

cc Mr. Lambert

PRIME MINISTER

At the meeting under your chairmanship on 21 December it was agreed that the necessary legislation be drafted to allow a separation of BNOC into separate operating and trading arms, with a view to the sale to the public of shares in the operating arm (BNOC (Operating)). As agreed at that meeting at which I made clear how desperately tight the timetable had become I have been consulting with Geoffrey Howe on a number of points including the speed and timing of any sales, and also setting in hand drafting of the legislation.

We have announced our intention to legislate this session but in the light of my discussions with Geoffrey we now think it would be unwise to push ahead this fast; our reasons for this are:

(i) work is proceeding on drafting but even on the most optimistic timetable we could not expect to achieve the Bill without an extremely compressed Committee stage, and possibly with a need to recall the Lords early from the summer recess and with a 3-week spill-over after the recess.

(ii) There are major points on which it has not so far been possible to reach collective agreement and Geoffrey has recently raised two points on my original proposals which must be resolved before we can proceed further with drafting, and which call for more time than the timetable for achievement this session would permit.

(iii) We have not yet decided on the timing of share sales, and Geoffrey is not relying on receipts for the 1980/81 PSBR. Even if we got the legislation through this would not assure us of receipts in 1980/81, since the administrative work involved in transferring all the assets to BNOC (Operating), and preparing for the sale is likely to be complicated and time consuming.

(iv) I have had the Chairman of BNOC's views on both our proposals and the timetable. Predictably he questions the desirability of the basic political objective of splitting the trading and operating sides and continues to question the viability of the Trading side as a

separate entity. But he also emphasises his concern that the transfer of assets etc. to the new company is a very complex matter, requiring careful resolution. While legislation may not necessarily be needed to deal with all the problems that arise he rightly argues that our legislation must be compatible with this operation, and suggests that if we push it through this session, this may not give us the time needed to give these issues the careful and detailed consideration which is essential. He therefore advises postponement of the legislation to the next session. He does not think this would give rise to any interim management difficulties in BNOC, although we will of course need to look for a new Chairman prior to the publication of the legislation.

I have therefore reluctantly come to the view that we should plan on an introduction as early as possible in the Autumn. Geoffrey Howe agrees with this.

We will need to present this decision in the right light in view of our earlier announced intention to bring forward legislation this session. An announcement within the next fortnight is desirable. This change of plan is likely to be greeted critically by some of our supporters but I think this can be handled provided I have the full backing of my colleagues in terms of our broad political strategy and that its announcement is coupled with a clear statement of our intentions for BNOC. I am attaching a draft text which has been agreed with Geoffrey and which I would propose to make in the form of a written Parliamentary answer. In addition to dealing with the creation of the two new component parts of the Corporation, this text makes clear our intention that BNOC (Operating) should be completely independent of the Government or BNOC - thus taking it into the private sector; and that the ultimate public sector stake will be reduced to a minority. Geoffrey and I consider that it is necessary to include these points because although decisions on the precise timing and extent of privatisation of BNOC (Operating) have yet to be taken, any statement that does not make absolutely clear our fundamental approach to privatisation will lay us open to charges of indecision and/or of a fundamental change of course, will certainly be fully exploited by the Opposition and will put us on the defensive

in an area where we should be scoring positive political gain. The text states that normal participation arrangements will apply to BNOC (Operating)'s UKCS oil; that is to say that it will be able to retain 49%. This is necessary to establish the full independence of the company from the public sector and the PSBR; and any other arrangement might call into question whether we really were creating a commercial operation on the same basis as other private sector oil companies.

Outstanding points

As mentioned above there are some outstanding points that must be resolved before we can proceed any further with preparing the legislation - in particular whether HMG or BNOC should own the residual public sector stake in BNOC (Operating) and whether legislative provisions dealing with the powers of the new BNOC should be more restrictively drawn than we had so far contemplated. However these points are not essential to the proposed statement, and I will be reporting separately on them, in the light of further discussions with the Treasury.

I hope therefore I can have your agreement to the proposed statement and to our commitment to introduction of the legislation as soon as possible in the new session, both of which in my view must go with any announcement that legislation is to be put off. Such an announcement needs to be made as soon as possible and in any case within two weeks, because it will become increasingly obvious that legislation of this controversial nature is not now feasible this session. I would of course propose to inform the BNOC Board immediately before making the announcement.

I am copying this to Members of E Committee, the Chancellor of the Duchy of Lancaster, Sir Robert Armstrong and Sir Kenneth Berrill.

JIA

Secretary of State for Energy

28 February 1980

Q. "TO ASK THE SECRETARY OF STATE FOR ENERGY WHAT PLANS HE HAS FOR THE FUTURE OF THE BRITISH NATIONAL OIL CORPORATION?"

A. I will be introducing legislation this autumn to allow for the setting up of a company through which the British public will be able to invest in BNOC's offshore operations.

2. BNOC has two distinct functions. First its access to oil through the participation and royalty in kind arrangements gives it an important role as a large scale oil trader. In this role BNOC can play an important part in protecting vital national interests including security of supply and in providing oil supplies for our international partners in the EEC and IEA. We intend that this role should continue.

3. Second, BNOC is an oil producing company working alongside other oil companies in the North Sea. We see no need to retain these operations within the State sector and we shall therefore give the public the chance to participate directly in BNOC's oil producing business.

4. We have therefore decided that BNOC should be re-organised. The existing Corporation will concentrate on oil trading. The participation agreements which give BNOC options to take oil will be retained, and I will continue to call upon BNOC to dispose of royalty oil on my behalf.

5. The exploration and production assets and operations will be vested in a new Companies Act company. We intend that this company ^{will} operate independently of Government and of BNOC, except to the extent that its UKCS oil will be subject to purchase options by BNOC under normal participation arrangements. We propose to make a substantial shareholding in the company available for issue to the general public. The Government will not seek to control the company through the residual public

sector holding of the shares - which it is intended will ultimately be reduced to a minority.

6. The Government wishes to see a wide-spread of ownership and will ensure that in the allocation of shares full regard is given to the position of small investors and employees.
7. Implementation of these proposals will call for a major corporate re-organisation and for the transfer of contractual and other interests. This is bound to take time. But preparatory work on this and the necessary legislation is underway and we intend to introduce the legislation late this year. The details including timing of the share issue will be a matter for further consideration.
8. I believe our plans will end the confusion that has surrounded BNOC's two roles and will ensure that each has a secure foundation on which to develop in the national interest.



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