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E(80) 9th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
TUESDAY 11 MARCH 1980 at 4.30 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary
Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland

Earl of Gowrie
Minister of State
Department of Employment

Sir Kenneth Berrill
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr P Mountfield

Item No	CONTENTS Subject	Page
1	REVIEW OF DEPLETION POLICY	1
2	BNOC: PRIVATE SECTOR PARTICIPATION	4

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1. REVIEW OF DEPLETION POLICY

The Committee considered a memorandum by the Secretary of State for Energy (E(80) 14), covering a report by officials on Depletion Policy for North Sea oil and gas.

THE SECRETARY OF STATE FOR ENERGY said that he had arranged for the recent review of Depletion Policy, circulated as E(79) 58, to be brought up to date in the light of recent increases in world oil prices, changed expectations of economic growth, and slippage in field development on the United Kingdom continental shelf. Taking full account of these changes, it was clear that United Kingdom oil production would exceed the net level of domestic consumption for most of the next decade but would then fall away sharply, unless measures were taken to alter the profile. The report indicated a number of ways in which the peak levels of production could be reduced, and our oil reserves made to last longer. He sought agreement on four points: the principle of having a positive depletion policy; the choice of instruments to achieve it; the need for early discussions with the oil industry; and the making of an early Government statement of policy.

In discussion the following points were made -

- a. There was no dissent from the proposition that the Government needed a coherent depletion policy for North Sea oil, and that the immediate instruments available for implementing such a policy were delay in development, restriction of gas flaring, and profile control. It was noted that decisions on additional production cut-backs would not be needed before 1981, when they could be taken in the light of the situation at the time.
- b. The oil companies would welcome an early statement of policy especially those companies awaiting permission to start fresh developments and to expand production from existing fields. On the other hand there were strong reasons to suggest that no statement should be made, and no consultations begun with the oil companies, until after the European Council at the end of March. Our European partners might react badly to any suggestion that the United Kingdom was cutting back its own oil production, and thus - as they might argue - reducing Europe's security of supply, in order to prolong its self sufficiency.

1
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There was no present objection to an announcement being made after the European Council; but it would be prudent to prepare the ground, both with our European partners and with other members of the International Energy Agency (IEA), before this was done.

c. There was no inconsistency between a conscious depletion policy applied to existing discoveries and an attempt to maximise new exploration, possibly by increasing the number of licences to be offered in future licensing rounds. The Committee did not, however, have the information available on which to reverse its earlier decision that the Seventh Round should be limited to about 70 blocks.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed with the recommendation in E(80) 14 about the use to be made of development delays, control of gas flaring, and profile control to reduce oil output in the next few years. They noted that further decisions would be needed next year on the use, if any, to be made of the power to cut back production from existing fields. They agreed that consultations with the oil industry would be necessary before any statement was made. Because of the danger of leaks, however, they were concerned that such consultations - and any preparatory contacts with the European Community and the International Energy Agency - should not be undertaken before the meeting of the European Council at the end of March. They agreed that the Secretary of State should make an announcement about his policy when these consultations were concluded, subject to clearance of text and timing in the normal way.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of State for Energy to be guided accordingly.
2. Invited the Secretary of State for Energy to defer discussions with the oil companies until after the meeting of the European Council at the end of March.
3. Invited the Secretary of State for Energy, in consultation with the Foreign Secretary, to arrange for any necessary preparatory explanation of the proposed policy to be made to the other members of the European Community and of the International Energy Agency, subject again to action being deferred until after the European Council meeting at the end of March.

CONFIDENTIAL

2

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4. Invited the Secretary of State for Energy to circulate to the Committee a draft of the statement he proposed to make, in the light of the consultations with the oil companies.

5. Invited the Secretary of State for Energy to submit a further paper on the case for increasing the number of licences to be allocated in the Seventh Round.

CONFIDENTIAL

3

52

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2. BNOC: PRIVATE SECTOR PARTICIPATION

The Committee considered a memorandum by the Secretary of State for Energy (E(80) 22) about the introduction of private capital into the British National Oil Corporation (BNOC). They also had before them a minute dated 7 March from the Chancellor of the Exchequer to the Prime Minister about the effect of various methods of so doing upon the public sector borrowing requirement, and a minute dated 5 March from the Foreign and Commonwealth Secretary to the Prime Minister, drawing attention to the risk of conflict between the proposed statement and restructuring of BNOC and our obligations under the Treaty of Rome.

THE SECRETARY OF STATE FOR ENERGY said that he was coming under increasing pressure to make a further statement about the Government's policy towards BNOC. He had hoped that, following the Committee's decisions at its earlier meetings, it would be possible to introduce legislation in the present Session to restructure BNOC, dividing it into separate 'trading' and 'operating' companies, and to introduce a large measure of private capital into the latter. Although good progress had been made in the preparation of this Bill, it was now clear that it would not be ready in time for introduction in the present Session. He therefore wished to make an early statement, promising that the Bill would be introduced early in the following Session, and clarifying the Government's intentions. So far, the Government was committed only to the introduction of a substantial element of private capital into the company. He now wished to go further, and to make it clear that the Government was prepared eventually to relinquish control over the 'operating' company and to allow private capital to acquire a majority of the shares in it.

In discussion, a number of points were made -

- a. It would be a mistake to make too detailed a statement of the Government's intentions, until further work had been done on the preparation of the Bill, and until all the remaining legal uncertainties had been resolved. In particular, the possible conflict with our European Treaty obligations, and the risk of challenge in the European Courts, should be further examined.

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b. It would be a mistake for the Government to make a general statement of its intentions if it was not in a position to answer detailed questions in the House of Commons.

c. On the basis of earlier legal advice, it seemed probable that the proposed restructuring would reduce the risk of Community challenge to BNOC's 'participation' agreements with private sector oil companies but premature publicity, in the form of the proposed statement, would increase that risk of this in the period before legislation could be introduced.

d. It would be unwise to commit the Government to any particular timetable or ultimate target for the introduction of private capital into BNOC; much would depend on the course of world oil prices, on stock market conditions, and on the pace of oil field development.

e. A clear statement of the Government's intention to give up control of BNOC Operating should improve the marketability of shares in the new company. Such a statement could, however, be misleading, unless it were made clear at the same time that the Government proposed to divide the existing BNOC into 'trading' and 'operating' companies, and to retain control of the trading operation.

f. In deciding the timing of disposals, there was a conflict between the need to give maximum help to the PSBR in the short term, particularly in the next two financial years, and the need to secure the maximum possible long term benefit for the tax-payer through obtaining the best price.

g. To postpone a statement, or to make a very general one at this stage, when legislation had been expected, would expose the Government to a charge of indecisiveness. Conversely, a clear statement of Government policy, some months before legislation could be introduced, would expose the Government to the maximum possible attack from the Opposition, and might well detract from the marketability of the shares when legislation was enacted.

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h. There was no need to take final decisions at this stage. There was every advantage in simply re-stating the Government's present policy and promising legislation in due course, bearing in mind that it would not be possible to give an absolute assurance of legislation next Session until the programme for that Session had been approved by the Cabinet.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that it would be necessary to make it clear that the Government would not now be seeking legislation on BNOC in the present Session of Parliament, but hoped to introduce legislation in the next Session. Any statement could, if necessary, re-affirm the Government's existing statement of intent to introduce private capital into the Corporation, but no commitment or detail should be given about the proportion of private capital to be introduced into BNOC, about the restructuring of the Corporation or about the timetable for privatisation.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

2. Invited the Secretary of State for Energy to revise his draft statement about the postponement of legislation, in the light of their discussion, and to clear it with the Prime Minister, the Foreign Secretary and the Chancellor of the Exchequer before issuing it.

Cabinet Office

13 March 1980

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