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16(80)81  
10th July 1980

COPY NO 56

CABINET  
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

DISPOSAL OF BGC OIL ASSETS

MEMORANDUM BY THE SECRETARY OF STATE FOR ENERGY

Members of E Committee will have seen the minute of 26 June from the Secretary of State for Industry to the Prime Minister summarising a discussion at E(DL) on this subject. They will also have seen my letter of 24 July to the Secretary of State which reported the outcome of my discussions with British Gas (BGC).

2. Our overall target for asset disposals for 1980/81, as a contribution towards reducing the PSBR, was £630m at current prices as against the known prospects up to end June of £500m. At E(DL) I had argued that for various reasons it would be wise to consider grouping the whole of BGC's oil interests into a separated company and floating the majority of the shares on the market rather than to concentrate alone on the sale of their holding in the Wytch Farm field in Dorset. This flotation could be done either with or without including the Wytch Farm holding but in such a way that the sale could raise around £200m from the sale of assets. This generalised approach seemed to me more consistent with the Government's philosophy on the disposal of nationalised industry assets than the forced disposal of the particular asset in Wytch Farm alone in order to raise funds for the current financial year, if indeed that were practicable given the various statutory and procedural hurdles. It was agreed that I would pursue the various possibilities with BGC with an emphasis on producing money this financial year, if need be through the forced sale of Wytch Farm.

3. For background, BGC's main oil interests (with associated gas) are

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as follows:

Field	% interest	Net present value (1980 real prices) £m
Beryl A & B	10	70 - 100
Fulmar	4	35 - 45
Montrose	31	45 - 60
N W Hutton	26	60 - 110
Wyth Farm	50	90 - 130
		300 - 445

4. In the event, the BGC Board have refused to co-operate in the disposal of their oil assets on the ground that in their view it would seriously impair the performance of the Corporation's statutory duties and would not be in its commercial interests. In the absence of full and immediate co-operation from BGC there is no possibility of producing income from the sale of shares in a subsidiary company by the end of the financial year.

5. Equally, as I spelt out in my letter of 24 July to the Secretary of State for Industry, if we proceed with the forced sale of Wyth Farm it would be in the face of outright opposition from BGC. This nevertheless might be a course which we might be justified in running if we could be sure that the sale of Wyth Farm would produce money this year. I think it most unlikely however that a forced sale of Wyth Farm would in fact raise money in this financial year.

6. I am first obliged specifically and formally to consult BGC about my intention to dispose of Wyth Farm, and to satisfy myself in the process that the disposal will not impede or prevent the proper discharge of the Corporation's duties. BGC are bound to make a case against it. I will have to weigh that case and I may need further advice from the Attorney General at that stage. Even if it appears safe to issue a direction (without taking new legislation) it must be laid for 40 days not counting the Recess. It will thus take till December before BGC can bid for Wyth Farm ahead of negotiations with their field partner, British Petroleum, who have to be given up to 30 days to match any price. There might just be a chance of doing this in these negotiations by end of

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March, if all went smoothly. But I would rate it as very much an outside chance since we could hardly expect much co-operation from BGC or for them to be in a great hurry to end their role as operators of Wyth Farm.

7. Furthermore if we proceeded with the forced sale of Wyth Farm, we would do so in an atmosphere of great acrimony with BGC. In the case of disposals of other nationalised industries we have been able to proceed with the support, grudging or otherwise, of the Board concerned. In the case of BGC, we would be imposing our decision unilaterally; we would have a major public row on our hands and our relations with BGC would inevitably be soured. Wyth Farm is widely seen as something of a BGC success. In addition to their production activities there, they have an exploration team fully engaged in probing lower gas and oil bearing strata below the existing small field, which could well yield very much greater resources of oil and associated gas. Thus they are in mid operation. A wider divestment by introducing private capital into all their oil assets is much more likely to command support. We would also run the risk of forfeiting BGC's co-operation in achieving other important aims (such as on the gas gathering line) which could have wide repercussions for a whole range of policies with implications for public expenditure.

8. I cannot therefore recommend that we proceed with the forced sale of Wyth Farm. While I fully recognise the Chancellor's concern on meeting the limits set for disposals this year, the forced sale of Wyth Farm raises wide political issues and indeed the whole question of our future relationship with BGC. As may be seen from the table at paragraph 3 above, disposal of a majority holding in all BGC's oil assets would realise far more in money terms than disposal of the Wyth Farm holding alone which is bound to be seen publicly as no more than an attempt to raise funds as compared with a carefully contrived exercise directed towards public participation in all of BGC's oil interests. I therefore see greater advantage in every way in continuing my efforts to promote a separate BGC oil company with a majority public holding. It is a way moreover which is likely to command public support. For those reasons, I am not prepared to accept BGC's predictable initial reaction, and I intend to press for their co-operation with the alternative of amending legislation

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to dispel any doubts (to which the Attorney General has drawn attention) about the validity of a direction to BGC to dispose of all of their oil assets.

CONCLUSION

9. I recommend the course in para 8 above to my colleagues as the one most likely to achieve our wider political purposes of greater public participation in the activities of the nationalised industries including North Sea oil.

10. I propose we do not pursue the forced disposal of Wytch Farm alone (even if practicable) as it is unlikely to raise funds for the current financial year, and will result in public acrimony with BGC and the possible loss of their co-operation on other matters of importance.

11. I seek my colleagues agreement accordingly.

D.A.P.H.

DEPARTMENT OF ENERGY

30 JULY 1980

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82

84

86

88