign Affairs Council. Nicholas Ridley will also be away. I should, however, like to support your proposal that first oil from Clyde should be deferred only by 2 years. This will be the first concrete step since your announcement of our depletion policy, and it is likely to be studied with care by our EC and IEA partners. A deferral decision clearly less radical than the maximum which is open to us will be helpful in persuading them that we are giving due weight to their interests and in securing international understanding for our depletion policy. Conversely, we might stir up trouble by trying to do too much too quickly. Our careful presentation has paid dividends so far, and we should continue to play things in a low key as the autumn round of Community and IEA meetings gets under way.

I am sending a copy of this letter to the Prime Minister, to Members of E Committee and to Sir Robert Armstrong.

*Yours  
Ian*

The Rt Hon David Howell MP  
Secretary of State for Energy  
Thames House South  
Millbank

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Energy

PRIME MINISTER

British National Oil Corporation: Revenue Bonds Scheme  
(E(80) 95)

At their meeting on 4th August the Committee decided that, while they were sympathetic to the objectives of selling BNOC revenue bonds, they wished before coming to a final conclusion to consider a detailed report on the feasibility of the proposed scheme and on the case for enabling powers to provide for selling shares in BNOC. (E(80) 29th Meeting, Item 3). The Secretary of State for Energy now meets that remit in his memorandum E(80) 95.

2. Of the three schemes he discusses, he recommends Scheme A which is specifically aimed at the small investor. £500 million of revenue bonds would be sold by the Department of National Savings (DNS), probably in the second half of 1981. The maximum available to any one purchaser would be £2,000. The capital sum would be risk-free. There would be a floating rate of return linked to revenue from specified BNOC fields. The link would probably be with gross revenue to avoid the difficulties of variations in net revenue attributable to Government decisions on taxation of BNOC. Subject to further examination of the practicalities, the bonds would be tradeable on the Stock Exchange. This would give savers the opportunity of cashing their bonds at a better price than the guaranteed redemption price of par plus interest accumulated.

3. The alternative schemes which the Secretary of State rejects are Scheme B (the sale of a marketable stock to professional and institutional investors) and Scheme C (which attempts to combine a sale to both small and institutional investors). His main reasons for rejecting Scheme B are that it would probably attract investment by overseas residents (and so push up the exchange rate) and it would be competitive with gilts. His reasons for rejecting Scheme C are mainly that the small investor would be likely to be squeezed out and that this variant would present considerable practical difficulties.

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9. In discussion the Committee will wish to consider the following questions:-

(a) Should Scheme A be adopted?

It may be argued that there is little point in going ahead at all with schemes of this kind, which will not satisfy those who are looking for some more radical participation in BNOC and amount to little more than a new form of national savings bond. Critics could point to, and query, the administrative costs. Against this the proposals could be presented as a reasonable way of meeting the Government's political objective of giving the public at least the sense if not the formal reality of participating in the benefits of North Sea oil, consistently with the separate objective of shifting the emphasis of Government funding somewhat from the gilt-edged market to the small saver. If the Committee do conclude that there should be a new Scheme, it is likely that they will come down in favour of A rather than B or C.

(b) What are the next Steps?

If the Committee endorses the proposals, a good deal of further work will still be necessary on the details, and particularly on the question of marketability. Once that point is clear, however, it should be possible to announce the decision in general terms, and you will wish to decide when this should be. If, on the other hand, the conclusion is against introducing any of the schemes the Secretary of State for Energy will need to announce this too and to explain why the Government has decided to hold its hand on introducing private capital into BNOC.

(c) Should there be enabling powers for equity participation?


This is the question raised in paragraphs 10 and 11 of E(80) 95. Politics apart the Committee may well feel that there is no point in taking contentious enabling powers which, on present plans, will not be exercised.

CONCLUSIONS

10. You will wish to record conclusions on the following points:-

- (i) Whether Scheme A, or any of the variants, is endorsed and policy approval accordingly given for the necessary legislation to be prepared.



  
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- (ii) Any points on the handling of the manpower and administrative implications.
- (iii) The timing and general terms of an announcement, which will be necessary whether the proposals are endorsed or rejected.
- (iv) Whether or not enabling powers should be taken providing for equity participation in BNOC's activities at some later date.



Robert Armstrong

9th September 1980



Ref: A02780

Energy

PRIME MINISTERBNOC: PRIVATE SECTOR PARTICIPATION

E(80) 80

mb

## BACKGROUND

You will recall that you discussed this question with the Secretary of State for Energy and the Chancellor of the Exchequer on 14 July.

Mr Lankester's letter of that date recorded -

'It was agreed that the case for privatisation was now a good deal weaker than it had been when Ministers had considered the issue last summer, and there was a perfectly legitimate argument to be made that - in the highly volatile oil situation that the country now faced - it would be wiser to stick to the status quo. However, the Government had a political commitment to introduce some measure of privatisation. On balance, the best approach would be to go for the revenue interest scheme'.

2. The Secretary of State for Energy now sets out his proposals for this scheme in E(80) 80. Securities would be sold to the public who would receive dividends related to revenues and so to the price of oil and to the level of production from the fields. The securities would be repaid at par at some specified date. He proposes that at least £500 million should be offered to the widest possible spread of investors. There is already provision for legislation on BNOC in the next Session.

3. If this proposal were approved in principle, the Secretary of State recommends that officials from the Treasury, the Inland Revenue, the Bank of England and BNOC together with his own Department should work out more details. He and the Chancellor would then report further after the Recess on this. In the meantime he would like to announce the decision in principle before the Recess, although the Chancellor of the Exchequer has doubts about this.



4. Paragraph 5 of his paper explains that the proceeds of the sale would not reduce the Public Sector Borrowing Requirement - because the Government would be retaining control of BNOG as a whole - but would be another source of financing it, and an alternative to selling gilts or national savings. The Treasury's view is that in the longer term it would almost certainly be a more expensive form of financing the PSBR.

## HANDLING

5. After the Secretary of State for Energy has introduced his paper, the Chancellor of the Exchequer will wish to comment on the financial implications. Of the other Ministers, the Secretaries of State for Scotland and for Industry will probably wish to speak.

6. The Government has already announced that it intends to introduce private capital into the operating of BNOG. The main questions which the Committee will wish to consider are -

i. Should that commitment stand in the light of more recent developments in the oil world?

ii. If so, is the present proposal an acceptable way of meeting it?

7. I suggest that the Committee should consider in particular paragraph 5 of the paper and the Treasury's view that this form of financing the PSBR would be more expensive than present methods. This is a point on which the Chancellor of the Exchequer, and other Ministers, will have to answer - to the Treasury and Civil Service Committee and others - if the scheme is to go ahead. Ministers will therefore need to be satisfied that they can point to convincing benefits to offset these costs. One difficulty is that it cannot be argued - as with other disposals - that the sales will lead to greater efficiency in the management of resources following the injection of private sector management. BNOG will remain within the public sector and will be fully subject to Government control. This might lead into the question whether the scheme does indeed fulfil the Government's commitment, or whether it is an unsatisfactory compromise.





8. If it is accepted that the scheme should be introduced, there will need to be a good deal of further work on it, as proposed by the Secretary of State for Energy. The Committee will wish to decide whether, as the Secretary of State recommends, there should be a short statement of general principle before the Recess or whether, as the Chancellor of the Exchequer would apparently prefer, this should wait until more detailed work has been done. If there is any risk that the more detailed work will lead to radical changes in thinking, that would seem to point strongly to deferring a statement.

## CONCLUSIONS

9. In the light of the discussion, you will wish to record conclusions on -

1. Whether the Government should fulfil its commitment to introduce private capital into BNOC.
2. If so, whether the Secretary of State for Energy's proposals should be accepted in principle, subject to a further report after the Recess in the light of detailed proposals by officials.
3. Whether a statement in principle should be made before the Recess, as in the Annex to E(80) 80, or whether it should be postponed until the further detailed work has been completed.

ROBERT ARMSTRONG

1 August 1980



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Qa 05094

To: MR LANKESTER

From: J R IBBS

BNOC: Private Sector Participation

1. At Monday's meeting of E Committee Ministers are due to discuss a memorandum by the Secretary of State for Energy on "BNOC: Private Sector Participation" (E(80)80). In this Mr Howell asks the agreement of colleagues (i) to a sale of revenue interests in BNOC to the private sector and (ii) to a public statement on the Government's intentions with regard to BNOC.

2. For all the reasons set out in Mr Downey's minute to you of 11 July <sup>attached</sup> the CPRS would support Mr Howell that privatisation in BNOC should not go further than a revenue interest scheme.

3. The CPRS would further support Mr Howell that a decision should not be taken at this time on the size of the flotation. Mr Howell points to the technical points still requiring resolution; in addition the size of the sale should depend on a judgement at the time of issue of the balance between the strength of political commitment on the one hand and what would almost certainly prove a more expensive way of financing the PSBR than conventional methods on the other.

4. Mr Howell's memorandum also invites colleagues' agreement to legislation which would allow for a possible sale of equity interests in BNOC at a future date. Whilst the CPRS appreciates the political judgements that might have led Mr Howell to seek such legislation, the enabling powers would seem to invite the criticism that the revenue interest scheme is no more than a stop-gap measure; this, the CPRS believes, would make it more, rather than less, difficult to present the scheme publicly with conviction. It is difficult over the longer term to envisage oil becoming any less of an important commodity than it is now and thus such enabling powers would seem to be inserted purely for presentational reasons. Doubtless from time to time short-term surpluses of oil will occur and

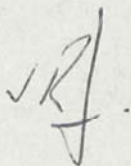


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the existence of the enabling powers could invite political pressure for them to be used. In short, unless the political considerations are over-riding, the CPRS believes Mr Howell could be creating a rod for his own back.

5. The CPRS also differs from Mr Howell in his belief that a public statement is required before the Recess. It would seem dangerous to start a public debate until the size of the issue had been agreed and all the technical points resolved. Mr Howell has already made three public statements on the future of BNOC and it is arguable that the next statement should present in some detail the Government's precise intentions. There seems to be no particular public pressure for an announcement at present and the revenue interest scheme seems to have been well trailed in the press. Nevertheless, if it is thought that a general statement is required at this time a written rather than an oral statement would avoid supplementary questions on the Government's detailed intentions.

6. I am sending a copy of this minute to Sir Robert Armstrong.



1 August 1980



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Chancellor of the Duchy of Lancaster

*Energy*  
PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

29 July 1980

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*D*

The draft announcement about private participation in BNOC annexed to E(80) 77 commits you to introducing implementing legislation "during the next session of Parliament". I think that we should be unwise to give quite such a clear commitment at this stage when there are still a number of details to be worked out before drafting can begin, and I should be happier if the reference to legislation at the end of the draft statement could be in terms of introduction "when there is a suitable legislative opportunity".

I am copying this to the other members of E Committee, to the Chief Whip, and to Sir Robert Armstrong.

*James* *NC*  
—

The Rt Hon David Howell MP  
Secretary of State for Energy  
Thames House South  
Millbank  
SW1

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10 DOWNING STREET

E(80) 77 - 24.7.80

Memorandum by the  
S/S Energy has been  
returned to Committee  
Section, Cabinet Office



**CONFIDENTIAL**



file

Blind copy;  
David Johnson,  
John Haslam.

BK

10 DOWNING STREET

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Energy

*From the Private Secretary*

14 July 1980

The Future of BNOC

As you know, your Secretary of State and the Chancellor of the Exchequer called on the Prime Minister this afternoon to discuss the future of BNOC. They had before them Mr. Howell's minute of 4 July, and also your letter of 11 July on the opposition threats to BNOC privatisation.

It was agreed that the case for privatisation was now a good deal weaker than it had been when Ministers had considered the issue last summer, and there was a perfectly legitimate argument to be made that - in the highly volatile oil situation that the country now faced - it would be wiser to stick to the status quo. However, the Government had a political commitment to introduce some measure of privatisation. On balance, the best approach would be to go for the revenue interest scheme (Scheme E).

The Prime Minister said that your Secretary of State and the Chancellor should now bring a paper to E Committee recommending the adoption of Scheme E, and setting out in rather greater detail than Mr. Howell's minute of 4 July does, the details of how such a scheme might work.

I am sending a copy of this letter to John Wiggins (HM Treasury), Sir Robert Armstrong and Robin Ibbs.

T. P. LANKESTER

Julian West, Esq.,  
Department of Energy

HRB

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Qc 02498

To: MR LANKESTER

From: G S DOWNEY

The Future of BNOC

1. The Prime Minister invited CPRS comments on the Secretary of State for Energy's minute on the future of BNOC. In his minute Mr Howell, with the support of the Chancellor, summarises the choice on BNOC's future as being between:

- Hiving off options*
- (i) Scheme C - a new independent upstream company with the shareholding split public sector 25-33 per cent, general public 25-33 per cent, and BP 50-34 per cent;
  - (ii) Scheme E - a revenue interest scheme under which the public are given an opportunity to share in a proportion of BNOC's oil revenue;
  - (iii) Scheme G - hiving off a part of BNOC's oil field assets into a company in which a 75 per cent interest is subsequently sold to private investors (with perhaps BP taking a share);

and

- (iv) retention of the status quo.

2. Scheme C would involve splitting the trading from the upstream operations; Scheme E would retain BNOC's current integrated structure; whilst Scheme G falls in between - part of the upstream operation is split off, leaving a smaller integrated operation than at present.

3. The decision on BNOC's future needs to be taken in the context of three separate strands of Government strategy (i) energy policy, (ii) the requirements of the PSBR, and (iii) a reduction in the size of the public sector.

Energy Policy

4. On energy policy grounds there are strong arguments for retaining the full integrated structure for BNOC. The two principal factors involved are security of supply and flexibility. At present just under a half of the



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United Kingdom's crude requirement is represented by 'secure' supplies from the UK Continental Shelf. Schemes C and G would involve relinquishing control of up to 4 million tonnes of this secure oil per annum (around 5 per cent of UK demand) when the public and political expectation is that the United Kingdom should not go short in a sub-crisis. There is also the added risk involved in these Schemes involving separation of the two halves of BNOC, that the Parliamentary discussion might direct attention to the aspects of North Sea arrangements that are vulnerable in terms of Community law.

5. A key element of energy policy in an uncertain environment is flexibility. The full privatisation of the exploration arm of BNOC (Scheme C) would mean the Government giving up an organisation totally committed to finding oil in UK waters. The interests of the Government and UK based private oil companies do not necessarily coincide and it may not always be the case that UK waters will be so attractive for exploration. Moreover, the oil market has been characterised in the recent past by a partial eclipse of the majors and a rapid rise in the proportion of oil traded directly through state-to-state deals. It would seem prudent for the United Kingdom to retain an efficient and effective national oil company to have access to such deals in future. The existence of both trading and exploration arms could only enhance BNOC's international attractiveness as a potential trading partner or customer.

6. From Mr Howell's minute, it is clear that the Chancellor has reservations on the wisdom of splitting BNOC. Besides pointing to the potential problems associated with presenting to the public the relinquishment of secure supplies, the Chancellor considers that it is only as long as BNOC retains an integrated capability that HMG can be sure of using BNOC as an effective lever in negotiations on North Sea Oil policy (including taxation).

Requirements of the PSBR

7. Schemes C and G offer a short-term PSBR reduction, and Scheme E a contribution to its financing. But all would be at the expense of foregoing the longer term cash flow benefits. The sales proceeds will depend critically on the market's assessment of future oil prices. Given the real risk of oil prices out-performing expectations, as Mr Howell's minute points out, it could prove an expensive way of raising money for the Government compared to a



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conventional fixed interest gilts issue. Even this picture could be worsened if, as is quite possible, the Opposition threaten renationalisation at something around the issue price.

Reduction in the size of the Public Sector

8. The abolition, last year, of ENOC's statutory role as adviser to the Government and its special privileges vis-a-vis other oil companies has substantially met the main concern about its position expressed by the industry; and has put it essentially on the same basis as private sector companies as far as exploration and development are concerned. ENOC is operating profitably and very successfully in competition with the private oil industry and there are no grounds for believing that the introduction of private capital into ENOC is necessary to provide incentives for greater efficiency; those incentives already exist. The fact that ENOC is within the public sector has in the past been to the benefit of the UK economy in enabling British manufacturers to obtain orders for North Sea development which they would not otherwise have received and in the negotiation of forward oil sales (which are dependent on ENOC having equity oil available). Thus the arguments for (partial) removal of ENOC from the public sector seem to derive more from earlier public statements than identifiable economic benefits.

Conclusion

9. The CPRS view on the very important problem of the future organisation of ENOC is that security of supply and the fact <sup>that</sup> the international oil scene is changing so fast and unpredictably both point to retaining a unified company. In purely PSBR terms, as Mr Howell's minute makes clear, introducing private capital by any of the Schemes could prove an expensive way of raising money for the Government compared with conventional funding. And since no specific improvements in efficiency resulting from the introduction of private capital have been identified, the CPRS, while recognising the Government's political commitment, takes the view that the balance of the economic argument lies heavily with the retention of the status quo. To justify departing from the line taken in earlier statements, the Government could point to the following changes since it came into office: (i) ENOC's



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privileged position has been abolished, thereby making it generally acceptable to the oil industry; (ii) the international oil market has grown markedly more threatening and uncertain in the wake of the Iranian crisis; and (iii) the international oil companies' control over the world market has been eroded by the rapid rise in government-to-government deals.

10. Retention of the status quo would not, of course, aid the short-term problem of the PSBR. The CPRS wonders, however, whether there is scope for encouraging ENOC to pursue further its forward oil sales (as far as market conditions allow) as a possible short-term easement of this problem.

11. Against this background, should it be judged impossible on political grounds to retain the status quo, then the CPRS would recommend that the Government does not proceed further than Scheme E (sale of revenue interest bonds to the public). This would retain the integrated structure of ENOC, which is desirable on energy policy grounds, whilst avoiding the time-consuming renegotiation of ENOC's intricate network of shared licences involved in Schemes C and G.

12. As regards the timing of a possible announcement, unless Mr Howell is under pressure from quarters of which we are unaware, the CPRS sees no advantage in an early statement; the present uncertainties in the international oil market would argue for a cautious approach.

13. I am sending a copy of this minute to Sir Robert Armstrong.

957

11 July 1980



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Qc 02498

To: MR LANKESTER

From: G S DOWNEY

The Future of BNOC

1. The Prime Minister invited CPRS comments on the Secretary of State for Energy's minute on the future of BNOC. In his minute Mr Howell, with the support of the Chancellor, summarises the choice on BNOC's future as being between:

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11 July 1980

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C O N F I D E N T I A L



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

01 211 6402

Tim Lankester Esq  
10 Downing Street  
London  
SW1

11 July 1980

*Dear Tim,*

**BNOC PRIVATISATION: OPPOSITION THREATS**

My Secretary of State has asked for the attached material to be prepared for Monday afternoon's meeting between the Prime Minister, the Chancellor of the Exchequer and himself. The papers deal with the warnings from Dr David Owen about the risks of companies' challenge to the participation agreements and of EEC challenge to our North Sea policies generally.

The Foreign Secretary's minute of 5th March 1980 to the Prime Minister mentions a private letter from Dr. Owen in which he refers to the risk that the "new arrangements for BNOC might direct attention to aspects of our North Sea arrangements which are vulnerable in terms of Community Law", and warns that the Opposition would be "bound to raise the legal issues when opposing legislation in Parliament". A copy of the minute is attached at Annex A. The risks of EEC challenge were fairly exhaustively considered by Ministers in relation to the Secretary of State's original proposal. Annex B is a note which was agreed with the Attorney General and attached to the E Committee paper which was considered last November. There was a subsequent letter from the Lord Privy Seal of 3rd December (Annex C) and the Attorney's response of 7th December (Annex D). At that time the risks were perceived as arising from the separation of the Trading arm, the setting up of the participation agreement between BNOC and BNOC (Operating), and the general spotlighting of the participation arrangements as a whole which would result from a major change in BNOC's structure. While the Attorney's letter of 7th December does accept that the saleback agreements in particular were anyway "liable to successful challenge", there was no suggestion that the changes would make the participation agreements inherently more vulnerable.





- 2 -

Dr. Owen made a point on two occasions in the debates last Tuesday to warn that the introduction of equity capital into BNOC would undermine the legal validity of the participation agreements. Copies of extracts from this debate are attached at Annex E. The Minister of State for Energy made clear that we had no intention of varying the agreements and that we had consulted the Law Officers.

The point Dr. Owen appears to have in mind is that if private sector shareholders were introduced into BNOC as a whole then the nature of BNOC as party to the agreements would have changed and the agreements thus invalidated. However this argument does not apply to any of the schemes considered by the Secretary of State, since none of them contemplate any change in the 100% Government control and ownership of the trading side and the BNOC interests in the participation agreements. Our legal advice is that none of the schemes A to G in the paper attached to the Secretary of State's note to the Prime Minister would heighten the risk of successful challenge of the participation agreements whether from the EEC or the companies. The advice is attached at Annex F.

I am copying this letter and its enclosures to John Wiggins in the Chancellor's office.

Yours ever,

J D West  
Private Secretary









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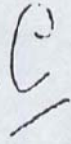
2

refers to the possible risk that Parliamentary discussion of new arrangements for BNOC might direct attention to aspects of our North Sea arrangements which are vulnerable in terms of Community law and warns that the Opposition will be bound to raise the legal issues when opposing legislation in Parliament. This is not a reason for changing our minds on the substance of what is proposed; but I think that we would be well advised to postpone any full announcement until we are ready to field all the questions likely to be put to us. From the point of view of foreign reactions, there is nothing to be gained from risking two rounds of debate.

4. This suggests to me that we should not volunteer any statement on this subject for the time being. If David Howell is asked about it, he could simply say that legislation will be introduced in the autumn.

5. It would be helpful if the Department of Energy could involve the Foreign and Commonwealth Office in the preparation of legislation, in view of the difficult questions of EC law which are likely to arise.

6. I am sending copies of this minute to the members of E Committee, the Chancellor of the Duchy of Lancaster, Sir Robert Armstrong and Sir Kenneth Berrill.

  
(CARRINGTON)

Foreign and Commonwealth Office

5 March 1980



EEC IMPLICATIONS

The establishment of BNOC and its subsequent access to large quantities of oil, derived through both its participation and equity interests, has enabled a substantial proportion of these supplies to be disposed of in accordance with HMG's own inclinations. This has been achieved by the close relationship between the two bodies, although in strict legal terms not only is the Government, apart from Article 36 (public security), precluded by Article 34 of the Treaty of Rome from imposing restrictions on exports to Member States, or measures having equivalent effect, but also, under Article 37, it may not use BNOC (as a body through which it may exercise powers of control) to influence such exports, whether directly or indirectly.

Under the new proposals, participation interests will be retained by BNOC (as BNOC (Trading)) and even with the transfer of the upstream equity interests to BNOC (Operating), a majority at least of oil from this source will none the less be secured to BNOC (Trading) by means of options, so that ostensibly at least, the position under the Treaty should be little different from that prevailing hitherto notwithstanding the new arrangements. Indeed, the position should be somewhat stronger since the severance of the link between the Corporation and the National Oil Account and the introduction of a separate financial structure could be taken as a demonstration of the greater independence of BNOC (Trading). However, the radical restructuring of BNOC may serve to focus renewed attention on the Corporation's activities and in any event the more restricted scope of these activities may serve to expose them more readily to scrutiny, so that there may be a greater



risk of successful challenge to the Corporation's disposal policies under this head and also under the further head described below.

Further grounds for challenge to the participation interests exist as a result of Articles 85 and 86. The risk of challenge under Article 86 (abuse of a dominant position) should not be materially increased by the proposals since the share of the market will not be increased as a result of them. With regard to Article 85 (which prohibits constraints on competition), the fact that under the new proposals oil supplies from the existing equity interests will be secured by options between BNOG (Operating) and BNOG (Trading) will place these supplies in an equivalent position to those derived from participation sources. This will mean that these arrangements will be at risk for the same reason, whereas the risk is largely absent at present since of course BNOG exercises control over its equity interests by virtue of ownership and not by way of agreement.

This risk could be reduced to some extent by conferring on BNOG (Trading) an express duty to carry out oil acquisition and disposal operations for the Government, to enable the Corporation, should a challenge be mounted, to claim the benefit of Article 90 which in respect of "undertakings entrusted with the operation of services of general economic interest" allows for the possibility of a limited exception from the provisions of Articles 85 and 86.





ANNEX C

*Mr. Lewis*

Foreign and Commonwealth Office  
London SW1

*Mr. Havers*  
*204/32(2)*

3 December 1979

*Dear David,*

**BNOG: FUTURE STRUCTURE AND PRIVATE SECTOR PARTICIPATION**

I see from the minutes of the meeting of E Committee on 26 November that you will be having further discussions with the Ministers concerned and will report again to the Committee during December. I understand that there will first be a meeting of officials, at which the FCO will be represented. I am particularly concerned that the arrangements proposed may provoke a legal challenge which would endanger our security of supply, and it may be helpful if I summarise the argument as I see it.

As far as the EEC is concerned, two separate questions can be identified:-

- (i) are the arrangements by which BNOG enjoys access to participation oil and contributes to United Kingdom security of supply liable to a successful challenge on the grounds that they are contrary to the EEC Treaty?
- (ii) a) would the proposed splitting of BNOG into an operating and trading company make a legal challenge <sup>(1)</sup> more probable:  
and b) <sup>more probable</sup> would this challenge be (more or less likely to succeed?)

The first question and part a) of the second are legal ones on which Michael Havers will wish to advise before we reach a decision. Unless we are satisfied that the answer to the first question is no,

The Rt Hon David Howell MP  
Secretary of State for Energy  
Thames House South  
Millbank SW1



or that the split of the company into two will make a challenge substantially less likely to succeed, we shall have to consider very carefully our answer to part b) of the second question, which is a political one.

My own answer to it would be yes. Such a substantial change in the structure of BNOG would be likely to attract publicity. Our proposals would probably be attacked by the Opposition on the grounds that we were giving up control of an important national asset; and you might wish to emphasise in reply that the trading company remained wholly government-owned and that it would retain a substantial shareholding in the operating company. Such exchanges would serve to draw attention to the status and functions of the trading company, which might be represented abroad as having no purpose other than to frustrate the operation of a free community market in oil. Even if there were no pressure from EEC member governments to enquire into the new arrangements, there is a possibility that the Commission would take action either on its own initiative or because of a question in the European Parliament.

In short, I think there is a significant risk that the proposed re-structuring would result in a legal challenge which would not otherwise be made; and in one which might well succeed, with serious implications for the arrangements we make to ensure security of supply. We rely at present not so much on the strength of our legal position as on the willingness of our partners and of the Commission to let sleeping dogs lie. We should not therefore make changes unless the balance of advantage is very clear. I recognise that the maintenance of BNOG as a single company with a minority private shareholding would not benefit the PSBR, though it would raise revenue. But it would expose us less to a Community challenge and the pros and cons should be carefully weighed.

Finally, on a related point, I would welcome an opportunity to discuss with you to what extent it may be desirable and possible to exercise the powers of control which we have over BNOG. As you know

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foreigners tend to hold us responsible for the pricing and disposal policies of the company, and they do not regard as satisfactory an answer to the effect that these are matters for the commercial judgment of the company. We should perhaps give further thought to this aspect of the matter before taking decisions on the future structure of BNOG.

I am sending copies of this letter to the Prime Minister and members of E, the Attorney General, and to Sir Kenneth Berrill and Sir Robert Armstrong.

*gus* ✓  
*lan*

SECRETARY OF STATE'S OFFICE	
TO <i>M. Henderson</i>	Copied to
FOR ADVICE (AND	<i>W.S.</i>
DRAFT REPLY IF	<i>P.S.</i>
APPROPRIATE)	<i>P.S.</i>
PLEASE BY:	<i>P.S.</i>
<i>ASMP</i>	<i>M. Liversidge</i>
	<i>M.D. Jones</i>
	<i>M.T.P. Jones</i>
	<i>M. Liversidge</i>
	<i>M. Pradell</i>
	<i>M. Lucas</i>
	<i>M. Ashcroft</i>
	<i>M. Campbell</i>
	<i>M. Butler</i>
	<i>M. Whaley</i>
	<i>M. Parkhill</i>

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 ROYAL COURTS OF JUSTICE  
 LONDON, WC2A 2LL

7 December 1979

 The Rt Hon David Howell MP  
 Secretary of State for Energy  
 Thames House South  
 Millbank SW1

*M. R. ...*  
*No need to respond*  
*to this now. GH*



*Dear David,*

BNOG: FUTURE STRUCTURE AND PRIVATE SECTOR PARTICIPATION

I refer to Ian Gilmour's letter to you of 3 December. In the second paragraph of his letter Ian asks two questions of a legal character on this subject.

Both questions are concerned with "participation" but this is an imprecise concept and the arrangements entered into between BNOG and different licensees have as you know varied from case to case. Most of them have included "sale back" facilities, and it is on arrangements of this character that most legal advice has so far concentrated. They have been seen as creating a risk of contravention of the Articles prohibiting constraints on exports (Articles 34 et seq.) and the Articles prohibiting constraints on competition (Articles 85 and 86). I think it would be true to say that Ian Gilmour's words "liable to successful challenge" are apt to cover this particular concept of participation, so that my answer to his question (i) would therefore be a qualified "yes". It was thought that on balance the risk of successful challenge was greater in relation to Articles 85 and 86 than in relation to Article 34.

However, as I understand it, the arrangements between the proposed operating company and the trading body are not to take this extended form but will be limited to a simple option, with no sale back provisions or similar conditions. This arrangement does not seem to me to add to the degree of risk under Article 34 (since no new factor affecting exports would be introduced) or under Article 86 (since no greater share of the market would be involved).

But the conclusion of an agreement between the operating company and the trading body would obviously be a new element. This could attract Article 85 and to that extent some additional risk would be involved. However, I would assess the degree of risk on this count as being much less than that in the case of the wider type of participation agreements (with sale back) described above. So my answer to Ian Gilmour's (ii)(a), while also "yes", should be taken as being qualified by these remarks,

/and





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LONDON, WC2A 2LL

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- 2 -

and the suggestion made in paragraph 4 of Annex 2 to your recent paper to E Committee would also help to some extent, although it would be unwise to assume that it could provide a complete solution.

This letter is copied to the Prime Minister and members of E Committee, to Sir Kenneth Berrill and Sir Robert Armstrong.

Yours ever,  
Michael



[Dr. Owen.]

to raise serious criticisms of some aspects of the Government's oil policy. I do not wish to delay in any way the procedure on seventh round licensing. I favour the need for the seventh round, and I consider that its size is about right.

There are arguments as to the exact number of blocks. I believe that the Minister has been correct in not moving towards auctioning of licences. However, there is the question whether we can gain access to substantially greater revenue by the auctioning of licences. That is a tempting question. The Minister's choice of having 20 blocks, in areas where there is a good likelihood of finding oil, where people should be expected to pay a £5 million premium, is a sensible step forward. If we learn from this experiment, it may be possible to go further. I think that it would be possible to have a higher initial fee than the £5 million fee that is proposed.

But the crucial thing that the Minister is right to protect is the need to have a discretionary element, held by the Secretary of State, giving some form of leverage over oil companies so that they will follow the practices and the policies of Her Majesty's Government. If we were to abandon that discretionary element entirely, we would have no leverage, for example, over oil companies in the sense that they should wherever possible purchase their supplies from United Kingdom suppliers.

I attach immense importance to retaining a very high percentage of work in the North Sea that is based in the United Kingdom. In areas of this country with very high unemployment—I know that the Minister, coming from a Scottish constituency, will understand this—it is necessary that this prosperous industry should show in its choice of firms, and in settling the sites at which it places some of its contract work, some understanding of the need for the less prosperous parts of the country to benefit, and in particular the people of Scotland.

I would not, therefore, be prepared to support a move towards an auctioning system, although I am prepared to move forward flexibly in the light of the experience of the seventh round.

I strongly object to what I believe to be a purely doctrinal decision taken by

the Government that the British National Oil Corporation and the British Gas Corporation will no longer have a mandatory majority equity interest in future licences. There is not a shred of justification for it. I believe that it is motivated purely and simply by an animus against BNOC which has been a hallmark of the Prime Minister's policy ever since she took office. It is absolutely disgraceful that here we are debating in July the North Sea and the seventh round, when the cloud of uncertainty which has hung over BNOC ever since the election result which brought the present Government to office, has not been lifted.

I do not adopt a doctrinaire view on these issues. I fundamentally believe that the energy policy of this country is far too important for it to be a shuttlecock between differing Governments. (HON. MEMBERS: "Hear, hear.") Hon. Gentlemen say "Hear, hear", but what is sauce for the goose is sauce for the gander, and there is a responsibility on them as well as on my hon. Friends to ensure that degree of stability.

I say to the Minister—he knows my view of this—that if the control mechanism of BNOC is changed by taking an equity share in BNOC, we shall view it with the utmost seriousness. In the Committee stage of such legislation he will have to fight for it line by line. He will have to justify what I believe will be a very serious challenge to our position the United Kingdom continental shelf any change is made in BNOC. It is right to warn Conservative Members that will raise very serious legal questions the United Kingdom continental shelf which we shall expose in this House day by day. It will also raise very serious questions about the participation agreements which have been entered into by oil companies on the understanding that it was an arrangement between the Department of Energy, the BNOC and the individual oil company.

It is my personal view that, if we change any aspects of the BNOC relationship, we shall lay ourselves open to the risk that the participation agreements will be reopened. It is a well-known fact that many of the principal oil companies have not accepted, even to this day, the 51 per cent. participation agreement.

Mr. Tim Eggar (Enfield, North): And quite right, too.



**Dr. Owen:** The hon. Gentleman has made the case for us. He says "And quite right, too." He wants to see the participation agreements unravelled, but his right hon. Friends do not want to see them unravelled. It is the cardinal point of their principle, having looked at BNOC and having looked at the 51 per cent. participation agreement—and, in my view, very strongly advised by the Secretary of State for Foreign and Commonwealth Affairs—that they have said that they do not wish to change the participation agreements, and that the arguments for national control over North Sea oil are very strong.

I believe that these arguments will also ring bells among Conservative Members. I do not believe that only on the Opposition Benches are we alarmed by the idea of in any way relaxing our control. Therefore, very wisely, the Minister and the Secretary of State have made clear that they do not wish to affect the trading arrangements or the 51 per cent. participation agreements. But I must warn them—and I speak not on the basis of my extremely limited legal knowledge, but from having consulted people who were deeply involved in the legal situation when those negotiations were first put forward—that it will put those arrangements in potential jeopardy if we introduce public equity into the BNOC. It is right that it should be made clear to the Government, before they take any step that they may later regret, that we shall not feel bound by the normal conventions. If they make that change, it will be resisted.

Furthermore, such a change will have a serious effect on the whole question of trying to have some degree of bipartisanship on energy and North Sea oil policy. It will be inevitable that if the BNOC is to be changed, if the partnership arrangements between the private and the public sectors is to be overthrown my right hon. and hon. Friends, will immediately demand full State involvement in the North Sea.

I am prepared to stand at this Dispatch Box and defend the existing arrangements. I believe that they were the right arrangements honourably negotiated in 1974. I know that there was pressure from the oil companies—they did not like it—but it was a sensible

compromise between the national and the private interest. It was a genuine partnership—it needed to be a partnership—of international oil expertise and money and preserved what I believe is a fair and honest balance.

I object to some of the changes that have been made to date in BNOC, but I would not claim that they are outside the bounds of reasonable bipartisanship. The Minister will obviously not follow the same policy as the Labour Government on North Sea oil. If the Minister wishes to make those changes, we shall resist them. But there is all the difference in making those changes with those others which have been broadly accepted by the oil industry. In my view, there is no demand from the oil industry for the dismantling of BNOC. I believe that the industry thinks that it is a doctrinaire policy that has no support and will unlock the issue of a large State ownership.

We are dealing with an important question relating to BNOC and the seventh round. The Government have an opportunity in the seventh round to show that they will not discriminate against BNOC. They have made the decision that it will not be given preferential treatment. I think that it is an unwise decision, but it is open to them to make it.

We now know that the BNOC has formed important partnerships, as have many others, to bid for blocks in the seventh round. When those blocks are announced, I hope that it will be evident to every fair-minded person that BNOC has had a reasonable share of the allocation. If that is done, that will be one of the first steps to restoring confidence and an agreement across the parties on how we should best exploit this most precious asset. Furthermore, if the Government decide not to drop any changes in the BNOC and give it the go-ahead, that, too, will be a welcome sign.

A third and most important sign is that BNOC should not be under any restriction to operate in the market, if it wishes to do so, to purchase any North Sea oil interests from companies which might wish to sell them. If it has the finance and is ready to purchase an interest in the North Sea, if any company wishes to sell such an interest, it



Mr C E Henderson  
PP3

NOTE ON THE LEGAL IMPLICATIONS FOR PARTICIPATION AGREEMENTS  
OF A RESTRUCTURING OF BNOG

You enquire whether the implementation of any of the schemes A-G concerning the future structure of BNOG and its interests would jeopardize the participation agreements previously entered into by the Corporation with the various oil companies, in the light of Dr Owen's remarks during the recent Commons debate.

It is understood that all these schemes assume:-

- (a) the continued existence of BNOG as a wholly state-owned and controlled body; and
- (b) the retention by that body of the full benefit of the participation agreements.

On these assumptions, we see no reason why under UK domestic law implementation of any of the schemes would jeopardize the participation interests since no change of parties would be involved nor any change of status on the part of BNOG. To this there are two slight glosses to be added:-

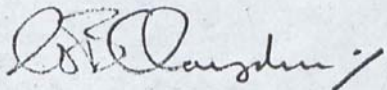
- (i) in the case of Scheme E (the revenue interest route), it would be important to ensure that no provision was introduced to protect subscribers of the stock, etc, which gave them any control over the Corporation (e.g. in the event of non-payment of interest) if this could be construed as eroding the latter's status as an entirely state-owned and controlled body. This is because several of the participation agreements contain a power of termination in the event of BNOG's ceasing to be such a body;
- (ii) one or two participation agreements also contain provisions which relate to BNOG's equity interests and these latter would presumably have to be severed if the upstream assets were to be hived off. However, it is thought that it would be possible to achieve this severance without precipitating a re-negotiation of the participation agreements concerned.

Under Community law, implementation of any of the schemes should not give rise to any fresh problems. It has always been possible for participation agreements to be challenged under a variety of terms of the Treaty of Rome, particularly Article 34 (prohibition of constraints on exports), Article 85 (prohibition of agreements in restraint of competition) and Article 86 (abuse of a dominant position). Marginally the risk might be increased in the case of those schemes which envisage an agreement between BNOG and the new upstream company with regard to the disposal of oil, since this would be an additional arrangement which could attract Article 85. But probably the greatest risk in EEC terms would



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stem from the increased attention likely to be focused on BNOG during the restructuring process, particularly if some of the more sensitive aspects were to be exposed during the Parliamentary debates.



G B CLAYDON  
Legal 2  
R. 1367 THS  
Ext. 7023

10 July 1980

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[Dr. Owen.]

Sea oil contributed to the serious devastation of our industrial base.

10.45 pm

The Minister of State, Department of Energy (Mr. Hamish Gray): I am grateful to the right hon. Member for Plymouth, Devonport (Dr. Owen) for the manner in which he delivered his speech. I am glad to note that he welcomes the size of the round that we have decided on and the retention of the discretionary system. I could not disagree with the points that the right hon. Gentleman made. He also welcomes the introduction of a system of premiums. That is encouraging, and we are grateful for the right hon. Gentleman's support.

This is a short debate, and I suppose to answer some of the general points that the right hon. Gentleman raised and quickly to outline the regulations. If time permits at the end of the debate, I shall try to deal with points that other hon. Members may raise.

The right hon. Gentleman made the point against our proposals that BNOC and BGC were not being given the same privileges as before. That is correct. I shall deal with that later. After all, BNOC and BGC are perfectly capable of looking after their own interests in the North Sea. The removal of certain privileges from BNOC was welcomed by the corporation at the time. It is our intention that BNOC should be able to act like any other oil company. It is therefore essential that it should be seen by other oil companies as a fair competitor and not subject to privileges.

The right hon. Gentleman mentioned partnerships in which BNOC might engage. He hoped that we would not inhibit BNOC from being involved in farm-ins. That matter is entirely for the corporation. It has to observe the limitations imposed on other public sector organisations, but each case is treated solely on its merits. There have already been cases in which BNOC has become involved in farm-in proposals, and that will continue. We have no intention of restricting the corporation in that way. It must be left to the commercial judgment of BNOC.

The right hon. Gentleman mentioned disregards. It is true that premium is tax allowable. However, the allowance will take some considerable time to work

through. The benefit of money now should not be disregarded. The net benefit in discounted terms will depend on the individual circumstances of the successful companies.

I shall not deal at length with the question of depletion. The right hon. Gentleman will appreciate why. My right hon. Friend the Secretary of State will make a statement on depletion in the next few weeks, and I do not wish to pre-empt anything that he might say.

It has been useful for the House to have the views of the right hon. Member for Devonport on the future of the BNOC. He rightly said that there are many matters about which we do not greatly disagree. The whole concept of the BNOC is accepted by the Government and there has never been any question of the corporation's trading arm being interfered with. That has been made clear by my right hon. Friend the Secretary of State in the House on a number of occasions.

The Government's proposals for the upstream section of the BNOC will be announced in due course.

**Mr. Tam Dalyell (West Lothian):** What is the advice of the Department's lawyers in relation to the possible alteration of BNOC, to bring in an element, so some of us understand, of retrospectivity? Are the Government's proposals in keeping with the advice of the Law Officers and the other legal advisers of the Department?

**Mr. Gray:** The hon. Gentleman has been a Member of the House long enough to know that the advice of the Law Officers is always sought on any such major proposals. Their views are taken into account before changes are made.

**Mr. Skeet:** My hon. Friend said that BNOC will not have its trading arrangements interfered with. I understand that there may be two corporations—the main corporation, and an exploration and production section. Is the latter company to have no marketing arrangements at all?

**Mr. Gray:** I must give my hon. Friend the answer that I gave the right hon. Member for Devonport. My right hon. Friend the Secretary of State will be making a statement in due course and I do not wish to pre-empt anything that he might say.



points on this matter. When the Government are discussing the future ownership structure—and I welcome the injection of private equity capital in BNOC—perhaps they will comment on the detailed way in which that can be done.

There are two ways that have been canvassed in the press. The first is the mechanism of oil bonds—asking investors to buy bonds, the return being linked either to the profits of BNOC, the price of oil or the value of oil lifted by BNOC. If such a procedure were adopted the Government would have two choices—either the bond could be structured in terms of an equity investor, in which case the potential returns—both upside and downside—to the bond holder are significant, or it could be more or less viewed as a fixed income bond with variations in return to the investors being only marginally linked to the value of oil, or whatever the medium chosen. In either case there is little point in issuing such bonds. They will either be very close to equity, in which case equity could be issued directly, or they will be very close to fixed interest securities, in which case issue fixed interest securities. We should not come out with an unclear hybrid that will not assist anyone.

The other alternative that has been mentioned is the possibility of an offer for sale to investors of equity in BNOC. It is said that it could be structured to be of interest to private investors, and could be offered on advantageous terms. I am not convinced that the benefit of such an offer for sale would not flow either to the institutions or to a limited number of individuals who are professional players of the stock market and who have the least need to benefit from an injection of equity into BNOC. I do not find that acceptable.

I refer to my speech on the Gas Bill, when I pointed out the advantages of giving shares in the British Gas Corporation to everyone over the age 18. Exactly the same could be done with BNOC. I shall not now enumerate the advantages. In reply to a parliamentary question my right hon. Friend the Prime Minister clearly stated that she did not rule out such a possibility. I trust that the Minister will look into that proposal with considerable care. As he knows, it has been adopted with success in British Columbia

and Alberta, and has a large number of advantages.

11.52 pm

**Dr. David Owen** (Plymouth, Devonport): A number of hon. Members have raised the question of BNOC. I confirm the interpretation of my hon. Friend the Member for West Lothian (Mr. Dalryell) of the arrangements on the participation agreements. I was deeply involved in those in the previous Government. No decisions were taken without the Ministers most concerned being involved collectively. At no stage was any arrangement made without the most careful consideration with the Law Officers.

Any change in the arrangements will be open to challenge. I do not expect an immediate challenge. International oil companies which wish to challenge the participation agreements will wait until the legislation is through the House, and then I believe they will challenge it. We shall not let that legislation go without those legal issues being exposed at every single stage. If necessary, I shall exercise my right, as I have done, to consult the documents and examine the legal advice proffered to the Government. The Government should not enter this area without the most careful consideration. We shall not let the matter pass lightly.

**Mr. Dalryell:** All the parliamentary experience and bloody-mindedness of which we are capable is at my right hon. Friend's service if that happens. Some of us will go to Dingwall, and go round the Minister of State's constituency to explain exactly what is up. Politics will be very rough.

**Dr. Owen:** It is a serious issue and I believe that the Under-Secretary is aware of it and has advised many of his right hon. Friends that it is a dangerous political issue. We do not wish to see another rise in the naked Scottish nationalism that we have seen in the House over the past few years, but playing around with the BNOC is a recipe for that.

The hon. Member for Enfield, North (Mr. Eggar) seems to be obsessed with turning the Floor of the House into a stock market where we spend our whole time discussing private equity shareholdings. The Conservative Party must realise that there is such a thing as acting in the national interest and that that interest is



knows, that is a matter for the Norwegians. They are keeping in close contact with us and when they produce their report we shall examine it closely. We shall take advantage of any lessons to be learnt from it. I want to link that with the point raised by the hon. Member for West Lothian (Mr. Dalyell) about the Burgoyne Committee report. I am most grateful to the hon. Gentleman for his remarks about the Department and about the treatment that his constituent ultimately received.

The report contained more than 60 recommendations. I anticipate that the Government will accept the vast majority of them with little difficulty. We are currently taking views from various outside bodies on the remainder. We are having interdepartmental discussions about the implications of certain recommendations, and in particular we are investigating and considering the minority report, because that is most important. I know of no suggested date for a debate on the report. That matter is not within my remit. The hon. Gentleman has the power to raise it by other means.

We are extremely anxious to come to conclusions on the report and we shall do everything we can to hasten matters. We are as anxious as is the hon. Gentleman to ensure that the highest safety requirements are maintained in the North Sea. Obviously, the report has an important part to play in achieving and maintaining that.

Mr. Dalyell: I accept that I can raise this matter with the Leader of the House, but is it not fair for me to ask whether we have to wait for the report of the Norwegian inquiry before we can have the debate? That may not become available until after August and it will be unsatisfactory for us not to have had a proper discussion of this matter before the House goes into recess.

Mr. Gray: That is a matter for my right hon. Friend the Leader of the House. If we are to proceed along the lines of the Burgoyne committee report

it will be useful for us to have the benefit of the Norwegian report at the same time.

The right hon. Member for Devonport, the hon. Member for Dunfermline and my hon. Friend the Member for Enfield, North (Mr. Eggar) all asked about the British National Oil Corporation. Labour Members have certainly been loud and clear in giving their views on what should or should not be done with BNOC. At this stage the only assurance that I can give them is that the Government are being meticulous in investigating all the possibilities. The hon. Member for West Lothian said that it is not good enough just to say that the Law Officers have been consulted. I can assure him that they are being consulted, but that all the aspects of changes to the BNOC are being equally carefully studied.

The question of participation agreements was raised. The agreements are between the BNOC, the licensees concerned and the Secretary of State. The Government have recently said that they have no intention of varying these agreements. More than that I cannot say at this stage.

This has been a useful opportunity to discuss these matters. We are grateful to the right hon. Member for Devonport for providing the opportunity of a debate on the prayer.

*Question put and agreed to.*

*Resolved,*

That this House authorises the Secretary of State to pay or undertake to pay by way of financial assistance under section 8 of the Industry Act 1972, as amended by section 22 of and Part I of Schedule 4 to the Industry Act 1975 and section 1 of the Industry (Amendment) Act 1976, as grants towards obtaining in the United Kingdom goods and services for each of the projects specified in column 1 of the Table below carried on by persons specified in respect thereof in column 2 of the Table sums which, together with the sums already paid or undertaken to be paid by way of such financial assistance exceed the sum of £5 million or, as the case may be, the maximum sum authorised by a resolution of this House passed on 15th June 1977 in respect of the project specified in Column 3 of the Table but do not exceed the sum specified in respect of the project in Column 4 of the Table.



Original - CR



cc 10 / N  
Energy

10 DOWNING STREET

THE PRIME MINISTER

9 July, 1980.

Dear Jim,

Thank you for your letter of 25 June about the freedom of BNOC to acquire North Sea licence interests relinquished by other companies.

As you will appreciate, the question of its policy to such deals is in the first place a matter for BNOC's own commercial judgment bearing in mind its available resources. Subject to this and to necessary public expenditure constraints, I can confirm that the Government is prepared to see the Corporation engage in such deals where this would be to the national advantage.

Yours sincerely,

(SGD) MT

The Rt. Hon. James Callaghan, M.P.

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VB

Energy

BF 11/7/80

MR. IBBS

The Prime Minister has received the attached minute from the Secretary of State for Energy on the future of BNOC, which has apparently been agreed with the Chancellor. She will be meeting Mr. Howell and the Chancellor next Monday to discuss it, and would be grateful for advice by the weekend.

I am sending a copy of this minute and its enclosure to Sir Robert Armstrong.

T.P. LANKESTER

8 July 1980

GC





10 DOWNING STREET

1  
Printheist <sup>Agreed</sup> . That how  
many more lines are  
they going to change their  
Austin options paper on  
the future of BROC ! The paper  
has been agreed with the  
Chancellor, and when he and  
Mr Howell would like to  
discuss with you before taking  
it to E. (The Chancellor seems  
now to favour the status quo,  
Mr Howell some very limited  
privatisation). ~~As a result~~ I will  
set up a meeting; and if  
you agree, ask CPAS for a  
view.

*[Signature]* 12/7





PRIME MINISTER

THE FUTURE OF BNOC

The Chancellor of the Exchequer and I have been considering the future of BNOC in the light of the discussion in E Committee on 13 March (E(80)9th Meeting, Item 2). The Committee felt unable then to endorse our proposals to establish an independent company owning all BNOC's North Sea assets in which the general public would have the majority share. We would now like to discuss with you the next steps.

Our officials have produced the paper attached which sets out the options, including the option of leaving the present arrangements (other than the changes already announced of ending BNOC's special access to Government finance through the National Oil Account, removing its statutory role as adviser to the Government and abolishing its privileges vis-a-vis other oil companies). The paper is long, but it is a useful assessment of all the likely schemes. It also discusses BNOC's own ideas set out in a letter from their former Chairman, Mr Utiger, also attached.

Against the background provided by the paper we think the choice is between the following schemes:

Scheme C - a new independent upstream company in which BP would have a substantial interest (for which they would pay the Government in shares), 25-33 per cent of the shares in the new company would be sold to the general public with the public sector retaining 25-33 per cent.

Scheme E - a revenue interest scheme under which BNOC stays as a public corporation but the public are given the opportunity - through oil production bonds or similar instruments - to share in a percentage of the oil revenues from some or all of BNOC's fields.

Scheme G - the sale of say 75 per cent of shares in a company owning a part of BNOC's oil field assets (with perhaps BP taking a substantial interest in that company as in C). This would produce a smaller version of the independent upstream company in C, but an integrated though smaller BNOC would be



retained; it would be up to us to decide how much smaller.

The status quo.

The main considerations

We think that the main considerations governing the choice of scheme are:

- (i) The need for national control over oil at a time of evident and increasing political and trading turbulence and uncertainty in the oil markets. The Chancellor feels that this is the message coming from the Summit. In practice under schemes C and G control would not be relinquished over much oil (only 4m tonnes under C and less under G) since the BNOC participation agreements would still give access. But would people understand this or would they simply resent it as "selling our oil"?
- (ii) There is also the question of whether we wish to split trading from upstream operations. The integrated pattern would be lost under scheme C, but retained completely under E and to a lesser extent under G. The Chancellor considers that it is only as long as BNOC retains an integrated capability that HMG can be reasonably sure of using BNOC as an effective lever in negotiations about North Sea oil policy (including tax) with the big oil companies, many of them foreign, whose interests understandably do not always coincide with Government's.
- (iii) The very difficult PSBR problems, particularly in 1981-82 would be helped by a sizeable contribution from BNOC privatisation. Schemes C and G could be devised to produce a reduction in the PSBR of some £400m in 1981-82. Further reductions would depend on the timing and extent of sale by the Government of BP shares and - in the case of G - on which BNOC assets were put into the new upstream company. All such reductions would be at the expense of increases in the PSBR in later years. Scheme E would finance, not reduce, the PSBR; it could be used to raise anything between £200m to well over £1bn. But any of these schemes could prove over the longer term to be an expensive way



of raising money for the Government compared to a conventional fixed interest gilt issue. A £ raised under all three schemes has very broadly the same effect on the money supply.

(iv) Scheme E is in accord with my firm statement to introduce private capital into the Corporation, except that the private capital would not be in the form of shares in a Companies Act company. It would also allow the private interests to be very widely spread. Schemes C and G would privatise a substantial element of the Corporation's business. Retention of the status quo could not be reconciled with the public commitment to private involvement.

#### Our conclusions

If BNOC is to stay as a wholly public corporation, my strong preference is for option E rather than the status quo. E fulfils our political commitment and retains an integrated company although I would wish to see the two 'halves' made more distinct within it. If we go for an independent upstream company, I would on balance favour G (with a BP element) before C. The Chancellor accepts it could be politically difficult to withdraw from our commitment to introduce private capital into the Corporation; although the political attractions of that position might not be very durable if the passage of legislation coincided with a major upheaval in oil supplies. He has, however, real PSBR difficulties, particularly in 1981-82 which make it desirable to proceed with at least one of the options if possible. If asked to choose he would prefer G to C, but would be willing to settle for a limited issue under E if it was judged necessary to do something and yet maintain Government control over the Corporation and its full capability as an integrated company. His only question is whether even this last option might prove difficult to defend in the face of developing political concern about control of oil in a volatile world.

#### Timing of announcements

Subject to the wider political considerations I would see much advantage in announcing our decision to Parliament as soon as possible and certainly



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before the Recess.

We should be glad to discuss all this with you.

I am sending a copy of this minute to the Chancellor of the Exchequer.

*DH*

SECRETARY OF STATE FOR ENERGY

4 JULY 1980

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NOTE BY DEPARTMENT OF ENERGY AND TREASURY OFFICIALS

BNOC : ALTERNATIVE STRATEGIES

Objectives

In putting forward to colleagues his proposals on BNOC, the Secretary of State for Energy identified five principal objectives:

- maximum security of UK oil supply;
- widest possible spread of ownership by the British public in BNOC's upstream operations, bearing in mind effects on the PSBR;
- continued development of a major British oil company on the UK Continental Shelf, based on BNOC's upstream operations;
- separation of the commercial upstream function from the trading side which is based on the participation agreements negotiated for national interest (security of supply) reasons;
- reduction of the public sector.

2. Treasury Ministers have emphasised the importance of securing reductions in the PSBR in the PES period to 1983/84.

Related considerations

3. In trying to meet the objectives above, some of which are in conflict, Ministers will need to bear in mind:

- (a) PSBR: reductions in the PSBR from the proceeds of privatisation can only be secured if the assets being privatised are reclassified to the private sector (see the Chancellor of the Exchequer's minute of 7 March to the Prime Minister which is attached at Annex 1). The benefit to the PSBR in the longer term of any future cash flows generated by those assets would then be lost. In broad terms if BNOC remains fully in the public sector the PSBR would benefit in the next few years as follows:





1981/82	1982/83	1983/84	1984/85	1985/86
350	190	230	250	250

If it is reclassified to the private sector these benefits and the continuing benefits that would accrue over the longer term would be lost, except for dividends received from any Government shares in the new private company. However, the valuation of the enterprise, net of loans, is estimated to be in region of £1500m to £2000m and realisations would reduce the PSBR in the early years. 75% privatisation spread over three years in equal tranches could reduce the PSBR by some £400m in the first year and about £250m a year in the two later years. (See Footnote). There is thus a conflict between short and long term PSBR considerations.

- (b) Sale Proceeds: these will depend particularly on the markets' assessment of future oil prices. Given the real risk of oil prices outperforming expectations, sales of oil assets could prove an expensive way of raising money for the Government e.g. compared with conventional Government debt.
- (c) Control of the Company: related to the PSBR is the important question of control. If the assets to be privatised are to be reclassified to the private sector, then the Government must relinquish control over these assets e.g. over their management and operation, including control over expenditure and investment. (It is doubtful whether even a limited Government right to appoint directors, with power of veto in defined circumstances (e.g. as for BP) would be accepted as consistent with the abandonment of control needed for reclassification to the private sector).
- (d) Control of Oil: for the upstream arm to be classified to the private sector so that the proceeds of a share sale can legitimately be counted as a reduction in the PSBR, the upstream arm must be put in a similar position to comparable private

Footnote .. Figures represent gross proceeds of privatisation, say up to £500m, less cash flow: except in the first year when cash flow accruing up to the point of first sale of shares would still count towards reducing the PSBR.





sector oil companies. For security of supply reasons it would be desirable for a participation agreement - similar to those between BNOG and other private sector companies - to be negotiated, giving the trading arm of BNOG the right to purchase 51 per cent (i.e. around 4 m.t.p.a.) of upstream's equity oil. If BNOG were given a right to purchase more than 51 per cent, the upstream arm would not be in the same position as a private sector oil company and it would be argued that the public sector had not effectively relinquished control over the company. (However BNOG would of course be free to negotiate a separate commercial agreement with the upstream company to purchase some or all of the remaining 49% of the company's oil in the same way as it currently is free to negotiate for additional oil supplies with any other private sector company i.e. on a purely voluntary basis).

- (e) Oil Industry Views on Structure: the oil industry has in the past voiced strong concern about the conflict of interest inherent in BNOG's "national interest" oil trading role (especially in respect of its activities pursuant to participation agreements) and in the Corporation's commercial upstream role in operating and developing North Sea fields. However, the decisions already taken have substantially met the main concern expressed by the industry.
- (f) BP's Views: BP have recently told Department of Energy officials that whilst they are in favour of splitting BNOG into separate trading and commercial arms they are not in favour of the creation of another substantial British independent competitor; and would wish a new upstream company to be kept under HMG's control, especially where overseas activities were concerned. (However BP might have taken a different view had they been aware of the possibility of acquiring a stake in the new upstream company. See paragraph 5).
- (g) BNOG's Views: BNOG's management argue strongly that the Corporation should if possible be retained in its present integrated form - see Appendix A of the Chairman's letter at Annex 4.





- (h) Britishness: an important consideration is to secure immunity of the upstream arm from risk of significant foreign ownership or control. Surrender of Government control could, but not necessarily would, run the risk of eventual foreign control. Nor could we introduce statutory or administrative means of preventing the transfer of shares to foreign hands which were compatible with Community rules.
- (i) EEC: generally it is desirable to avoid increased risk of EEC scrutiny and challenge of participation agreements.

#### Possible Schemes

4. Possible schemes, including schemes analysed by BNOC themselves are described below, and are shown schematically in Annex 2. They may be categorised in groups as follows:

#### First Group - Relinquishment of Control to the Private Sector

5. The possibilities include:

- A. Hiving off a new independent upstream company, with 51 to 75 per cent of shares being sold to the general public in, say, three equal tranches in the years to 1983/84; with the public sector retaining the remaining shares.
- B. Sale of all upstream assets to BP, in return for BP shares with the sale of some of the new shares to the public for cash.
- C. Hiving off a new independent upstream company (as in A) with 50 per cent or less of the shares being sold to BP in exchange for BP shares (some of which would be sold), 25-33 per cent of the shares being sold to the general public and the public sector retaining 25-33 per cent. There would need to be a mutual understanding between BP and the Government that BP, in exchange for supplies of a share of the company's crude





oil, would not seek to dominate or interfere in the management of the company; and would give the Government first option on any sale of BP's shares in the company or any assignment of rights to acquire further shares.

6. Any sale to the public of the new BP shares by the Government could well have to be delayed for say a year or so while the market digested the effect on BP of acquiring BNOC assets (as in B) or shares in the new company (as in C). The full reduction in the PSBR might therefore be delayed.

7. These schemes all offer:

- maximum short term PSBR reduction either from the sale of shares to the public in the new company or from the sale of new BP shares or both; but there would be a loss of long term cash flow benefits other than dividends received on the public sector's holding of shares in the new company;
- end of dual role conflict; either through split of trading and operating arms or complete disposal of upstream assets;
- only 51 per cent of the oil kept under public sector control through a normal 51 per cent participation agreement;
- likelihood of complex and time-consuming renegotiation of BNOC's existing operating agreements which give field partners right of first refusal if the Corporation wishes to transfer its assets. (NOTE. BNOC officials estimate that this process could take a year or longer to complete, depending on partners' general attitude to the privatisation proposals).
- separation of the "political" trading operation from the commercial operation with possible problems of viability for the trading arm and increased exposure to EEC scrutiny.

8. The main difference between the individual schemes is that B:

- does not widen share ownership through BNOC;
- eliminates a separate British North Sea company;





- makes it difficult to justify in public the sale price as fair especially since BP would attract BNOC's substantial tax reliefs.

B allows the Government to rebuild its holding in BP and would provide BP with much needed oil supplies. Both these advantages can also be secured to a lesser extent by option C, without the consequences mentioned above. To the extent that BP shares are retained by the Government rather than sold the PSBR benefit would be reduced compared to A.

9. With both B and C there is the risk that the oil industry will look askance at a solution which gives BP a special position: this could increase the difficulty of re-negotiating operating agreements.

10. The main difference between A and C is that C guarantees the independent upstream company will remain under substantial British ownership and control; whereas "Britishness" under A is more difficult to secure without provision in the Articles designed to prevent foreign investors from securing control liable to offend against the Treaty of Rome. C also allows HMG to increase its holding in BP so that excluding the Bank's holding it would be well above the critical 25 per cent needed to block special resolutions altering the provisions in the Articles for the appointment of Government directors with veto powers. It also makes it easier to justify the price of the shares sold to BP since this could be related to the price obtained for the shares sold to the public.

#### Second Group - Retention of Public Sector Control

11. This could take two distinct forms:

- D. Equity route i.e. establishment of a company holding BNOC's upstream assets and sale of shares in that company to the public; but with BNOC retaining full control of the company.
- E. Revenue interest route ie retention of BNOC as a public corporation with the general public able - through oil





production stock or similar instruments - to share in a percentage of the oil revenues from some or all of BIOC's fields. Annex 3 describes the possible instrument in more detail.

12. Both approaches offer:

- no opportunity for short term PSBR reductions - but provide a means of financing the PSBR;
- 100 per cent control over oil;
- guaranteed British control;
- integrated management: no viability problems for trading operation - but continuing "dual role" conflict.

13. Individual features are as follows:

Option D - Equity route offers:

- Retention for PSBR purposes of longer term cash flow benefits only providing surpluses are invested in public sector debt.
- Risk of serious conflict between Government and private sector equity holders since upstream company would be subject to Government interference, e.g. Government control of expenditure and investment, surpluses etc., which at times could conflict with the company's commercial needs and aspirations and the interests of private sector investors. The PSBR would be increased to the extent the company were successful in arguing for a higher capital programme and/or investment in private sector debt.
- Resulting from this, likelihood of reduced investor confidence, and depressed price to Exchequer from shares sales to public.
- Renegotiation of existing agreements still technically necessary, but less of a problem than with schemes A-C, since BIOC retains ultimate control over the upstream assets.



Option E - Revenue interest

- No short term PSBR reductions but probably an attractive means of financing the PSBR. In the longer term retention of benefits to the PSBR from the cash flows except for revenues (which could be large) needed to service the revenue interest.
- In most respects a revenue interest approach would preserve BNOC in substantially its present form.
- Renegotiation of existing operating agreements could be avoided.

A revenue interest scheme would need to be consistent with policy for Government borrowing; and it would need to be decided carefully how it should be marketed e.g.

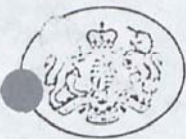
- if marketed like a gilt it could be very attractive to overseas buyers, so producing upward pressure on the exchange rate;
- if marketed to small savers it would be in competition with Savings Banks and Building Societies. There would be risk of criticism of Government from unsophisticated investors not fully appreciating the complexities or risks attaching to their investment, if the investment failed to live up to their expectations.

Third Group - Elements of Public and Private Sector Control

14. Schemes could be devised to combine the characteristics of the two Groups described above so that public control is retained over some or all of BNOC's oil field assets. For example:

- F. the sale of shares in a company with a right to some BNOC oil of which it could dispose (price, customer) as it chose;





G. the sale of say 75 per cent of the shares in a company owning only a part of BNOC's oil field assets (e.g. in the fields in which BNOC is not the operator) with the Corporation's remaining offshore interests (e.g. in the fields in which it is the operator) remaining with the Corporation. Perhaps with BP taking up a substantial shareholding in the new company, as in C, thus, inter alia, ensuring its "Britishness".

15. Both approaches offer:

- Retention of a state upstream capability in the North Sea;
- Avoidance of complete isolation of trading arm.

16. F avoids the sale of any BNOC interest in offshore licences (and thus could avoid need for re-negotiation of existing operating agreements). It retains BNOC in its present form except that the Corporation would lose control over some of its equity oil. Control would also be lost under G though the Corporation could retain a 51% participation option over hived-off oil. G - like A-C - would involve re-negotiation of the relevant operating agreements.

17. It is possible to advance an argument that the proceeds of the sale of shares in the company in F should reduce the PSBR rather than finance it. But it is most dubious whether such a device for exploiting the accepted conventions for PSBR classification would be sustainable. There would be no commercial justification for such a scheme. Provided the public sector relinquished control of the privatised company in G, the proceeds from the share sale would reduce the PSBR.

#### Schemes analysed by BNOC

18. Annex 4 described in detail seven schemes analysed by BNOC themselves which may be summarised thus (in descending order of BNOC preference).

- (1) - status quo; introduction of private capital abandoned, in the light of the changed circumstances since the Secretary of State's statement of July and September 1979.





- (2) - Retention of present structure and functions, and sale to the public of revenue interest. Two possible schemes are identified. Both are considered above - see E and F.
- (3) - Conversion of BNOC into an integrated limited liability company; sale to the public of minority stake. See comment below.
- (4) - Retention of Corporation, with three subsidiary companies; sale of minority stake in offshore subsidiary. See D above.
- (5) - Basically as 4, but with sale to public of majority stake in offshore company which would still remain under Corporation's umbrella. See comment below.
- (6) - Hiving off certain of BNOC's non-operated assets into new upstream company; sale to public of majority stake in that company. See G above.
- (7) - The Secretary of State for Energy's original proposals i.e. A above.

19. Two of these possibilities, which are not included in the main analysis above call for special comment:-

Scheme (3) This would introduce private capital into the participation and trading functions, as well as into the upstream function. We believe this would be strongly opposed by the private sector parties in participation agreements; and, quite apart from other difficulties, would pose a very great risk to these agreements and thus to security of supply. There would also be a serious risk of conflict between the Government and private sector investors, as in D above.

Scheme (5) This envisages majority private sector capital in a new upstream company over which the public sector - through a





voting minority held by BNOC - would exercise effective control. Whilst public sector control of such a company could conceivably emerge through active use of BNOC's substantial minority shareholding it seems impracticable to attempt to establish such a concept in advance of the company's flotation with the related difficulties of having to explain and justify in the prospectus the nature of relationship envisaged between the Government, BNOC, the company and the majority private sector investors. Concern about possible conflicts of interest would only serve to depress the issue price, whilst the proposed maintenance of public sector control would militate against the proceeds of share sales counting to reduce the PSBR. Despite effective Government control through the minority shareholding, majority British ownership would be difficult to guarantee under this scheme.

Department of Energy  
H M Treasury  
12 June 1980.





ATTACH  
M

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233.3000

PRIME MINISTER

BNOC, PRIVATISATION AND THE PSBR

Following the meeting of E Committee on 12th December 1979, there were discussions with you and other interested Ministers about the future of BNOC at which I was invited to re-examine the accounting conventions which determined whether or not the proceeds of a sale of shares in BNOC (Operating) counted as a reduction in the PSBR. The particular point at issue was the Treasury's view that for the proceeds to count as a PSBR reduction, it would have to be made clear at the outset that the public sector was immediately relinquishing control over Operating and that it intended to sell at least 51 per cent of the shares eventually. ..

2. My officials, in consultation with the CSO, have prepared the note attached which describes the national accounting conventions relevant to the classification of proceeds from privatisation exercises as PSBR reductions. Colleagues may like to have it as background to the discussion on BNOC in E Committee planned for 11th March.

3. Two points stand out from this highly technical subject:

(i) If our programme to control the PSBR is to retain credibility, we must not put ourselves in a position where we can be accused of producing PSBR reductions by massaging the definitions.

/Paragraph 4





Paragraph 4 of the officials' note points out that there are already awkward anomalies (e.g. BL and Rolls Royce) in the PSBR classifications. We should not introduce more.

(ii) The more genuine and thorough-going the act of privatisation (in the sense that the public sector is seen to relinquish control), the easier it is to defend counting privatisation proceeds as a PSBR reduction. There were particular reasons for the announcement of a sale of only a minority of shares in BA, but this was coupled with unambiguous statements about the relinquishment of Government control, including a statement that the Government would not mobilise its voting power to appoint directors. In view of the past history of close control by Government over BNOC as a whole and probable suspicions that whatever we say we may intervene in the company's affairs because of the public sensitivities about security of oil production and supply, it would be more convincing to go further and announce our intention to sell more than 51 per cent of Operating shares in order to provide evidence of relinquishment of public sector control.

4. My strong preference therefore, if we are to have a credible case for counting the proceeds from a BNOC (Operating) share sale as reducing the PSBR, is to make clear our intention that the Company should act completely independently of BNOC and of the Government and our intention to sell ultimately at least 51 per cent of the shares, as David Howell does indeed do in the draft statement attached to his paper for E Committee.

/Otherwise

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Otherwise we create the risk that the financial commentators and market analysts would argue that our privatisation of BIOC is essentially bogus in that the Government has no intention of relinquishing control; Operating should properly be classified to the public sector; and that the proceeds of the sale should therefore be counted as financing rather than reducing the PSBR.

5. I am sending a copy of this minute to Members of E Committee, the Secretary of State for Scotland, the Attorney General and Sir Robert Armstrong.

*G.H.*

(G.H.)  
7 March, 1980

SECRETARY OF STATE'S OFFICE	
TO Mr. Henderson	Ch. 2.5.10
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	M. Herzog
	H. Hadley
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PRIVATISATION AND THE PSBR  
(Note by Treasury Officials)

Following the meeting of E Committee on 12 December 1979 (E(79)19th Meeting) there were discussions with the Prime Minister and other interested Ministers at which the Chancellor of the Exchequer was invited to re-examine the accounting conventions which determined whether or not the proceeds of sale counted as a reduction of the PSBR. A particular point at issue was the Treasury's view that for the proceeds to count as a PSBR reduction, it would have to be made clear at the outset that the public sector was immediately relinquishing control over Operating and that it intended to sell at least 51 per cent of the shares eventually.

2. Background

The PSBR is a relatively young concept. The Radcliffe Report of the 1950s led to the development in the 1960s of an organised framework of financial accounts for the economy. By the end of the decade the concept of the PSBR had been developed following work in the Treasury, Bank of England and Central Statistical Office. Since then the significance of the PSBR has been much debated, but there is general agreement that it needs to be measured as consistently as possible over a period of time.

3. "Privatisation" is a new activity. But the various transactions involved are not essentially different from transactions already handled in the system of financial accounts for the economy. The PSBR conventions for dealing with privatisation transactions must therefore be consistent with PSBR conventions generally. If they are not, not only is the measurement of the PSBR discredited, but the Government's claims to be reducing the PSBR will also be discredited. Producing PSBR "reductions" by changing definitions, which cannot be justified on their own merits, would not convince the commentators and market experts, who take a very close interest in these matters.

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4. Public Sector or Private Sector?

In this country every "economic unit" (eg firms, companies) has to be assigned either to the public or the private sector in the national accounts. There is not an intermediate category for mixed enterprises and inevitably classification is arbitrary at the edges. Some decisions under previous Governments to classify certain new "economic units" to the private sector when set up (eg British Nuclear Fuels Limited) or to leave firms in the private sector when taken into public ownership and effective public control (eg BL, part of Rolls Royce) cannot be reconciled with national accounting orthodoxy. But these decisions were made at a time when less attention was focussed on the PSBR. The credibility of the PSBR (and of the Government's policies linked with its reduction) would be undermined if these anomalies were claimed as a useful precedent. In any case, a decision not to re-classify (as in the case of BL and RR) into the public sector is a very different matter from a decision to put out of the public sector a concern that manifestly is within it, without real change in its control and ownership.

5. Ownership and Control

The two basic criteria for deciding whether an economic unit is in or out of the public sector are control and ownership, in that order. The reverse order may seem more natural at first sight.

The actual order has become accepted internationally. In our case it caters for cases such as BF when the Government held more than half the shares in the company but did not exercise control.

6. The PSBR and an Economic Unit in the Public Sector

The borrowing requirement of an economic unit in the public sector is the difference between its revenues and its expenditures; the latter includes its net acquisition of financial assets, eg any loans it makes, or any company securities it buys. If a public corporation were to add to its liabilities - or convert some of its present liabilities - by means of a sale of equities in itself, this would score as part of its borrowing just as would its borrowing from, say, the National Loans Fund.

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7. The PSBR and an Economic Unit in the Private Sector

If privatisation is to reduce the PSBR, it is therefore necessary to do more than introduce private capital into a corporation or company which is in the public sector.

8. This requires the economic unit concerned to be classified to the private sector from the outset by:

- a) total sale; or
- b) general acceptance that there is and will be a sufficient sale and be a withdrawal from control reinforced by a sufficient sale for it to be reasonable for the economic unit to be deemed to be in the private sector. Once the unit is reclassified, the Government/parent corporation finds itself the owner of financial assets - namely the capital of the new private sector entity. Sale, or partial sale, of this asset then reduces the PSBR.

In either case, the sale has to be for cash, as the PSBR is a cash concept. (That is why the act of nationalisation has not normally increased the PSBR, because the payment (compensation) has been in the form of stock.)

9. The need to reclassify an economic unit into the private sector before selling shares inevitably requires a case by case scrutiny. Even though absence of control is more important than loss of ownership, the smaller the eventual shareholding, the easier it is to carry conviction about loss of control. If the public sector retains and is expected to retain a substantial shareholding in a firm, the harder it is to carry conviction that the public sector will in practice keep its hands off.

10. Conclusion

A public sector shareholding under 50 per cent, or at least an announced intention of going below 50 per cent, is therefore always



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to be preferred to help sustain credibility that a firm has passed out of the "public sector" and hence that its borrowing (other than from the Government) no longer counts for the "PSBR".

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PART 1: ANALYSIS OF SCHEMES FOR INTRODUCING PRIVATE CAPITAL

SCHEME (see main paper)	DESCRIPTION OF SCHEME	NEW UPSTREAM COMPANY Control Ownership (Public/Private)	Britishness Difficult	PSBR EFFECTS COMPARED TO STATUS QUO Initial (ie from proceeds of sale) longer term	% CONTROL OVER OIL	ADDITIONAL MAJOR FEATURES
A	Having off new independent company holding all BNO's upstream assets: sale of approx 75% of shares to public.	Private Control (Public/Private) 25/75 (or thereabouts)	Difficult	Reduction Increase because loss of net cash flow.	51%	
B	Sale of all upstream assets to BP.	No new upstream company			"	<b>Scheme B</b> (i) Could help restore BNO's holding in BP; but (ii) Eliminates separate UKCS operator (iii) Does not widen ownership of BNO (iv) Difficult to justify valuation especially in view of tax relief available to BP
C	As A with BP owning, say, 50% of shares in upstream company.	Private 25/75 (or thereabouts)	Guaranteed	"	"	<b>Scheme C</b> (i) As (i) above but avoids (ii) - (iv) (ii) BP's relationship with company would need to be carefully defined.
D	Establishment of company holding BNO's upstream assets. Sale of shares in that company, but with BNO retaining full control.	Public 75/25 (or thereabouts)	Guaranteed	No reduction but financing	100%	<b>Scheme D</b> Serious risk of conflict between Exchequer requirements and private investors' interests, leading to lower market valuation.
E	Status quo, with BNO retaining ownership of oilfield assets; but sale to public of revenue interest (see annex 3)	No new upstream company		"	100%	<b>Scheme E</b> BNO's preferred course. (See also F).
F	Status quo, with BNO retaining ownership of oilfield assets; but sale of shares in new trading company with right to some of BNO's oil. (See annex 3).	No new upstream company		Difficult to justify reduction	51%	<b>Scheme F</b> (i) Possible to argue that proceeds of share sales would reduce PSBR - but dubious whether so transparent device for exploiting accepted PSBR conventions would be sustainable. (ii) A participation agreement might be desirable, depending on the quantities of oil involved, but could increase problems of transparency referred to in (i)
G	Sale of, say, 75% shares in company owning some of BNO's upstream assets (e.g. non-operated). Perhaps with BP taking a substantial shareholding. Other existing offshore assets remaining with Corporation.	Private 25/75 (or thereabouts)	Guaranteed if BP involved; otherwise difficult.	Reduction Increase because of loss of net cash flow	51%	<b>Scheme G</b> Notes for scheme C apply, if BP involved.





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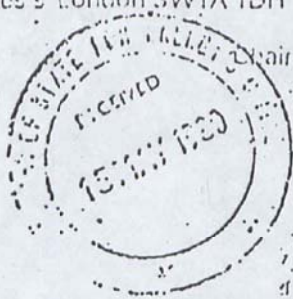
SALE OF REVENUE INTERESTS IN BNOC

1. Various schemes have been suggested from time to time to provide a vehicle for private sector investors to share in BNOC's revenues without BNOC giving up management control of the upstream operation, which answer to the general description of revenue interests.
2. At their simplest these consist of selling to investors a right to a share in BNOC's gross revenues (as oil production stock.).
3. A number of variations on this theme are possible. Variables include:-
  - (a) The degree of risk involved for investors. It is, for example, possible to link the interest to revenues from specified existing fields, or all BNOC's future activities.
  - (b) Related to (a), definition of revenues to which the interest is geared. The options range from gross revenues to gross revenues less royalty, operating costs, depreciation, interest and tax.
  - (c) The assignment of revenues to a specially created company whose ordinary shares could be sold to the investing public.
4. The nature of the instrument could be adapted to suit the needs of a wide range of potential purchasers; from institutional investors - who will look for a security marketable on the stock exchange in fairly large amounts - down to the small saver who will expect to be able to buy or sell in small amounts through such institutions as the Post Office, Trustee Savings Banks, or Clearing Banks; possibly linked to a regular savings scheme, possibly with some minimum guaranteed return.



The British National Oil Corporation

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Chairman's Office

The Rt. Hon. David Howell, M.P.  
Secretary of State for Energy,  
Department of Energy,  
Thames House South,  
Millbank,  
London, SW1P 4QJ.

May 15, 1980.

Dear Secretary of State,

The Members of the Corporation met on May 9 and in a discussion of the Government's proposal to introduce private capital into BNOC reached unanimous\* agreement (the Official Member abstaining) on the recommendation which they are making to you. The attached paper records the views of the Members and has been approved by them. Because of the importance and complexity of the issues the paper is unavoidably long, and has therefore been divided into:

- 1. Summary of Conclusions.
  - 2. Development of BNOC up to the present time.
  - 3. Reasons for the main recommendation.
  - 4. Comment on other options considered.
- Appendix A - Reasons for the retention of a competent national oil company.  
Appendix B - Detail of Options 1-7.

The Members hope very much that you will accept their recommendation. We have given our reasoning in some detail, and are ready to elaborate further in discussion with you at any time. We would welcome your reaction as soon as possible because of the importance to BNOC and the industry of deciding this issue. If you are in disagreement with the recommendation Members would of course like to know your views on the points of difference between us.

*Yours sincerely,*  
*R. E. Utiger*

R. E. UTIGER

c.c. BNOC Board Members

Sir Denis Rooko and Mr. Burke could not be present on May 9. Sir Denis Rooko has subsequently confirmed his support for the Board's recommendation and the attached paper. Mr. Burke is unfortunately abroad.



1. SUMMARY OF CONCLUSIONS

1.1 In arriving at their conclusions the Members were greatly influenced by the following factors:

- a). BNOC, as presently constituted, is an efficient well managed operation,
- b). BNOC is different in kind from most U.K. state-owned enterprise because it has only a small share in a highly competitive industry and is subject to the disciplines of working with private sector partners in nearly all its operations.
- c). The Government has over the past year taken a number of steps to change BNOC's role. These have been welcomed by the industry as meeting their main objections to the policy regime for UKCS development.
- d). BNOC has already proved its value to the nation in a number of ways.
- e). The international oil scene is changing fast and unpredictably. Nobody can be sure what demands may arise requiring the capabilities which BNOC has demonstrated.
- f). Any changes which isolate the participation arrangements for access to, and controlled sale of, oil will make them even more vulnerable to attack by the EEC authorities.

1.2

Arising from these facts and other arguments set out in more detail later the Members believe that this country needs a competent national oil company which has the ability to perform a number of roles. A summary of these reasons is given in Appendix A. It is recognised that decisions on these matters are the prerogative of government. The Members do however point out that they collectively possess very wide experience in commercial, industrial and governmental affairs, both national and international, that they have had the opportunity to assess the development of the oil industry more closely than most, and that, given the widely differing political views of individual Members, a unanimous recommendation from them should carry weight.



1.3 In the absence of any Government wish to introduce private capital the Members would recommend that no further change be made in the structure or role of BNOC. It is a good management principle that when something is working well you should leave it alone.

1.4 If the Government wishes to implement the proposals to introduce private capital as notified to us (see para. 2.4) the Members recommend unanimously that this should be done by means of the sale of revenue interests. (Appendix - Option 2).

This combines the widest possible popular distribution of a financial interest in Britain's oil heritage with the minimum disturbance to a complex industrial operation and the retention of an integrated operating capability.

1.5 The Members have considered all the options listed in the Appendix. While none of them is judged to be impossible, all except Options 1 and 2 suffer from serious disadvantages compared with the recommendation:

- a). The practical difficulties of making the change get progressively greater as you move from Options 3 to 7. This was evident during the studies made from January to March this year.
- b). The integrated capability is progressively impaired from Options 3 to 6 and broken in 7.
- c). None would be likely to give such a wide spread of financial interest as Option 2.

2. DEVELOPMENT OF BNOC UP TO THE PRESENT TIME

2.1 At the end of four years BNOC has begun to make substantial profit on its activities and has demonstrated that its present structure has the following advantages:

- a). It provides an effective instrument which gives HMG an important degree of control over access to UKCS oil. The use of an integrated BNOC for this purpose has enabled it to be done in a way which has not laid it open to scrutiny by the EEC authorities, which always remains a danger.
- b). As a national oil corporation it is increasingly more acceptable as a partner or customer to other national oil companies (which all major oil producing countries other than the USA have established) at a time when the larger private oil companies are having increasing difficulties. As part of technical assistance or other deals this is likely to prove advantageous to the UK in providing preferential future access to oil or opening



doors for British industry as a supplier. At the very least BNOG provides a different kind of runner which increases the U.K.'s chances of success.

- c). It can provide a basic capability for continuing development of the UKCS against the possibility that private sector oil companies might find that there were better opportunities for them elsewhere.
- d). As an entirely state-owned corporation all its profits and cash flow are available to the Exchequer. The technique of forward oil sales has provided a new method of reducing the Government's borrowing needs in the short term, and demonstrated a capacity for special "national interest" operations within the oil industry.
- e). Because it is not a monopoly but in competition and in partnership with private companies it is fully exposed to market pressures and has every incentive to maintain its efficiency.
- f). Its influence has enabled British manufacturers to obtain orders for equipment supply to North Sea developments which they would not otherwise have received - most recently Rolls Royce turbines for the Brae field. BNOG has also put great effort into support of I.C.L. in its efforts to develop computers suitable for specialised oil industry needs.

## 2.2

The Conservative government undertook to review BNOG's activities, and has made a number of changes. These have included:

- a). Making BNOG liable for PRT
- b). Ending the first refusal rights on assignments
- c). Ending the automatic 51% equity in new licences
- d). Abolition of the statutory advisory role
- e). Requesting BNOG to offer a number of existing licence interests for farm-in.

Taken together, these have cut down the role of the Corporation, and put it essentially on the same basis as private sector companies where exploration and development are concerned. The changes have been widely welcomed by the industry, and have helped to create a situation where the oil companies have come to accept BNOG in its revised form. This has been evident in the keen interest in forming partnerships with BNOG for the 7th Round. The decision to retain 51% participation and extend it into the 7th Round produced ritual protests, but it is now accepted that any Government will require this or a similar instrument.



2.3

At the same time these changes have not prevented BNOC from continuing to play a special role where the Government sees fit - in changing the pattern of oil sales during 1979 for U.K. security of supply also, at the Secretary of State's request to help B.P., in raising £621 million from forward oil sales, and in continuing to help British industry compete successfully for orders for U.K.C.S. equipment.

The Corporation should be able to contribute in future in ways that no-one can foresee now. The participation agreements were described by some as meaningless exercises at the time but the events of the last two years have shown their real value. None of us fully realised until it was needed the potential that the Corporation had through forward oil sales for helping this Government's fiscal and monetary policies. BNOC in its present form keeps the maximum number of options open for Government in dealing with whatever may be needed in future.

2.4

This brings us to the present time and the proposal to introduce private capital. The Members would like to see that whatever is done is carried out without damage to what has been created and with the minimum diversion of management attention from the formidable tasks of operating management and creative development of a growing enterprise. We have had difficulty in our approach to this because the only formal statement we have had of the Government's objectives was very general in its terms. This statement was contained in the note sent by your private secretary on November 7, 1979 in which the Government's objectives were stated to be:

- a). To ensure maximum security of national oil supplies..
- b). To achieve the widest possible ownership by the British public in BNOC's upstream operations.
- c). To ensure the continued development of a major British oil company on the U.K.C.S. based on BNOC's upstream operations.

2.5

In subsequent discussions, including your meeting with the Members on April 15, you have indicated that other general objectives of government could be relevant. These included the reduction of State-involvement wherever possible, in order to allow more room for private enterprise and to deal with the problems of the "Morrisonian dinosaurs" which make up the major part of State owned industry. I think it is agreed that BNOC is neither Morrisonian nor a dinosaur. It does not sit across a whole industry thereby excluding private enterprise. With well under 10% of the offshore oil industry, and nothing in downstream, it takes part in an industry dominated by private enterprise and foreign multinationals and BNOC's share ownership is not really a major factor in the development of that industry. We hope therefore that the question of BNOC's capital structure can be decided on its own merits, and not by false analogy with the problems of the nationalised industrial monopolies.



## REASONS FOR THE MAIN RECOMMENDATION

- 3.1 The Members recommend that the Government should keep a competent national oil company with the ability to perform the roles described in para 2.1. Appendix A is a statement of the reasons for this recommendation. In the absence of any Government wish to introduce private capital the Members would recommend no further change in the structure. BNOC has formidable tasks to perform in efficient stewardship of its assets and any diversion of management effort is regrettable.
- 3.2 If the Government conclude that a change in BNOC's financial structure is necessary, then in order to preserve the capability referred to in 3.1 while achieving a widespread financial interest in the success of BNOC the Members recommend the issue of revenue interests as outlined in the Appendix, Option 2. This would involve the sale of a security entitling the holder to a percentage of defined equity sales revenue. It could be marketed in small denominations through Post Offices, banks etc. and could also be quoted if desired. It would be possible to prevent ownership passing into non-British hands. Great flexibility would be possible in issuing successive tranches according to marketing possibilities.
- 3.3 The advantages of this form of security over any of the other options is that it combines:
- a). The most widespread distribution of a security which is simple to understand. The Stock Exchange cannot achieve really widespread holdings of any security. This BNOC investment could be distributed very much more widely than, say, the recent B.P. issues, by the use of banks, post offices and other savings institutions.
  - b). Simple legislation. Enabling powers could be obtained by a short and simple bill which would not require much Parliamentary time and would probably be uncontroversial.
  - c). No difficulties in complex restructuring of BNOC. The very real practical difficulties of transferring BNOC agreements and licences would be completely avoided, saving great management diversion for BNOC and its private sector partners.
  - d). The retention of BNOC's integrated capability.
  - e). No new risk of EEC challenge to participation arrangements.
  - f). Maximum flexibility in amount and frequency of issues.
  - g). It could be promoted as a novel and imaginative way of involving individuals in the fortunes of a public corporation.



COMMENT ON THE OTHER OPTIONS CONSIDERED

4.1 The Corporation has considered a wide range of other options - Appendix Options 3-7. In the opinion of the Members all of them suffer from substantial disadvantages on balance compared with Option 2.

- a). They put at risk in varying degree the integrated capability of the Corporation.
- b). They all involve much more complex rearrangement and renegotiation of BNOG's assets and agreements, which would take many months and be a major diversion of management effort, both for BNOG and its private sector partners.
- c). All threaten, in varying degree, potential conflicts of interest.

Comments on individual options are given in the following paragraphs:

4.2 The sale of a minority equity interest could be accomplished in two ways (Options 3 and 4), and could be linked with the sale of revenue interests or not, at the Government's discretion. It would be possible to retain an integrated management structure with privately elected directors to protect minority interests. While such a scheme is feasible, there are reservations. There is a potential conflict of interest with minority shareholders if the Corporation's capital programmes are to be subject to PSBR limits. It is also questionable whether a minority equity shareholding achieves anything in relation to the ownership or efficient exploitation of UKCS oil which cannot be achieved through revenue interests. Given that the Corporation is a very minor part of the whole industry and that our efficiency is already subject to private sector pressures through partners and competitors, the addition of a few private sector directors to the Board is not going to do much, to affect the management of the Corporation. An ordinary share investment of this kind might be popular in the City, but is unlikely to have the wide popular appeal of the revenue interest.

4.3 Option 5 is an attempt to reconcile majority private equity in "Offshore" with a framework through which some integrated operating capability could be preserved. This would involve a Government owned holding company exerting its influence positively on the activities of a Government minority offshore company. The actual degree of cohesion and the extent to which the holding company would be regarded as a credible national oil company would depend largely on Government actions and on the directors and senior executives. Even if set up right, this balance might not be durable for it would be critically dependent on continuity of approach by all concerned. It would also require specific provisions to prevent a share holding larger than the Government's passing into single control.



REASONS FOR THE RETENTION OF A COMPETENT NATIONAL OIL COMPANY

The Members recommend that the Government should retain a competent national oil company with the ability to perform a number of roles. The reasons for this are:

- (A) The need to control the distribution of U.K.C.S. oil. We do not believe that a company whose role was confined to trading under Government direction would be able either to retain the quality of staff or to have access to the technical expertise and operational information which are necessary for efficient trading and distribution. It would therefore be exposed to the risk of heavy trading losses and of constant friction with the oil companies if complex lifting operations are not carried through smoothly. Furthermore we must stress again that isolation of the trading activity greatly increases the EEC threat to all important participation agreements.
- (B) In a world in which the major oil exporting countries are determined to reduce their dependence on the multinationals for marketing and technical expertise, a British National Oil Company should be able to seize opportunities to obtain access to oil and to promote British technology abroad in a way which is becoming less and less available to BP or Shell. Putting it at its very lowest, Britain is in a position to have a different kind of runner in the race, which must surely increase our chances of success.
- (C) If developments elsewhere - it might be the discovery of a major new oil province, or a breakthrough in shale oil technology - reduced the attractions of the U.K.C.S., a competent national oil company would be an invaluable basis for ensuring continuing development of the U.K.C.S. later in the decade. It takes four or five years plus the right opportunities to develop a capability, and it would be even harder to do a second time.
- (D) There are other ways in which BNOG has proved its value. The forward sale of £621 million is one. The securing for Rolls Royce of the order for the Brae field turbines last month is another. (Without BNOG persistence the American operator would have used American equipment with which he is familiar). There have been other cases and there will be more, although we cannot forecast what or when. For example, in the years covered by the medium term forecast recently published, BNOG's cash flow can be a very substantial element in the improvement of £2.7 billion in the state industrial sector.



THE OPTIONS

Option One - No Change

- 1.1 The Government could accept that the developing uncertainty in the Middle East, quite probably embracing the entire Gulf as well as Iran, makes any introduction of private sector capital a needless hazard to policy in the sense that conflicts of interest could limit Government options in the use of BNOC's integrated capability to assure or underwrite optimum development of the UKCS.
- 1.2 Under this option there would be no threat of fruitless battles every few years to remove/return BNOC from/to the public/private sectors, which would render the corporation and its managers ineffective for 18 months before and possibly 18 months after each election. No new threat from the EEC would be generated.
- 1.3 From BNOC's point of view, this option would permit it to build on success, subject to agreeing guidelines with the Government.
- 1.4 From the Treasury's point of view, there would be no impairment of BNOC's very large contribution to reducing the PSBR and to accomplishing the medium term turn-around of £2.7 billion p.a., targeted for the state industrial sector.
- 1.5 From the Secretary of State's point of view, BNOC would be available to develop policy objectives in the UKCS and abroad.

Option Two - Revenue Interest

- 2.1 The Government could define its purpose as being the introduction of as many investors as possible into financial participation in the national oil heritage. The Press reception of last September's announcement encourages the belief that what the voter wants is "a stake in the bonanza".
- 2.2 First and foremost, the stake should be distributed far more widely than the institutions in the City. Neither of BP's share sales brought in even 75,000 investors. To bring in 750,000 or a couple of million investors will require a simple investment instrument available from the Trustee Savings Bank, the high street banks, the Post Office etc. etc. To keep the investment diffused in such hands will require that their sales be back to the TSB/PO or other intermediary who will hold the instrument on offer to the public, rather than to the institutions.
- 2.3 Tax rates and shelters, operating costs, capital cost inflation, dividend decisions etc. are uncertainties too complex for such an instrument - hence the "Revenue Interest".  
The investor gets the right to 0.0000x% of BNOC's sales revenue and so he/she need only watch the production figures and the oil price to feel bullish/bearish and very much involved with Britain's greatest asset.



- 2.4 Since the revenue comes off at the top line of the P & L (or second line if net of royalty), the cost of national interest activities (trading losses, if any, assistance to friendly governments etc.) are not material to the investor - there is no conflict of interest between the shareholder and Government's interpretation from time to time of the national interest.
- 2.5 The essence of this option is that HMG puts to the maximum number of investors/votes a large part of the surplus cash flow generated by BNOC, taking cash now for revenue later. The advantages of BNOC to Government policy are undisturbed.
- 2.6 Within this Option Two, there are two variants depending on whether HMG wishes the cash now received to reduce the PSBR. It must be noted that all statements about the PSBR in this paper are based on present known interpretations of the definitions and need confirmation.

2.6.1. The Simple "Revenue Interest" - BNOC simply arranges a distribution of income by selling (as above) a security entitling the holder to receive 0.0000x% of defined equity sales revenue. BNOC would remain liable for costs, taxes, etc. and several structures are possible. Simplifying estimates suggest that well over £3,000 million could be raised this way. This route is unlikely to qualify as reducing the PSBR, but has no impact on security of supply and offers the simple virtues in 2.3 and 2.4 above. The size of the exercise could lead to semi-continuous new issues 1981-84 - keeping its political impact fresh. The appeal to voter/investors could be enormous.

2.6.2. PSBR Reducer - to accomplish this an asset must be sold. An example would be for HMG to set up a company X to purchase Y% of BNOC's equity oil at, say, 20% of world market price (designed to cover royalty and cash costs) and sell it on. The proceeds in X's hands would be subject to corporation tax. HMG would then sell virtually 100% of X's equity to the public either as shares or as 74% of a small share capital and 100% of a larger non-voting capital if UK control etc. are a concern. While X's Board would be free to dispose of unfettered revenues, the objectives in 2.3 and 2.4 might indicate a requirement that most of X's net profits be distributed. Prima facie, if an aggregate reduction in PSBR over £3 billion were sought by this route, oil sales to X in the early 80's might be around 50,000 b/d - so X would have to be subject to at least 51% participation in the interests of security of supply. As a variant to keep political impact fresh, one company X might be put in place in 1981, another company XX in 1982 and Company XXX in 1983 - worth say £1½ billion p.a. off the PSBR and only slowly increasing the loss of oil to BNOC.

- 2.7 This option would not cause any openings for EEC attacks on participation agreement as a control on access to oil. It maximises small investor appeal and leaves it to HMG to decide on the importance of reducing the PSBR 1981-83 while exchanging cash now for future revenues.



Option Three - Limited Private Equity in BNOOC

- 3.1 It is well established that there are complex and substantial obstacles in the way of putting some or all of BNOOC's offshore equity interests down into a subsidiary, particularly if BNOOC proposes to lose control of that subsidiary to parties unknown. It took eight months hard graft to move the ex-Burmah, ex-NCB licences up into BNOOC in 1978 - where everyone knew the new owner but still wanted to safeguard their interests after a change.
- 3.2 For that reason, this option would involve the planned legislation providing for BNOOC to pass all its assets and liabilities to BNOOC Ltd., on Day One, followed by the sale of a minority of BNOOC Ltd's ordinary share capital.
- 3.3 There is no formal or tax reason to limit the size of the private sector minority. The intention here is that there should not be a "Bradbury/Bridges letter", that HMG should exercise its control and that BNOOC should operate as a national interest enterprise with minority private shareholders.
- (a) to offer the public a stake in a highly profitable enterprise; and
- (b) to reinforce private sector partner and market influences towards efficiency; the private shareholders could be allowed to elect a certain proportion of the Board.
- without permitting the minority to bar any particular activity. It might be necessary to undertake to report to shareholders each year the fees and capital subventions received for work undertaken at Government request.
- 3.4 Given that the Board, management and staff would still be responsible to the national interest as defined by the majority shareholder, there would not be any operational conflicts of interest introduced by the new shareholdings.
- 3.5 This option rejects the suggestion that the private sector investor must be protected against his minority share of any trading losses. This is not unreasonable since the scale of E & P profits will far outweigh trading positions.
- 3.6 To avoid Stock Exchange opposition to a quotation it might be necessary for 35% of the shares in BNOOC Ltd. to be made available - raising about £750 million or more perhaps in two tranches in second half 1981 and 1982. This investment is of a sophistication that would require stock exchange investors rather than the wider market in Option Two. The City might argue the share price would be diminished by the minority position, but if this is material, a revenue interest could be sold as well to increase the sums realised. Politically, one would have to guard against claims of a "deal" with the City.



- 3.7 Proceeds of the share sale would not reduce the PSSR but cash flow of BNOC would continue to be within the public sector even though the surplus was no longer passed to HMS via the NOA. There would be no new threat from the EEC.

#### Option Four - Minority Private Equity in Offshore

4.1 Because the offer in Option Three would be a minority position in an integrated company capable of trading losses and other special costs, it would be a relatively sophisticated investment appropriate for pension funds but not the "Revenue Interest" market. Option Four sets out to combine equity interest in BNOC's offshore operations, excluding trading and special features, with the "Revenue Interest" objective. As in Option Two, there are two variants, but both involve the same first stage.

4.2 BNOC itself would be retained as a public corporation, no doubt severed from the NOA (but not necessarily) with three subsidiaries

- BNOC Offshore
- BNOC Special Projects
- BNOC Trading

The equity licence interests offshore would be transferred down to a state majority controlled BNOC Offshore. The fact that majority control was assured would make this complex task laborious but not too difficult. BNOC Special Projects would be 100% owned as a "pocket" for the accounting and funding of (and benefitting from) national interest activities unattractive to Offshore's Board. BNOC Trading would be 100% owned - in fact the participation agreements and the trade would remain in BNOC.

4.3 Since the shares to be sold to the public would be in a subsidiary, any sale of more than 25% of Offshore's Equity removes Offshore from the BNOC tax group and generates an obligation on Offshore to pay huge amounts in capital gains tax that would affect share valuation. For this reason limitation to 24.99% private sector investment in Offshore is suggested - bringing in about £600 million or so. Thus the first part, sale of shares, would not reduce the PSSR. BNOC's cash flow would remain within the PSBR as above.

4.4 The two variants for the second part of the package, the "Revenue Interest", emerge as before according to the intention of the issue - simplicity of investor appeal or PSBR reduction, to be decided by HMS.

4.4.1. Simple "Revenue Interest" - the scale of issue must be more modest than in 2.6.1. above because the removal of this revenue without removing costs reduces net profits after tax and hence the value of the shares sold in the first part of the package. Otherwise the structure is as in 2.6.1., but done by BNOC Offshore. Although the shares in Offshore could be marketed aggressively, they would be essentially stock market securities. The "Revenue Interest" although smaller in scale than in Option Two, could be offered widely.



4.4.2. PSBR Reducer - As in 2.6.2. but again on a smaller scale in this option for the reasons in 4.4.1

- 4.5 It is suggested that if HMG defines a large reduction in PSBR as a major objective, Option 2 (as in 2.6.2.) is preferable as (a) it avoids the complications a large revenue interest would cause for valuing shares in BNOC Offshore and (b) the proceeds of share sale in Option Four do not count to reduce the PSBR. Thus variant 4.4.1. is the more significant choice within Option Four, ignoring the PSBR and concentrating on spreading both share ownership and profitable investor participation in British oil.
- 4.6 Any operational conflicts of interest between Offshore, Special Projects and Trading would have to be managed within the organisation; there would not be any financial conflicts as Offshore would be run on even more rigorously private criteria than the present BNOC. Government would not issue a Bradbury/Bridges letter. There could be confidentiality problems over participation, but not as serious as in Option Five.

#### Option Five - Confederated Companies

- 5.1 In Option Four above BNOC is taken to keep 100% of Trading and any governmentally requested activities and to sell a minority stake in Offshore, keeping management and operating capability integrated from seismic to naphtha sales. In short, everyone works for BNOC and the elected directors of Offshore supplement partner pressures for commercial and competent execution of E & P business.
- 5.2 In Option Five now a majority of BNOC Offshore is sold, but the state minority holding in Offshore is a voting minority. The role of BNOC as a holding company - holding an active minority position in Offshore and 100% of Trading and Special Projects - is a positive one. Executive management and staff would be in Offshore on one hand and Trading on the other (Special Projects would be by secondment on contract) but

The Board of Holdings (i.e. BNOC itself) would have an executive chairman and directors as well as representatives from Offshore and Trading. This Holdings Board would oversee contract relationships between Offshore/Special Projects/Trading and would vote the minority stake in Offshore.

- 5.3 Since the sale of shares in Offshore would exceed 50% and the service contracts between Offshore and Trading would be financially self-supporting and would not control Offshore's investment decision, the sale of a minimum 51% to a maximum 74% in Offshore would count to reduce the PSBR. A sale of shares on this scale - large enough to be a majority but leaving at least a 26% blocking minority in Holding's hands would have to be done in two or three tranches from late 1981 to early 1983.



- 4 The Government, via BNOG Holdings and its part-executive Board would be the dominant minority shareholder in Offshore. While the Chairman and Directors of Offshore were elected by those shareholders (apart from any reserved seats), BNOG Holdings normally could expect to dominate - subject to overthrow, i.e. not certainly. The degree to which the Offshore company would attempt to assert its autonomy from Government and drive Trading into isolation would depend on the composition of the Boards, so this Option depends crucially on the Secretary of State's success in making the right Holdings Board and top executive appointments. The EEC threat and the confidentiality problem on participation agreements would also be dependant on his success in that. Such features as a common Pension Fund would facilitate transfers from Offshore to Special Projects to Trading and back again.
- 5.5 A failure of will in the first few years of this Option could allow an approach to develop in Offshore that would destroy this as an Option. A triumph of will would produce an attitude somewhere between BP and BNOG.

Option Six - Two Companies - "Privatised Ventures"

- 6.1 This option sets out to reduce the size of the public sector, a stated Government objective, and to permit widespread private investment in BNOG's offshore success. It takes full account of the Corporation's stated conviction that the integrated capability of BNOG be preserved. It could also achieve a substantial early reduction in the PSBR. The disadvantages are many - see 6.9.
- 6.2 In this option, as in Option Four, BNOG itself would be retained as a public corporation, no doubt severed from the NOA. It would, however, build up one new asset-holding subsidiary - BNOG Offshore Ltd. into which a major part of BNOG's non-operated venture interests would be transferred. BNOG would then be Trading, Operations and Ventures - say BNOG (TOV) and the subsidiary BNOG (O).
- 6.3 BNOG (TOV) would be the on-going state capability (from seismic to naphtha). All BNOG's interests in operated licences - most notably Thistle, Beatrice and 30/17b (about 200 million barrels recoverable) would remain in TOV. TOV would also keep
- (a) a minor holding, say 10% of the present holding subject to a minimum field interest of 2%, in each non-operated present or probable field, to support supply planning, lifting pipeline operations etc., but additionally
  - (b) over half of BNOG's stake in strategic non-operated licences (e.g. heavy oil) and fields (e.g. Brae, Hutton, Statfjord).

All told, TOV might have 200 million operated and 200 million non-operated barrels of recoverable reserves (out of 850 million present BNOG total) plus a stock of exploration plays, to start with.



- 6.4 There would be major and very time consuming problems over more than a year in transferring licence interests down to a company over which BNOC will lose control, already established and referred to in 3.1 and 4.2 above. This would divert key management for a long time - most undesirable.
- 6.5 BNOC (O), by the arithmetic in 5.3 would have about 450 million recoverable reserves (about four times LASMO) and the larger share of 1981-82 cash flow supporting its initial balance sheet. As a benefit to HMG it would start to pay tax earlier than the present BNOC. BNOC (O) would start with a small nucleus of experienced staff and a portfolio of fields, some in production and some under development, and a number of exploration licences. It could make its own decisions whether to build on its nucleus to develop an operating capability or rely on either TOV or an independent such as Burmah for technical services, or just be an investor in further joint ventures.
- 6.6 74% of BNOC (O)'s equity could be sold, plus a "Revenue Interest" in the balance to maximise popular investment while retaining a blocking minority to protect articles that restrict concentration of ownership or foreign domination. In terms of sophistication an investment in BNOC (O) would lie between Option Two and Option Four. It ought to be marketed more widely than the Stock Exchange. Something over £1½ billion ought to be realised depending on any revenue interest and counting to reduce the PSER. These receipts to Government could be augmented by passing assets down to BNOC (O) at a premium, but this part might not reduce PSER.
- 6.7 Given the difficulties of the transfer down (6.4) and the size of the sale (6.6) this Option will take a long time to put in place completely.
- 6.8 Security of supply would also be a problem if over 100,000 b/d (in 1982) is in BNOC (O)'s privatised hands. A 51% participation would be non-discriminatory (relevant to PSER) but would lose control of 2½% of Britain's needs. BNOC (TOV)'s on-going participation rights, however, would represent no change for the EEC.
- 6.9 The disadvantages of Option 6 are several - see 6.7 and 6.8. Also it does not bring private sector capital into BNOC at all, merely in effect transfers some major assets out of the Corporation. Further, it would pose a threat of dispersal of BNOC's capability similar to the proposals for disposal of assets made last summer and rejected both by BNOC and HMG. In culling away a major slice of the Corporation's assets, it would be hard to convince staff that BNOC was to be an enterprise, free to develop, and there would be real risk of demoralisation and the loss of many key people. BNOC (O) would have to establish a new management team, and this would be time consuming; the resulting direction might not plough much of the heavy cash flow back into the UK. Like Option Two, it involves HMG taking cash now for BNOC's surplus revenues later - but in a more difficult, complex and contentious way.



Option Seven - "Two Companies" - Privatised Offshore

- 7.1 This option involves the retention of 100% ownership and control of Trading, in effect within BNOC, plus a blocking minority shareholding - say 26% - in a subsidiary BNOC Offshore. All BNOC's equity licence interests would go down into BNOC Offshore, together with all staff except Supply and Trading department plus a few finance and legal staff.
- 7.2 This option has been considered on several occasions by the Corporation and has not ever commended itself. It would maximise the EEC threat to participation, assure the inefficiency of the Trading operation and create conflicts between BNOC (T) and BNOC Offshore. As in 6.8 above more than 51% participation would arouse pleas of discrimination, state control etc. but here half of 180,000 b/d is at stake or nearly 5% of UK needs. It rejects the essential value of a state oil corporation as set out several times by the Corporation.
- 7.3 The Government 26% minority in BNOC Offshore would not be voted for fear of control and would be used only to block changes in key articles of association (national control etc.).
- 7.4 The sale of shares would count to reduce the PSBR. It would have to be done in about three tranches say between November 1981 and May 1983. In this approach BNOC's cash flow is outside the PSBR from 1981/82 onwards, so the net benefit is marginal after 1981/82. The shares ought to be marketed more widely than the Stock Exchange.

15.5.80.



PART 3 ends:-

CST to S/S Greegy 20.6.80

PART 4 begins:-

S/S Greegy to PM 4.7.80