

Subject

Energy

CONFIDENTIAL

Note for the Record

c.c. Sir Robert Armstrong
Mr. David Wolfson
Mr. John Hoskyns

The Secretary of State for Energy called on the Prime Minister this evening to discuss BNOC.

Mr. Howell said that he would like to have a steer from the Prime Minister on how he should proceed with his plans for BNOC. He recalled that Ministers had decided that the Corporation should be split into a trading company and an operating company, with 100% public ownership of the former and some private sector participation in the latter. His intention had been to announce that the operating company would have at least 51% private ownership. But he was beginning to have doubts about proceeding on this course.

His main concern was political. If the Government were now to announce a "private sector solution", there was a real risk that the Opposition would elevate this into a major election issue in the run-up to the next election; and they might well announce that they were going to renationalise, if elected, at the price at which the Government sold the shares. This could well have considerable electoral appeal, given the likely continued rise in the value of oil shares; and a commitment of this kind by the Opposition would be likely to jeopardise the success of any sales operation. In addition, although there was a good deal of support for private ownership of BNOC in the Tory Party, there were some Tories who regarded oil as "magic", and a commodity which should remain within the public sector.

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There were also other arguments in favour of retaining at least a majority public sector stake. First, there was the security of supply factor. Our EEC obligations limited the extent to which we could direct private sector oil supplies to the United Kingdom, whereas with BNOC this could be done more easily. Secondly, if we were to announce that we were intending a 51% private stake, the profits of BNOC (Operating) would no longer contribute to reducing the PSBR.

There was, on the other hand, the important point that with continued public majority ownership, BNOC (Operating) would not be subject to the same financial disciplines as the private companies. On balance, he had come to the view that it would be better to proceed cautiously, and not to go for majority public ownership for the time being. He therefore proposed to announce that, while there would be some private sector participation, BNOC (Operating) would remain in the public sector. His long-term aim continued to be to go for majority private ownership. But a decision on this could be taken, say, in three years time.

The Prime Minister said that her basic aim, like Mr. Howell's, was to push BNOC into the private sector. But she agreed with his arguments, particularly the political and PSBR arguments, and that therefore it would be best to defer majority privatisation of BNOC (Operating).

After the meeting, Mr. Howell told me that he would consult the Chancellor, and then minute other colleagues.

23 April, 1980.

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