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Ref. A02815

PRIME MINISTER

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Disposal of BGC Oil Assets

(E(80) 81)

BACKGROUND

The possibility of selling BGC's share in the Wytch Farm oil field (50 per cent, the other 50 per cent being owned by BP) has been before Ministers in E(DL) for more than a year. The Secretary of State for Energy has consistently opposed a straight sale using arguments varying from doubts about his legal powers to hopes about the incorporation of Wytch Farm into some wider scheme of privatisation. The consistent theme however has been the fierce resistance he has foreseen from BGC to a forced sale.

2. In his present paper the Secretary of State for Energy again recommends pressing the British Gas Corporation to group their oil interests into a separate company, and then to sell a majority of the shares in it on the market, rather than pressing them to sell Wytch Farm. Although the issue is properly one for E(DL) the Secretary of State asked to bring his paper directly to E on the grounds that the decision raises wide political issues. He does not define these issues very clearly (though some of your colleagues may feel that among them is - or ought to be - the degree of independence to be accorded to BGC.)

3. The proposals need to be considered against the background of the Government's target for raising £630 million cash from disposals in 1980-81 (a target which arguably included £200 million from BNOG or BGC). In his letter of 1st August to the Secretary of State for Energy, the Chancellor of the Exchequer explains that only £450 million is fairly firm so far. In his view, failure to achieve the target would not only add to the PSBR but would also call into question the Government's will to carry through its strategy.

Sale of Wytch Farm alone

4. This might raise between £90 million and £130 million. The Secretary of State for Energy is statutorily bound to consult BGC about any intention to dispose of Wytch Farm. He believes that they would maintain their strong opposition to the sale - they found the oil after their partners, BP, had given up the search.

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5. In that event he could consider using his powers under the Gas Act 1972 to direct a sale. The Attorney General's advice, in paragraph 14 of his letter of 29th July to the Secretary of State, seems to be that it would be possible to use this power in the circumstances, though he would wish to advise further in the light of the statutory consultations if they proceed. In this letter the Attorney General also dismisses as a red herring the Secretary of State for Energy's argument that the Government could not direct BGC to sell in the run up to the Budget when it might be forming policies for changes in relevant taxation.

6. The Secretary of State for Energy goes on to argue that, even if he has the powers to direct BGC, it is now too late to be confident that the disposal could be made in 1980-81. A direction has to be laid for forty days not counting the Recess. After that BGC have to seek bids and to negotiate with their partner, BP. He does not expect BGC to be co-operative.

7. In his letter of 1st August the Chancellor of the Exchequer refuses to accept this. He recommends that the Secretary of State should not procrastinate further but should make clear to BGC the Government's determination to go through with this sale and its readiness, if they still refuse to co-operate, to lay the direction as soon as the House returns.

A New Company

8. The Secretary of State for Energy's preferred alternative is for BGC to group their oil interests into a separate company. Shares would be sold to leave BGC with a minority holding of about 45 per cent, or 25 per cent if the sale were to exclude Wytch Farm. Either course would yield around £200 million, but not in the current year.

9. This proposal appears to be no more acceptable to BGC than the sale of Wytch Farm, but the Secretary of State proposes to press for their co-operation with the alternative of amending legislation to dispel any doubts, should that be necessary, about the validity of a direction to BGC to dispose of these assets. There is no provision for such legislation in the coming Parliamentary Session.

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HANDLING

10. You will wish to invite the Secretary of State for Energy and the Chancellor of the Exchequer to put their arguments to the Committee. The Solicitor General, who will be representing the Attorney General, can advise on whether a direction could be given or whether further legislation is likely to be necessary. The Secretary of State for Industry, as Chairman of E(DL), may wish to comment.

11. The main questions are:-

- (i) Does the Committee agree that the Secretary of State for Energy should now put his full weight behind ensuring that Wytch Farm is sold in 1980-81 in order to give the Government a chance of meeting its disposals target of £630 million?

or

- (ii) Do they prefer to abandon the 1980-81 disposals target in favour of the possibility of a higher yield from the sale of shares in the proposed new company in a later year?
- (iii) Should the two courses be combined - by selling Wytch Farm this year and the other oil interests, or part of them, later?

CONCLUSIONS

12. In the light of the discussion you will wish to record conclusions inviting the Secretary of State for Energy:-

Either

to persuade, or to direct immediately after the Recess, BGC to press ahead urgently with the sale of their stake in Wytch Farm in 1980-81,

or

to negotiate further, as proposed in paragraph 8 of E(80) 81, for the sale of shares in a new BGC oil company,

or

to do both.



(Robert Armstrong)

5th August, 1980