

PO-CH/NL/0188

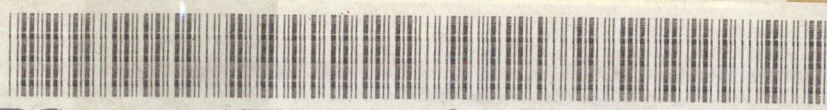
PART A

Chex
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PART A

SECRET

(Circulate under cover and
notify REGISTRY of movement)



PO -CH /NL/0188



PART A

in

CHANCELLOR'S : PAPERS
PAPERS ON OIL POLICY
INCLUDING THE
PRIVATISATION OF BRITISH
PETROLEUM (BP)

8810 /NL/0188

PO -CH

PART A

DD: 25 years

Begin: 7/1/88

6/9/95

Ends: 15/4/88

22/1/88 (CONTINUED)

CONFIDENTIAL

FROM: D J L MOORE

DATE: 4 January 1988

CHANCELLOR

cc Financial Secretary
 Economic Secretary
 Sir P Middleton
 Mr Anson
 Mr Monck
 Mrs M E Brown
 Mr Williams
 Ms Leahy
 Mr Tyrie

Miss Wheldon - T Sol

BP:K10

You wish to discuss developments on the K10 holding at your meeting this afternoon.

2. The last notification of K10's holding was on 30 December when they held 18.03% of BP. This is made up of 2½ million fully paid shares and 1072 million partly paid (out of the total of 2126 million).

3. They continue to be uninformative in their dealings with BP. But their assurances to Mr Mellor (Tel no 459 of 23 December) were comforting if they can be taken at their face value. They seem to intend to stay at about 20%. They have no ambitions to control or to manage. They would not suddenly disgorge large quantities of BP shares.

4. You asked about the Bradbury (1914) and Bridges (1951) letters. These called for the company to consult on certain matters of general policy and indicated that the Government would limit its interference in the administration of the company.

*Has Voto under
 after 9/11 gone?*

*Chy
 For your
 meeting this afternoon.*

4/1

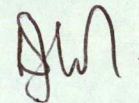
'Slightly out'

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X | 5. The October 1987 prospectus recalled that, although HMG had had a substantial shareholding since 1914, BP had always been managed and operated as a private business enterprise. It noted that, with the sale, all HMG's rights under the Articles of Association were terminated. With the full agreement of BP there was no provision for a special share. The relationship is as with any other private sector company.

6. We have not heard further from BP on this. Given the Kuwaitis' assurances to Mr Mellor, it might be premature to move yet. But if there were any signs that the assurances were unsound, I suggest that the next step should be a higher level political approach; either by Sir Geoffrey Howe or by you.

7. In the meantime, I suggest that the line with the press, and in the House when it reassembles, is that it is a matter for BP and the K10.



D J L MOORE

Chancellor

TREASURY CHAMBERS
Great George Street
LONDON SW1

Of. 357/023 B

12 April 1951

Gentlemen,

I am directed by the Lords Commissioners of His Majesty's Treasury to bring to your attention His Majesty's concern at recent developments in Persia and their possible effect on the Anglo-Iranian Oil Company. His Majesty's Government have in mind not only their own large financial interest in the Company, but the vast importance of the Company's operations to the economy of the United Kingdom, and indeed to the Sterling Area as a whole.

The relationship between His Majesty's Government and the Company forms the subject of the letter sent by Sir John Bradbury to the Company on the 20th May, 1914, following the signature of the Financial Agreement between His Majesty's Government and the Company of the same date. His Majesty's Government do not feel that it is necessary to amend the terms of Sir John Bradbury's letter. While recognising the close co-operation that has existed between His Majesty's Government and the Company, they feel sure that the Company will appreciate that it is more than ever necessary, particularly in the present critical circumstances, for His Majesty's Government to be kept in close touch with the development of the Company's general policy and above all that there should be mutual consultation in good time, and at the appropriate levels, about any developments likely to affect substantially the Company's position in Persia or in other territories where it has a concessionary interest.

I am,
Gentlemen,
Your obedient Servant,

(Sgd.) EDWARD BRIDGES

May 20, 1914

Gentlemen,

WITH reference to the Financial Agreement which has been duly settled on behalf of His Majesty's Government and sent to your Company for signature, I am directed by the Lords Commissioners of His Majesty's Treasury to offer the following observations regarding the provisions of the amendments proposed to your Articles of Association:-

1. By the new Article 91A it is provided that an ex officio Director shall have the right to negative any resolution which may be proposed at a Board or Committee Meeting, but that the other Directors, or a majority of them, shall have the right to appeal therefrom to His Majesty's Government, which, for the purpose of the Article is defined as meaning the Treasury and the Admiralty. His Majesty's Government are of opinion that it would not be prudent, or indeed, practicable, to qualify the generality of the right of veto. On the other hand, it is felt that the ordinary Directors (meaning by that expression the Directors other than the ex officio Directors) and incidentally the members of the Company, should have some safeguard in the matter. It is thought that the right which is to be given by the new Article to the ordinary Directors of appealing to the two Departments will afford the requisite safeguard. The ordinary Directors will, by appealing to the Departments, be in a position to ensure in regard to any particular question that the right of veto is not exercised until the question has been considered and adjudicated upon by the Department.

I am to add that His Majesty's Government do not propose to make use of the right of veto except in regard to matters of general policy, such as

- (1) The supervision of the activities of the Company as they may affect questions of foreign naval or military policy;
- (2) Any proposed sale of the Company's undertaking or proposed change of the Company's status;
- (3) The control of new exploitation, sites of wells, &c.;
- (4) Sales of crude or fuel oil to foreigners, or such exceptional sales to other persons on long contracts as might endanger the due fulfilment of current Admiralty contracts;

and that their interference (if any) in the ordinary administration of the Company as a commercial concern will be strictly limited to the minimum necessary to secure these objects. Further, in the case of any such interference, due regard will be paid to the financial interests of the Company in which, under the proposed arrangement, the Government have themselves so large a stake.

While His Majesty's Government are not prepared to enter into any binding agreement in regard to the exercise of the veto, you are at liberty to treat the above as an assurance as to the general lines upon which they will act in the matter, not only in regard to the Anglo-Persian Company (Limited) but also in regard to the subsidiary Companies.

2. By the words added to Article 96 it is provided that the ex officio Directors shall be members of every Committee of the Board. His Majesty's Government do not, however, contemplate that both the ex officio Directors should always be present at Committee meetings. Occasions may arise when it may be desirable that both the ex officio Directors should be present, but as a general rule the presence of only one of them would be necessary. Indeed, at some meetings it may not be necessary that either of them should be present.

3. You are at liberty to make such use of this letter as you may think fit at the proposed meeting of the shareholders.

I am,
Gentlemen,
Your obedient Servant,

(Sgd.) JOHN BRADBURY

CONFIDENTIAL

FROM: N J ILETT

DATE: 5 January 1988

CHANCELLOR

Announcement
~~Announcement~~
 Return being on 1 Jan
 Costs of offer

cc Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir P Middleton
 Mr Anson
 Sir G Littler
 Mr Cassell
 Mr Monck
 Mr Scholar
 Mrs Lomax
 Mr D Moore
 Mr R I G Allen
 Mrs Brown
 Mr Neilson
 Mr Cropper
 Mr Tyrie
 Mr Call

Miss Wheldon - T.Sol
 PS/Governor
 Mr Plenderleith - BoE

BP SUPPORT SCHEME: ANNOUNCEMENT OF RESULTS

This is a note for your meeting at 4pm tomorrow, 6 January.

2. It looks as though take-up of the scheme has been small. The cumulative total of shares purchased as at close today was 24½ million, at a cost of £17 million. Any substantial institutional selling tomorrow would probably be in the Bank by 11am so as to get same-day payment; and the Bank will have a fair view of the size of their postbag by the time of your meeting. If today's price - around 260p for fully-paid, implying about 70p for partly-paid, holds tomorrow, the chances are that there will not be a last-minute rush.

3. If so, this is pretty good news and can be presented without much embellishment. I doubt it is worth an oral statement to the House on Monday, but you will need to arrange a friendly written answer

for Monday to avoid having to give the news to Mr Alastair Darling MP (Labour) who has a question down for answer on Tuesday. A more substantial argument against making an oral statement is that you would be pressed to say something about BP/Britoil.

✓ or the K10 25/5/11

4. I attach a draft reply. The arranged question is worded to look different from the hostile questions already on the order paper.

5. There are market reasons for announcing the outcome to the market as soon as the Bank is reasonably sure of the figures - which should be by first thing on Monday morning, maybe just Friday evening. The ideal timing from the market's point of view would be 0800 on Monday, but this could give offence to Parliament. Otherwise we could co-ordinate the release of the news on the company news service of the Stock Exchange, and other media, with the publication of the written answer on Monday afternoon.

M.

N J ILETT

DRAFT ARRANGED PQ

QUESTION

To ask the Chancellor of the Exchequer, if he will make a statement on the closure of the Bank of England's arrangements for the purchase of partly-paid shares in British Petroleum.

ANSWER

The Bank of England's share purchase arrangements closed as planned on 6 January. The Bank has made disbursements in respect of approximately x million shares at an approximate cost of fy million. The precise figures will be available when the processing of acceptances has been completed. Under the terms of the arrangements, the Bank will not dispose of any of its holding before 30 April 1988 except at a price in excess of 120p.

The arrangements have as envisaged in my statement to the House on 29 October 1987 secured virtually the full proceeds of the sale for the taxpayer in exceptionally difficult circumstances whilst avoiding a disorderly market in BP partly-paid shares. The public sector now holds approximately x million shares (including shares retained to meet bonus entitlement) compared with the 2,300 million shares offered* and the total of 9,159 million BP shares in issue.

The PSBR effect of the arrangements will be x in 1987-88; the effect in subsequent years will depend on when the Bank sells its shares [FOR USE IF "Y" IS SMALL but will not exceed y in 1988-89 and 1989-90 in any event].

* NOTE: This formulation takes account of the difficulty of expressing shareholdings in percentage terms to compare before and after the offer given the complication of the rights issue.

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Treasury Chambers, Parliament Street,
 01-270 3000

6/1/68
 cc: Financial Secretary
 Economic Secretary
 Sir P Middleton
 Mr Anson
 Mr Monck
 Mr D J L Moore
 Mr R I G Allen
 Mrs M E Brown
 Mr M L Williams
 Ms Leahy
 Mr S B Johnson

FOREIGN SECRETARY

Ms Wheldon - TSOL

BP AND THE KIO

I continue to be concerned about the build-up of the KIO holding in BP, about which we spoke before Christmas. I also spoke to Peter Walters before Christmas in response to his letter of 17 December and encouraged him to speak directly to the Chairman of the KIO and to emphasise that any significant further increase in the KIO holding would be damaging to BP in many countries, and thus to the KIO, too. He has not yet done so, but I understand plans to arrange a meeting next week.

2. I have now seen telegram 459 about David Mellor's discussions with Fahd Al Rashid and Shaikh Ali Khalifa, and also Cecil Parkinson's comments in his Private Secretary's letter of 29 December (copied to you).

3. While the assurance given to David Mellor, if bankable, offer some comfort, they do not go far enough and I remain concerned that the Kuwaitis might not realise that the Government would be strongly opposed to a KIO holding of over 20 per cent in BP; indeed, even this level of holding is a potential problem to the company, as Peter Walters points out in his letter. Moreover, while it is probably right that KIO would not suddenly dump large quantities of BP shares on the open market, the real worry is that they could at any time sell their stake to a predator interested in bidding for BP. While it is true that HMG's previous rights under BP's articles of association could have prevented an undesirable takeover of BP, and that it was at BP's express request that these rights were terminated with the October sale, the fact remains that any such takeover, particularly by an overseas company, would be against the national interest - and even the prospect of it would



be politically highly embarrassing. Indeed, the opposition are already making a major issue of this.

4. I therefore urge you to speak to the Kuwaitis to make our position and concern clear beyond any doubt. We should secure an undertaking from them (a) that the KIO would not increase its stake in BP beyond 20 per cent and (b) that they would not dispose of any such stake to a third party without first ensuring that the potential purchaser was acceptable to HMG. And it goes without saying that they should repeat their assurance to David Mellor that they themselves will at no time seek to exercise any control over BP, nor any management role in the company.

5. I am copying this minute to the Prime Minister and the Secretary of State for Energy.

A handwritten signature in black ink, appearing to be "N.L." with a flourish.

N.L.
6 January 1988

FROM: N G FRAY
DATE: 7 January 1988

1. MR MACAUSLAN *mu 7/1*
2. CHANCELLOR *cv*

cc PS/Chief Secretary
PS/Financial Secretary
PS/Sir Peter Middleton
Mr Monck
Mr M L Williams
Miss Sinclair
Ms Leahy
Mr Michie
Mr Wynn Owen
Mr Cropper

LUNCH WITH SHELL UK

You have been invited to lunch with the **Chairman of Shell UK, Bob Reid** on Tuesday 12 January. Other guests will be **Peter Everett** (Managing Director, Shell UK Exploration); **Malcolm Raiser** (Financial Director, Shell UK); and **David Welham** (Managing Director of Shell UK Transport and Trading).

2. Shell UK have indicated that they wish to discuss **North Sea taxation; ethane taxation; and taxation of unleaded petrol**. They also wish to offer views on the world oil scene in general. PE, in conjunction with FP, will submit a separate brief.

Management Education and Development

3. It is also possible that Mr Reid may mention **Management Education and Development** given his role in the CBI/FME Working Group.

4. Following publication of the **Handy** and **Constable** reports in Spring 1987, outlining between them practice in our key competitor countries and the shortcomings of British management training, the **CBI** together with the **Foundation for Management Education (FME)** are working towards a major initiative aimed at developing the professionalism and business proficiency of managers at all levels. This initiative is centred around a Charter Group of leading companies, which will adhere to a Management Charter setting high standards for the development of business schools and management professionalism. They are working towards a public launch in Spring 1988.

5. The **Government** have welcomed the **CBI** and **FME** initiative to get British management to improve its management training at all levels. It is **right** for

the private sector and business to be firmly in the lead in this initiative with the Government and academics largely involved in an advisory basis.

6. DTI, DES and MSC are represented on the Working Groups. The Treasury sees some of the papers and is monitoring developments. The Group seems to be taking too rigid an approach in devising a possible new regime for management development, without having first reached decisions on content - with consequent risks of putting the cart before the horse. We will pass criticisms to DTI officials as appropriate at official level, but you might express general support for the way in which industry is taking the lead.

7. With a further public launch of the initiative soon, Mr Reid might seek Ministerial support for the launch. You should **resist** any actual invitation to participate at this stage. Treasury interest is minimal and the private sector must remain in the lead. If HMG is to be represented in public as part of this exercise presumably Lord Young or one of his ministers would take part.


NIGEL FRAY

Handwritten notes in red ink:
[] X of BP
have not 50%
shown - a return
concerning
same

From: S D H SARGENT

Date: 7 January 1988

NOTE OF A MEETING HELD IN SIR PETER MIDDLETON'S ROOM AT 3 PM ON THURSDAY 7 JANUARY 1988

| | | |
|----------------|---|---------------------------|
| Those present: | Sir Peter Middleton Mr Monck Mr Moore | Treasury |
| | Miss Wheldon | Treasury Solicitor's Dept |
| | Sir Philip Shelbourne Mr Walker | Britoil |

BRITTOIL: BP OFFER

!!!

Sir Peter Middleton said that the Government was keeping the situation under continuous review. Events had moved on since his last meeting with Sir Philip and it was useful to have the opportunity of a further discussion at this stage. He would be interested to know how the Britoil Board assessed the current position. Sir Philip Shelbourne said that the Board had met that morning. Their view was that even at a price of 450p a share the BP offer represented a significant undervaluation of the company's worth, and especially of its assets. Britoil's advisers would be reporting next week on their valuation of the company but the indications were that a realistic price would be in excess of 600p a share. Once the BP bid had been made and their advisers had reported they expected to issue a statement saying that the bid grossly undervalued Britoil. This would probably be issued in the middle of the week starting 18 January. In the meantime Arco's interest was still alive; they were continuing to purchase shares. Britoil expected to hear from Arco next week. They were continuing to encourage Arco whose overseas assets were attractive to them, and with whom they already had successful working relations. By contrast Britoil saw a real conflict of interests with BP. Mr Walker added that BP were clearly attracted by Britoil's reserves

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which at a price of 450p a share represented a considerable bargain compared with the exploration costs which would be incurred if BP had to find similar quantities of oil themselves. Although 450p might seem generous compared with the price before BP's dawn raid the real value of Britoil's assets had not been generally appreciated, and it was arguable that the special share had itself depressed the share price. Sir Peter Middleton asked if Britoil were aware of any other bidders. Sir Philip Shelbourne said that Britoil were not aware of any apart from BP and Arco, and they had not encouraged any. There had been rumours that British Gas were interested, but if this was the case they would have expected to have heard from them by now.


2. Sir Peter Middleton asked whether the Britoil Board could continue to operate if BP succeeded in obtaining a majority shareholding and the Government exercised its special share to prevent control passing to BP. Sir Philip Shelbourne said that this has been considered in some detail by the Britoil Board. They had been informed of a similar situation that had arisen in the case of the Beagle Steamship Company. This precedent suggested that any borrowing by the Company in such circumstances would be considered to be borrowing by the Government. Mr Walker said that the Board had considered two different scenarios. In the first case, where BP had a majority, but not a 100% shareholding it would be possible for the Board to continue to act in the best interest of the shareholders as an independent company. But clearly there would be anxiety about BP's future intentions and Britoil's relations with overseas partners and foreign Governments could well be adversely affected. In a situation in which there was a conflict between BP and Britoil the Board would continue to act in the interests of its shareholders. Mr Monck asked whether, if BP acquired a majority shareholding short of 100%, the present Board would be willing to carry on. Sir Philip Shelbourne confirmed that they would be, provided that the Government indicated that it would use its special share to prevent BP from taking control. Mr Walker said that the second scenario considered by the Britoil Board was that in which BP acquired 100% of the Britoil shares. In this situation it was unrealistic to expect Britoil to maintain an

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independent existence. Miss Wheldon pointed out that the Government's legal advice was that even if BP acquired a 100% shareholding the existence of the special share meant that the Board could not be forced to act solely in the interests of BP. Sir Philip Shelbourne said that it was conceivable that the courts would rule that it was unreasonable for the special share to be operated against the interests of a 100% shareholder.

3. Sir Philip Shelbourne said that Britoil had consistently been opposed to the special share. They would like the Government to issue a statement indicating that the special share would be removed in 2-3 years time. Mr Walker said that while BP apparently thought they could live with the special share it had clearly discouraged other bidders. A Government announcement that it was to be removed in due course would clear the way for an effective auction of the company. Sir Philip Shelbourne said that as a Board Member of Rolls Royce he did not take the view that an announcement that the Britoil special share was to be removed would imply that the special shares in other companies were ineffective.

4. Sir Peter Middleton thanked Sir Philip and Mr Walker for coming and suggested that both sides should keep in close touch over the coming weeks.



S D H SARGENT
Private Secretary

Circulation

PPS —
Financial Secretary
Mr Monck
Mr Moore
Mr M Williams
Ms Leahy
Mrs M Brown

Miss Wheldon

CONFIDENTIAL

*Many Banks. with
Legislative work
do a few
look important, but
the threat of merger in
Law - Kuwaiti Govt
MNC - Kuwaiti Govt
As for Law
OK taken
Mr.*

FROM: N MONCK
DATE: 7 January 1988

CHANCELLOR OF THE EXCHEQUER

*Ch/
Content with the
statement?*

cc Financial Secretary
Sir P Middleton
Mr Moore
Mrs M Brown
Mr R I G Allen
Ms Leahy
Miss J L Wheldon, T.Sol

BP : KIO

In view of the likely pressure for a statement on this, you asked me to discuss with DTI:

- (a) what might be said coming as close as possible to an assurance that the Government would not permit BP to be taken over by foreign interests; and
- (b) various methods of delivering such an assurance.

The discussion assumed that a firm assurance from the Kuwaiti Government, which would be the best basis for a Ministerial line, would not be available in time.

2. KIO's holding in BP was less than 19 per cent at yesterday's close.

A Statement

3. At official level DTI have agreed to the following draft statement on the understanding that it will be cleared by correspondence with their Ministers, and that whoever makes the statement does not go further than the form of words in the second supplementary below. The draft would in any case have to be cleared with the FCO, partly because the second sentence quotes from the telegrams about Mr Mellor's conversations in Kuwait, though the prefatory "I understand" is meant to have a distancing effect.

Draft Statement

"The KIO's present holding in BP is [18 per cent]. I understand that the KIO see this as a long term investment; they have no interest in playing any management role and no intention of seeking control of the company. If, however, the KIO were to proceed to a full bid or it appeared that their current holding was a cause for concern, the situation would be examined under the Fair Trading Act powers in the normal way. The Government is keeping the situation under careful review and is maintaining close contact with the Kuwaiti authorities. The Government fully recognises the unique and important place of BP in the nation's affairs and will ensure that it is maintained."

Supplementaries about what would be done

- (i) "The situation is a developing one and I cannot say at the moment what steps might be appropriate".
- (ii) "The Industry Act powers are available or I could bring in new legislation".

The key point on the second supplementary is the use of the word "could" rather than "will" or "would". The DTI lawyers attach importance to this point on the grounds that otherwise it would make a nonsense of the Secretary of State's discretion to reject a report from the MMC. Perhaps surprisingly they have not objected to the last sentence of the draft statement on these grounds.

4. As explained below, there are in any case some serious difficulties or doubts both about the Industry Act route and new legislation.

Methods of Delivery

5. There are three main methods:

- (a) The Fair Trading Act/Office of Fair Trading/Monopolies Commission route;
- (b) The 1975 Industry Act;
- (c) new legislation.

6. (a) is familiar and OFT will be seeking information from the KIO in the normal way about their involvement with BP (as they are in relation to BP's and Atlantic Richfield's stakes in Britoil). There is no guarantee that it will work but it has generally done so so far. It is the DTI's preferred approach. (In answer to your questions the DTI have confirmed their view that OFT advice would need to be sought before a reference by the Secretary of State; otherwise the departure from normal practice, though not strictly at odds with the legislation, could be challenged in the courts under the doctrine of legitimate expectations. There are, however, two precedents since 1979 for the Secretary of State disregarding the DGFT's advice about a reference (Lord Cockfield only). The DGFT advised in favour of the reference of the Royal Bank of Scotland in 1981.)

7. The Industry Act empowers the Secretary of State to prevent or reverse a change of control of an "important manufacturing undertaking". This is defined as an undertaking whose UK activities are "wholly or mainly" in manufacturing industry. In the time available we have not been able to establish whether 51 per cent of BP's UK activities score as manufacturing for this purpose. It may not be

possible to do so reliably without consulting the company itself, which I assume you would not want at this stage. There are other uncertainties, eg whether the KIO could successfully claim state immunity. We will try to settle these tomorrow.


8. The power to prohibit purchases of shares is triggered when a bidder has 30 per cent or more or the Secretary of State believes that this is about to happen. In practice, the Secretary of State would probably not seek approval of a prohibition order until a full bid was announced (unless we thought the KIO or another bidder would disregard the Takeover Panel rules).

9. The DTI see serious objections to this route. The power was created by Mr Benn and has never been used. Using it for BP would create precedents for doing so in other cases, breaching general competition policy, and pressures for widening the powers to include non-manufacturing, eg banks and insurance companies. The Opposition might make the most of any reference to this power, especially as the method of reversing a change of control is to vest the shares, subject to compensation, with the Secretary of State, though that would only be necessary if a prohibition order came too late.

10. I am afraid that new legislation confined to BP is also much more problematic than it seemed when we discussed it yesterday. This is explained in the annexed note by Miss Wheldon. In the short time available our provisional conclusion is that the best approach, if Ministers were prepared to get the motions necessary for a hybrid Bill voted through both Houses of Parliaments, would be to legislate to impose a maximum on the shareholding in BP held by any individual person.

Conclusion

11. Given the difficulties, the need for further work, and above all for clearance with other Ministers, I hope you will not need to make any statement of this kind tomorrow. In any case it would be preferable for whichever Minister needs to say something in Parliament to avoid using the second supplementary at this stage if at all possible. I see little chance of getting anything stronger than the draft statement above agreed. Indeed, we may find that either the Foreign Secretary or Lord Young tries to weaken it. But it is obviously necessary to clear the statement. If you are content with the draft, we will let you have a short draft letter containing it first thing tomorrow morning. The draft letter would stress the need to have the strongest possible statement available if we can not get firm assurances from the Kuwaiti Government in time and to get agreement on an adequate form of words in good time for Prime Minister's questions on Tuesday. I suggest the letter should be addressed to Lord Young with copies to the Foreign Secretary, the Energy Secretary and probably also No 10.


3.

N MONCK

MINUTE SHEET:

No.....

File No.....

SECRET

ANNEX

Mr N Monck
H M Treasury

From: Miss J L Wheldon

BP:KIO

You asked for an urgent note on the possibility of a one clause Bill reinstating BP's old Articles of Association.

First, any Bill which is specifically directed at BP will be hybrid. The relevant Standing Orders could, in theory, be suspended - there is a precedent for this in the Aircraft and Shipbuilding Industries Bill 1977. Appropriate motions would need to be voted through both the House of Lords and the House of Commons.

The Bill will not be hybrid if it gives the Government an enabling power in relation to all members of a class. The class would have to be defined in terms relevant to the subject matter of the Bill. One possibility might therefore be to take the power in relation to all companies over a certain size but if it is clear that in practice a class of one is being constructed the House Authorities may still raise difficulties on the question of hybridity.

I am not sure that simply reinstating the old Articles of Association would in practice be enough. Their effect was to give Government directors a power to veto any Board Resolution. They did not prevent a foreign shareholder from acquiring 100% of the share capital and we have discussed in another context the practical problems which then arise. Moreover, it was always doubtful whether the Government directors could properly veto a Board Resolution which they believed to be in the interests of the company. The only ^{basis} for such a veto would have been ^{if} the _h

SECRET

OVER

MINUTE SHEET:

No.....

SECRET

File No.....

original 1914 agreement between the Government and the company (which led to the relevant Articles being put in) was construed as allowing the Government directors to act in the national interest, even if this conflicted with the company's interest. The veto was never used and the point was never tested, but it was not thought to be straightforward. If the Articles are now reinstated in circumstances where the 1914 agreement has of course been terminated and a major shareholder might object to the exercise of the Government veto, I think one would have to go further and effectively override the normal fiduciary duties under company law.

There is another problem. The old Articles of Association were not entrenched and could have been amended by a vote of 75% of those present and voting at a general meeting. Now that the Government no longer has a blocking minority of shares there would have to be an additional statutory provision preventing amendment of the relevant Articles.

An alternative or additional provision might be considered, for example, applying an anti takeover provision to the company of the sort which exists in other privatised companies and prevents any shareholding exceeding a stated percentage. If this provision was restricted to foreign shareholdings there would have to be an EC exception and this would raise the question, about which there is some doubt, as to whether a non EC country could use eg a French intermediary to evade the restriction. It would perhaps be possible to construct a definition of the type of shareholder to which exception was taken which was not based simply on nationality but on, for example, control over raw materials used by the company but this would obviously need thought.

I have not yet had time to look at the ECHR implications of any Bill along these lines or the EC company law directives. Nor do I know whether the UK has any treaty with Kuwait which would be relevant.

J L Wheldon

* EC Human Rights (relevant to compensation)

Miss J L Wheldon

7th January 1988

SECRET

OVER



Handwritten initials, possibly 'JMGT', in the top right corner.

FROM: J M G TAYLOR

DATE: 8 January 1988

MR MONCK

cc PS/Financial Secretary
Sir P Middleton
Mr Moore
Mr R I G Allen
Mrs M Brown
Ms Leahy
Miss Wheldon - T.Sol.

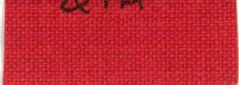
BP: K10

The Chancellor was most grateful for your minute of 7 January.

2. He has commented that legislative routes do indeed look unpromising, but the threat of invoking or passing legislation may still have a deterrent value. But clearly the best route is a Kuwaiti assurance, with an MMC reference as a fallback. As for the draft statement, this has of course been overtaken.

Handwritten signature of J M G Taylor.

J M G TAYLOR



FROM: R I G ALLEN
DATE: 8 JANUARY 1988

plp

PRINCIPAL PRIVATE SECRETARY

cc PS/Financial Secretary
Sir Peter Middleton
Mr Monck
Mr B Moore
Mr Gunton

BP/KIO

I attach a copy of the Statement and Q/A briefing as finally agreed.
The Statement was released to the media at 2.00 p.m. this afternoon.

RIA

R I G ALLEN

EMBARGO
NOT FOR PUBLICATION, BROADCAST OR USE ON CLUB TAPES
BEFORE 1400 HRS ON FRIDAY 8 JANUARY 1988

TREASURY STATEMENT ON BP/KIO

The Kuwait authorities have assured us that they have no ambitions to control BP nor any interest in any management role, and that the KIO holding in the company is intended as a long term investment.

end

Why Statement issued now?

In response to huge number of enquiries from the media.

When was assurance given?

Before Christmas.

Why not released then?

No reason to do so.

Any assurances on upper limit for KIO shareholding?

No comment. Key point is that Kuwaitis have no ambitions to control BP.

Would a 29.9% shareholding be acceptable to HMG?

Hypothetical question: but would not seem consistent with assurance that Kuwaitis will not move to controlling interest.

Risk that KIO will sell to third party, unacceptable to HMG?

KIO have assured us that this is a long-term investment.

Are HMG still in contact with Kuwaiti Government?

Of course, through usual diplomatic channels, as circumstances require.

**Collusion between HMG and Kuwaitis to boost BP share price?
(Independent story)**

No truth in this whatsoever.

What is BP's view?

Ask BP.

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*Mr. 18 of
purpose
for our
in the press
for the PM's benefit
at this stage
Mrs. 18 of
purpose
for our
in the press
for the PM's benefit
at this stage*

FROM: D J L MOORE
DATE: 8 JANUARY 1988

PS/CHANCELLOR

cc
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mrs Lomax
Mr R I G Allen
Mr Williams
Mrs Brown
Ms Leahy

Miss J Wheldon TSOL

I think this is alright. There is a question as to whether we should wish to use this letter to amplify our position on Britoil shares we decide to do so on Monday morning. But as we need to check the draft for further information on the KIO in any case I do not think there is any need to go into this aspect.

BP AND THE KIO

for the PM's benefit at this stage

I attach a draft reply to Mr Kinnock's letter of 7 January to the Prime Minister. No 10 have asked to have it tonight.

2. I have cleared the draft with officials in Energy, DTI and the FCO. The third paragraph in particular will need to be further checked on Monday in the light of any further assurances the FCO get from the Kuwaitis.

3. The theme is that assurances have been given (as released to the press today) and even if they had not been, or if they were broken, there is scope for action. The position under the Fair Trading Act is explained in more detail in the draft covering letter to No 10. That draft also explains why we should not, at this stage, go beyond the position already publicly stated on the Britoil Special Share.

4. The second paragraph originally read:

Let me leave you in no doubt that the Government fully recognises the unique and important place of BP in the nation's affairs. We will ensure that it is maintained."

Energy officials thought it over the top and inviting the question

From: S D H SARGENT

Date: 11 January 1988

PRINCIPAL PRIVATE SECRETARY

cc Financial Secretary
Mr Monck
Mr Moore
Mr M Williams
Ms Leahy
Mrs M Brown

Miss Wheldon - Tsy Sol

NOTE OF SIR PETER MIDDLETON'S MEETING HELD ON 7 JANUARY 1988: BRITOIL:
BP OFFER

... Please substitute the attached final page for that circulated on 7 January. The only change is to the final sentence of paragraph 2.

S D H SARGENT

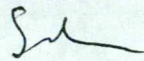
Private Secretary

CONFIDENTIAL

independent existence. Miss Wheldon pointed out that the Government's legal advice was that even if BP acquired a 100% shareholding the existence of the special share meant that the Board could not be forced to act solely in the interests of BP. Sir Philip Shelbourne said that he accepted this, and the Britoil Board would carry on even if BP achieved a 100% shareholding until it was told to stop, but it was conceivable that the courts would rule that it was unreasonable for the special share to be operated against the interests of a 100% shareholder.

3. Sir Philip Shelbourne said that Britoil had consistently been opposed to the special share. They would like the Government to issue a statement indicating that the special share would be removed in 2-3 years time. Mr Walker said that while BP apparently thought they could live with the special share it had clearly discouraged other bidders. A Government announcement that it was to be removed in due course would clear the way for an effective auction of the company. Sir Philip Shelbourne said that as a Board Member of Rolls Royce he did not take the view that an announcement that the Britoil special share was to be removed would imply that the special shares in other companies were ineffective.

4. Sir Peter Middleton thanked Sir Philip and Mr Walker for coming and suggested that both sides should keep in close touch over the coming weeks.



S D H SARGENT

Private Secretary

Circulation

PPS
Financial Secretary
Mr Monck
Mr Moore
Mr M Williams
Ms Leahy
Mrs M Brown

Miss Wheldon
Mr Gregson - Department of Energy

CONFIDENTIAL

FROM: D J L MOORE
DATE: 8 JANUARY 1988

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mrs Lomax
Mr R I G Allen
Mr Williams
Mrs Brown
Ms Leahy

Miss J Wheldon TSOL

BP AND THE KIO

I attach a draft reply to Mr Kinnock's letter of 7 January to the Prime Minister. No 10 have asked to have it tonight. *behind*

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3. The theme is that assurances have been given (as released to the press today) and even if they had not been, or if they were broken, there is scope for action. The position under the Fair Trading Act is explained in more detail in the draft covering letter to No 10. That draft also explains why we should not, at this stage, go beyond the position already publicly stated on the Britoil Special Share.

4. The second paragraph originally read:

Let me leave you in no doubt that the Government fully recognises the unique and important place of BP in the nation's affairs. We will ensure that it is maintained."

Energy officials thought it over the top and inviting the question

of why we did not retain some special powers. They proposed the shorter version in the draft.



D J L MOORE

CONQUEROR



CONFIDENTIAL

Mark Addison, Esq.
Private Secretary
No 10, Downing St.
LONDON SW1.

~~DRAFT PRIVATE SECRETARY LETTER TO NO. 10~~**BP AND THE KIO**

I attach a draft reply to Mr Kinnock's letter of 7 January.

Following the article in today's Independent, the Chancellor authorised the release of a statement that the Kuwaitis had given the assurances noted in the third paragraph of the draft (these assurances were given to Mr David Mellor on 23 December). The Foreign Office has now asked our Ambassador in Kuwait to seek further assurances. If these can be given quickly the last sentence in square brackets, or some variant, can be included. We will therefore need to look at the draft again on Monday.

The draft makes clear that if the assurances had not been given there would have been scope for action (and, by implication, still would be if the assurances were breached) and that, in any event, the DG/OFT is currently considering the present KIO holding. The position on the Fair Trading Act powers is explained in more detail in the note by the DTI annexed to this letter.

Mr Kinnock goes on to question the future of the Britoil Special Share, in particular whether a date for redemption will be given. The Chancellor does not wish at this stage to go beyond the public statement already made - last paragraph of the draft. The operation of the Special Share will be kept under very close review as the Britoil situation develops but it would be premature to indicate now - just before BP, and possibly others, might

make a full bid - either that the share will be kept indefinitely or that a termination date might be announced.

I am sending copies of this letter to Stephen Haddrill (Energy);
Stephen Ratcliffe *Robert Chishaw*
? (DTI) and (??) FCO.

DRAFT LETTER FROM THE PRIME MINISTER TO:

The Rt Hon Neil Kinnock MP

Thank you for your letter of 7 January about BP.

~~You wrote to me on 7 January about the Kuwait Investment Office's holding of shares in BP.~~

~~There is no question of the KIO's shareholding being used to harm the UK's interests.~~

~~Let me leave you in no doubt that the Government fully recognises the importance of BP.~~

As no further ~~you asked first about the Kuwait Investment Office's holding of BP shares.~~

The Kuwaiti authorities have assured ~~us~~ ^{the Government} that they have no ambitions to control BP nor any interest in any management role, and that the KIO holding in BP is intended as a long term investment. [They have further assured us that they have no intention, either now or in the future, of increasing KIO's stake in BP beyond 20%.]

If there had been any question of the KIO proceeding to a full bid for control the situation would have been examined under the Fair Trading Act in the normal way; and, as you point out, the Industry Act powers are available. The Fair Trading Act also applies to certain minority holdings and the Director General of Fair Trading is currently considering the KIO holding in BP in this context.

You asked also ^{about} ~~Britoil~~ ^{made} ~~stated~~ ^{clear.} its position ~~on Britoil~~. In present circumstances ~~it~~ ^{we} intends ^{to} use ~~its~~ ^{the} Special Share to prevent any bidder from gaining control of the Britoil Board.

As no further ~~have already made clear,~~

PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir Middleton
Mr Anson
Mr Monck MR D. MOORE
Mrs Lomax
Mr R I G Allen
Mr Williams
Mrs Brown
Ms Leahy



pmf

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

Miss J Wheldon TSOL

8 January 1988

Mark Addison Esq
Private Secretary
No.10 Downing Street
LONDON SW1

Dear Mark

BP AND THE KIO

... I attach a draft reply to Mr Kinnock's letter of 7 January.

Following the article in today's Independent, the Chancellor authorised the release of a statement that the Kuwaitis had given the assurances noted in the third paragraph of the draft (these assurances were given to Mr David Mellor on 23 December). The FCO has now asked our Ambassador in Kuwait to seek further assurances. If these can be given quickly, the last sentence in square brackets, or some variant, can be included. We will therefore need to look at the draft again on Monday.

The draft makes clear that if the assurances had not been given there would have been scope for action (and, by implication, still would be if the assurances were breached) and that, in any event, the DG/OFT is currently considering the present KIO holding. The position on the Fair Trading Act powers is explained in more detail in the note by the DTI annexed to this letter.

Mr Kinnock goes on to question the future of the Britoil Special Share, in particular whether a date for redemption will be given. The Chancellor does not wish at this stage to go beyond the public statement already made - last paragraph of the draft. The operation of the Special Share will be kept under very close review as the Britoil situation develops but it would be premature to indicate now - just before BP, and possibly others, might make a full bid - either that the share will be kept indefinitely or that a termination date might be announced.

I am sending copies of this letter to Stephen Haddrill (Energy), Stephen Ratcliffe (DTI), and Robert Culshaw (FCO).

Yours sincerely

Jonathan Taylor

J M G TAYLOR

Note by DTI

The power exists under the Fair Trading Act to refer to the MMC partial holdings which may confer the ability materially to influence the policy of the target company. Accordingly, the Director General of Fair Trading is considering (as he would do, as a matter of course) whether the present KIO holding of about 18% qualifies for a reference. Assuming that it does qualify (and there are various technical points to be considered), the Director General will go on to consider whether there are grounds which would lead him to recommend to the Secretary of State for Trade and Industry that it should be referred to the MMC. The reference decision would be a matter for the Secretary of State, who is obliged to keep an open mind until he has had the Director General's advice and has heard any representations from interested parties.

It is therefore important that nothing should be said which indicates that the Government has already reached the conclusion that the present KIO holding either is or is not acceptable.

DRAFT LETTER FROM THE PRIME MINISTER TO:

The Rt Hon Neil Kinnock MP

Thank you for your letter of 7 January about BP.

You asked first about the Kuwait Investment Office's holding of BP shares. As the Treasury have already made clear, the Kuwaiti authorities have assured the Government that they have no ambitions to control BP nor any interest in any management role, and that the KIO holding in BP is intended as a long term investment. ~~[They have further assured us that they have no intention, either now or in the future, of increasing KIO's stake in BP beyond 20%].~~

If there had been any question of the KIO proceeding to a full bid for control the situation would have been examined under the Fair Trading Act in the normal way; and, as you point out, the Industry Act powers are available. The Fair Trading Act also applies to certain minority holdings and the Director General of Fair Trading is currently considering the KIO holding in BP in this context.

You asked also about Britoil. The Government has already made its position clear. In present circumstances we intend to use the Special Share to prevent any bidder from gaining control of the Britoil board.



Page 1

FROM: J M G TAYLOR
DATE: 8 January 1988

MR D J L MOORE

cc PS/Financial Secretary
Sir P Middleton
Mr Monck

PQs ON BP/BRITTOIL FROM MR ALEX SALMOND MP

The Chancellor has seen your minute of 6 December, and is content with the Answers.

JMG

J M G TAYLOR

UNCLASSIFIED

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MDHOAN 6219

UNCLASSIFIED

FM FCO
TO DESKBY 090430Z KUWAIT
TELNO 6
OF 081420Z JANUARY 88
AND TO DESKBY 082000Z TOKYO

TOKYO FOR SECRETARY OF STATE'S PARTY

MY 2 IPT'S: BP AND KIO

1. UNDER THE HEADLINE QUOTE GOVERNMENT ALLOWED KUWAIT TO BUY BIG STAKE IN BP UNQUOTE THE INDEPENDENT HAS PUBLISHED A SPECULATIVE ARTICLE TODAY, 8 JANUARY. IT ALLEGES, REFERRING TO KUWAITI SOURCES, THAT QUOTE THE GOVERNMENT TOLD KUWAIT LAST MONTH THAT IT WOULD NOT STOP THE GULF EMIRATES BUYING A LARGE STAKE IN BRITISH PETROLEUM UNQUOTE. IT GOES ON TO SAY THAT QUOTE THE UNDERSTANDING BETWEEN THE GOVERNMENT'S INSURED THAT THERE WAS LITTLE DANGER OF THE TREASURY HAVING TO REPURCHASE MANY BP SHARES UNDER THE RECENTLY EXPIRED PRICE SUPPORT SCHEME. THE AGREEMENT ALSO CONTRASTS WITH THE GOVERNMENT'S INTENTION OF NULLIFYING BP'S PROPOSED 2.3 BILLION POUND BID FOR BRITTOIL, THE NORTH SEA OIL COMPANY PRIVATISED IN 1982, BY EXERCISING THE RIGHTS UNDER ITS GOLDEN SHARE IN BRITTOIL UNQUOTE.

2. THE ARTICLE SPECULATES ABOUT CONVERSATIONS BETWEEN MR MELLOR AND HIS KUWAITI OPPOSITE NUMBER FA'OUUD AL-OSSEIMI DURING A MEETING IN LONDON ON 4 DECEMBER. MR MELLOR IS ALLEGED TO HAVE SAID QUOTE THAT THE GOVERNMENT DID NOT OBJECT TO KUWAIT BUILDING A SIZEABLE STAKE IN BP UNQUOTE. IT REPORTS THAT QUOTE YESTERDAY THE FCO DECLINED TO DISCUSS THE MEETING, AND BP COULD NOT COMMENT. BUT THE TREASURY SAID YESTERDAY THAT IT HAD BOUGHT ONLY 39 MILLION SHARES UNDER THE PRICE SUPPORT SCHEME, EQUIVALENT TO LESS THAN 2 PERCENT OF THE 2.2 BILLION SHARES SOLD BY THE GOVERNMENT IN OCTOBER AS PART OF ITS PRIVATISATION PROGRAMME UNQUOTE.

3. THE ARTICLE GOES ON TO DESCRIBE THE BANK OF ENGLAND SHARE SUPPORT SCHEME, HOW KIO BEGAN BUYING BP SHARES IN NOVEMBER, AND HOW KIO'S HOLDING WAS 11.5 PERCENT OF BP ON 4 DECEMBER. THE ARTICLE SAYS THAT KIO'S HOLDING QUOTE IS NOW PUT BY CITY SOURCES AT AROUND 20 PERCENT, AND SOME STOCK BROKERS EXPECT THE KIO TO BUILD UP AN EVEN BIGGER STAKE UNQUOTE. THE ARTICLE CONCLUDES BY

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SUGGESTING THAT QUOTE A HOLDING OF THIS SIZE GIVES KUWAIT A
POTENTIAL INFLUENCE IN BP NOT MUCH DIFFERENT FROM THAT THE
GOVERNMENT ENJOYED BEFORE ITS 31 PERCENT HOLDING IN BP WAS SOLD
UNQUOTE. IT SPECULATES THAT QUOTE THE KUWAITI STAKE HAS RAISED
FEARS THAT IT COULD BE USED TO INFLUENCE BP POLICY IN FAVOUR OF
OPEC, OF WHICH KUWAIT IS A MEMBER UNQUOTE.

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DISTRIBUTION 78

MAIN 61

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| ERD | PS/MRS CHALKER |
| MED | PS/MR MELLOR |
| ESSD | PS/PUS |
| NEWS DEPT | MR BRAITHWAITE |
| INFO DEPT | MR MAUD |
| PLANNERS | SIR D MIERS |
| PS | |

ADDITIONAL 17

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|---------------|-----------------------------|
| PS/NO | PS/SEC OF STATE FOR ENERGY |
| PS/CHANCELLOR | MR WAKELY, DEPT OF ENERGY |
| MR MOORE, HMT | PS/SEC OF STATE FOR T AND I |
| MR MONCK, HMT | MR TREDGOLD, DTI |

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MDHOAN 6217

CONFIDENTIAL

FM FCO

TO DESKBY 090430Z KUWAIT
TELNO 005
OF 081300Z JANUARY 88
AND TO DESKBY 082000Z TOKYO

TOKYO FOR SECRETARY OF STATE'S PARTY

MIPT: BP AND THE KIO

1. TEXT OF SPEAKING NOTE IS AS FOLLOWS:

QUOTE YOU WILL KNOW THAT BRITISH MINISTERS HAVE COME UNDER CONSIDERABLE CRITICISM, BOTH IN PARLIAMENT AND FROM THE PRESS, OVER THE BUILD UP OF KIO'S HOLDING IN BP, WHICH STOOD AT 18.34 PER CENT AT THE LAST OFFICIAL NOTIFICATION. OUR TWO GOVERNMENTS NEED TO ACT QUICKLY TO DEFUSE THIS CRITICISM AND TO TAKE KIO'S HOLDING WHERE IT BELONGS, OUT OF THE POLITICAL ARENA. THIS WOULD BE IN THE BEST INTERESTS OF BOTH OUR GOVERNMENTS. IF WE DO NOT ACT NOW, THE SITUATION WILL ONLY BECOME HARDER TO HANDLE.

THE PRIME MINISTER HAS SAID IN THE HOUSE OF COMMONS THAT IT WAS NOT SURPRISING THAT THERE SHOULD BE SOME INTERNATIONAL INVOLVEMENT IN BP. WE HAVE OPEN TRADING, FINANCIAL AND INVESTMENT REGIMES TO WHICH THE GOVERNMENT REMAINS COMMITTED. WE ALSO VALUE OUR LONGSTANDING TIES WITH KUWAIT AND WANT TO BUILD ON THEM. THE ISSUES THAT CAUSE US DIFFICULTY ARE THE LEVEL OF KIO'S HOLDING: THE DEGREE OF INFLUENCE OVER BP AFFAIRS THAT KIO, AS A MAJOR SHAREHOLDER, MIGHT OR NIGHT NOT CHOOSE TO EXERCISE: KIO'S KIO'S FUTURE INTENTIONS ON THE RETENTION OR DISPOSAL OF ITS HOLDING: AND ABOVE ALL THE NEED FOR US TO GIVE FIRM ASSURANCES IN PUBLIC ABOUT KIO INTENTIONS SO AS TO DISPEL THE PRESENT MARKET UNCERTAINTIES. WE ARE ANXIOUS TO COOPERATE FULLY WITH YOU IN ALL THESE RESPECTS.

I EXPECT YOU WILL KNOW THAT A NUMBER OF CONCERNS HAVE BEEN VOICED ABOUT KIO'S ROLE. RIGHTLY OR WRONGLY, THE POTENTIAL INFLUENCE OF KIO'S LARGE SHAREHOLDING MAY COME TO AFFECT THE ATTITUDES OF BP CUSTOMERS AND SUPPLIERS, AND INDEED OTHER GOVERNMENTS, SINCE THEY WILL ASSUME THAT KIO - AND AT ONE REMOVE YOUR GOVERNMENT - WOULD HAVE CONSIDERABLE INFLUENCE ON THE DIRECTION OF THE COMPANY'S AFFAIRS. THIS IN TURN MIGHT AFFECT BP'S ABILITY TO TRADE FREELY IN ALL AREAS WHERE IT WISHES TO DO BUSINESS. FROM A FINANCIAL

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MDHOAN 6217

POINT OF VIEW, SPECULATION AND UNCERTAINTY ARE ACCENTUATED WHEN A LARGE BLOCK OF BP SHARES IS HELD BY ONE INVESTOR. THIS COULD DESTABILISE THE SHAREHOLDER BASE OR COMPLICATE ANY ISSUE OF NEW SHARES IN FUTURE.

WHEN MR MELLOR VISITED KUWAIT LAST MONTH, YOUR COLLEAGUE, THE OIL MINISTER, AND THE DIRECTOR GENERAL OF THE KUWAITI INVESTMENT AUTHORITY, WERE BOTH MOST FORTHCOMING ABOUT KIO INTENTIONS. THEY SAID THEY DID NOT EXPECT KIO TO GO ABOVE A 20% HOLDING: THAT THIS WAS A LONG TERM INVESTMENT: THAT THERE WAS NO QUESTION OF KIO SUDDENLY SELLING LARGE QUANTITIES OF BP SHARES: AND THAT KIO HAD NO AMBITIONS TO CONTROL THE COMPANY AND NO INTEREST IN ANY MANAGEMENT ROLE.

WE NEED NOW TO CONVERT THESE HELPFUL PRIVATE ASSURANCES INTO A FORM OF WORDS THAT HMG, AND IF YOU SO WISH YOUR GOVERNMENT, CAN USE PUBLICLY TO COUNTER THE CRITICISM TO WHICH I HAVE REFERRED. WE SHOULD LIKE TO MAKE THE FOLLOWING POINTS IN PUBLIC AS AND WHEN NECESSARY:

- A) THAT KIO HAS NO INTENTION, EITHER NOW OR IN THE FUTURE, OF INCREASING ITS STAKE IN BP BEYOND 20%.
- B) THAT IT WILL NOT, AT ANY TIME, SEEK TO EXERCISE ANY CONTROL OVER BP, NOR ANY MANAGEMENT ROLE IN THE COMPANY. AS YOU KNOW, WE HAVE BEEN OBLIGED TO PUBLICISE THIS ASSURANCE ALREADY, FOLLOWING A MISLEADING PRESS ARTICLE ABOUT HMG'S POSITION. I AM SURE YOU WILL UNDERSTAND THE AWKWARD POSITION IN WHICH WE WERE PUT.
- C) THAT IT WILL NOT DISPOSE, EITHER NOW OR IN THE FUTURE, OF ITS STAKE, OR ANY PART OF IT, TO A THIRD PARTY WITHOUT FIRST ENSURING THAT THE POTENTIAL PURCHASER OR PURCHASERS WERE ACCEPTABLE TO HMG.

WE ATTACH IMPORTANCE TO THIS LAST POINT, WHICH DID NOT ARISE IN MR MELLOR'S CONVERSATIONS, BECAUSE THERE ARE FEARS - WHICH I AM SURE ARE UNFOUNDED - THAT KIO MIGHT SELL ITS STAKE TO A COMPANY INTERESTED IN BIDDING FOR BP. ANY ATTEMPTED TAKEOVER OF BP, BY ANY OVERSEAS COMPANY, WOULD BE REGARDED AS POLITICALLY VERY CONTROVERSIAL FOR REASONS I AM SURE YOU WILL FULLY UNDERSTAND.

I SHOULD BE MOST GRATEFUL IF YOU COULD GIVE ME THESE ASSURANCES AT YOUR EARLIEST CONVENIENCE ON BEHALF OF BOTH THE KUWAITI GOVERNMENT AND THE KIO. THE EXACT WORDING MAY REQUIRE FURTHER DISCUSSION, BUT WE SHALL NEED TO MAKE ANOTHER STATEMENT IN THE

PAGE 2
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VERY NEAR FUTURE. I SHOULD LIKE TO STRESS ONCE AGAIN THAT WE ARE ANXIOUS TO COOPERATE CLOSELY WITH YOU AND THAT WE FIRMLY BELIEVE THAT IT IS IN BOTH OUR INTERESTS TO PUT THE FEARS I HAVE MENTIONED TO REST, AND TO LEAVE KIO TO ENJOY THE BENEFITS OF CONTINUED ASSOCIATION WITH A FIRST CLASS COMPANY. UNQUOTE

HOWE

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DISTRIBUTION 82

MAIN 69

| | |
|-----------|----------------|
| LIMITED | PS |
| ERD | PS/PUS |
| MED | PS/MR MELLOR |
| ESSD | PS/MRS CHALKER |
| INFO DEPT | MR BRAITHWAITE |
| NEWS DEPT | MR MAUD |
| PLANNING | SIR D MIERS |

ADDITIONAL 13

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|----------------------------|------------------------------|
| PS/NO 10 | MR WAKELY, DEPT OF ENERGY |
| <u>PS/CHANCELLOR</u> | PS/SEC OF STATE FOR T AND I1 |
| MR MOORE, HMT | MR TREDGOLD, DTI |
| MR MONCK, HMT | |
| PS/SEC OF STATE FOR ENERGY | |

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PAGE 3
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MDHOAN 6215

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FM FCO
TO DESKBY 090430Z KUWAIT
TELNO 4
OF 081630Z JANUARY 88
INFO DESKBY 082000Z TOKYO

FOR SECRETARY OF STATE'S PARTY.

MY TELNO 3 AND YOUR TELNO 5: BP AND THE KIO

1. TOKYO PLEASE PASS TO SECRETARY OF STATE'S PARTY ON ARRIVAL,
TOGETHER WITH MIFT CONTAINING A SPEAKING NOTE FOR USE AS
INSTRUCTED BELOW.

2. WE HAVE CONSIDERED YOUR ADVICE CAREFULLY. WE RECOGNISE THAT WE
ARE SEEKING ASSURANCES THAT GO BEYOND THOSE HITHERTO REQUESTED
AND GIVEN TO MR MELLOR. WE ALSO RECOGNISE THAT THE KUWAITIS MAY
HAVE DIFFICULTIES IN GIVING US THE NECESSARY ASSURANCES FOR USE
IN PUBLIC, PARTICULARLY ON THE EVENTUAL DISPOSAL OF PART OR ALL
OF THEIR HOLDING. BUT WE NEED THESE ASSURANCES IN ORDER TO
HANDLE GROWING DOMESTIC POLITICAL AND PRESS INTEREST IN THE
MATTER. THE GOVERNMENT HAS NOT BEEN INACTIVE IN THIS MATTER, AS
YOU ARE WELL AWARE. BUT HITHERTO ITS ACTIONS HAVE BEEN IN
PRIVATE. PUBLIC EVIDENCE OF HMG'S PROTECTION OF THE NATIONAL
INTEREST IN BP IS NEEDED.

3. WE HAVE ALREADY HAD TO ACT, FOLLOWING A MISLEADING ARTICLE IN
THE INDEPENDENT TODAY. EXTRACTS IN MY SECOND IFT, ALSO REPEATED
TO TOKYO: YOU WILL NOTE THE REFERENCE TO KUWAIT SOURCES. THE
CHANCELLOR DECIDED TODAY THAT HIS PRESS OFFICE SHOULD USE THE
FOLLOWING FORMULA IN SPEAKING TO THE MEDIA:

QUOTE THE KUWAITI AUTHORITIES HAVE ASSURED US THAT THEY HAVE NO
AMBITIONS TO CONTROL THE COMPANY NOR ANY INTEREST IN ANY
MANAGEMENT ROLE, AND THAT THE KIO HOLDING IN BP IS INTENDED AS A
LONG-TERM INVESTMENT UNQUOTE. FOR THEIR PART, NEWS DEPARTMENT
WILL SAY IF ASKED (THEY WERE NOT AT TODAY'S BRIEFING) THAT QUOTE
THERE IS NO TRUTH IN THE ASSERTION THAT MR MELLOR TOLD MR FAUD
AL-OSSEIMI ON 4 DECEMBER THAT THE GOVERNMENT DID NOT OBJECT TO
KUWAIT BUILDING A SIZEABLE STAKE IN BP. WE ARE OF COURSE IN
REGULAR CONTACT WITH THE KUWAITI GOVERNMENT ON THE MATTER
UNQUOTE. THEY ARE REFERRING FURTHER QUESTIONS TO THE TREASURY.
YOU WILL SEE THAT WE HAVE NOT (NOT) SAID THAT THESE ASSURANCES
WERE GIVEN TO MR MELLOR.

PAGE 1
CONFIDENTIAL

4. YOU SHOULD NOW SEEK THE EARLIEST OPPORTUNITY TO CALL ON THE FOREIGN MINISTER, AND HAND OVER THE SPEAKING NOTE IN MIFT, EMPHASISING THAT YOU ARE DOING SO ON INSTRUCTIONS. YOU SHOULD STRESS THAT YOU REGRET THE NEED TO RAISE THE ISSUE SO SOON AFTER MR MELLOR'S VISIT. BUT THE SUBSEQUENT PRESS AND POLITICAL INTEREST IN THE CONTINUED BUILD UP OF KIO'S HOLDINGS, CULMINATING IN TODAY'S ARTICLE, HAS MADE THIS INEVITABLE. YOU SHOULD EXPLAIN THAT HMG HAS TRIED TO CONFINF ITS REBUTTAL OF THE ARTICLE TO THE MINIMUM. BUT WE SHALL NEED TO GO FURTHER. YOU SHOULD EMPHASISE THAT THERE IS ADVANTAGE TO KUWAIT, AS WELL AS TO HMG, IN REMOVING THIS ISSUE AS FAR AS POSSIBLE FROM THE POLITICAL ARENA: AND THAT WE WISH TO COOPERATE WITH THE KUWAITIS. YOU SHOULD TELL THE FOREIGN MINISTER THAT THE PRIME MINISTER WILL COME UNDER HEAVY PRESSURE TO ANSWER QUESTIONS IN PARLIAMENT AS EARLY AS MONDAY, 11 JANUARY, AND CERTAINLY TUESDAY: SO WE NEED REPLIES BY THEN IF THE KUWAITI GOVERNMENT, AS WELL AS HMG, IS NOT TO BE PUT IN A DIFFICULT POSITION.

5. YOU SHOULD ALSO DRAW ON THE FOLLOWING POINTS AS NECESSARY:

A) THE DIRECTOR GENERAL OF THE KIA HAS ALREADY TOLD MR MELLOR (YOUR TELNO 459) THAT HE DID NOT EXPECT THE KIO TO GO ABOVE A 20 PER CENT HOLDING. WHAT WE SEEK IS THE KUWAITI GOVERNMENT'S AGREEMENT TO CONVERT THIS INTO A FIRM PLEDGE FOR USE IN PUBLIC. (I RECOGNISE THAT ALI KHALIFA TOOK A SLIGHTLY DIFFERENT LINE, BUT FROM OUR AND ESPECIALLY BP'S POINT OF VIEW 20 PER CENT IS ALREADY A WORRYINGLY LARGE PERCENTAGE.) YOU HAVE DISCRETION TO TELL THE FOREIGN MINISTER, IF YOU JUDGE IT APPROPRIATE, THAT THE DIRECTOR GENERAL OF FAIR TRADING WILL, AS HE IS OBLIGED TO DO, SHORTLY BE MAKING ENQUIRIES ABOUT THE PRESENT KIO HOLDING. THE PURPOSE OF THIS IS TO CONSIDER WHETHER THE SITUATION SHOULD BE FURTHER EXAMINED BY THE MONOPOLIES AND MERGERS COMMISSION, IN ACCORDANCE WITH UK COMPETITION LEGISLATION. (A BACKGROUND NOTE FOR YOUR INFORMATION IS IN MY 3RD IFT, NOT REPEATED TO TOKYO.)

B) WE HAVE NO REASON TO SUPPOSE THAT KIO EITHER WISHES TO DISPOSE OF ITS HOLDING IN THE NEAR FUTURE OR TO SELL TO AN UNWELCOME BIDDER. BUT CIRCUMSTANCES CAN CHANGE AND THE KUWAITIS WILL BE WELL AWARE THAT THE OSTENSIBLE BIDDERS MAY BE FRONT-MEN ACTING FOR SOMEONE WHOM - UNLIKE THE KIO - BP WOULD NOT WELCOME AS A SHAREHOLDER. YOU SHOULD MAKE IT CLEAR THAT, WHILE WE DO NEED ASSURANCES FOR EARLY PUBLIC (REPEAT PUBLIC) USE ON KIO'S STAKE IN BP AND THE ISSUE OF CONTROL (A AND B OF THE SPEAKING NOTE), WE WOULD BE READY TO CONSIDER A KUWAITI REQUEST TO KEEP ASSURANCE (C) PRIVATE. (IF NECESSARY). WE CANNOT SEE THAT SUCH AN

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ASSURANCE WOULD DEPRESS THE VALUE OF THE KIO'S HOLDING, SINCE AS FAHD AL RASHID HIMSELF TOLD MR MELLOR THE KIO HAD ACQUIRED THE SHARES QUOTE AT AN EXCELLENT PRICE UNQUOTE, AND THE KIO WILL ALMOST CERTAINLY SEE A SUBSTANTIAL APPRECIATION ON THEIR INVESTMENT.

C) WE HAVE ALREADY HAD TO USE THE ASSURANCES GIVEN TO MR MELLOR THAT KIO HAD NO AMBITIONS TO CONTROL THE COMPANY OR TO ASSUME A MANAGEMENT ROLE. BUT WE TRUST THIS WILL PRESENT NO PROBLEM TO THE KUWAITI GOVERNMENT OR TO KIO, SINCE THIS IS WHAT THEY HAVE TOLD US ALL ALONG.

D) IF YOU ARE QUESTIONED ABOUT THE CONCERNS REFERRED TO IN PARAGRAPH 3 OF MY SPEAKING NOTE (WHICH, FOR YOUR INFORMATION ONLY, WERE CONVEYED IN A LETTER OF 17 DECEMBER FROM THE CHAIRMAN OF BP TO THE CHANCELLOR), YOU SHOULD CONFINE YOURSELF TO REMINDING THE MINISTER THAT BP'S OPERATIONS ARE GLOBAL, AND THAT 60 PER CENT OF BP'S ASSETS ARE LOCATED IN THE US. YOU SHOULD, IF NECESSARY, MAKE IT CLEAR THAT WE HAVE RECEIVED NO (REPEAT NO) REPRESENTATIONS WHATSOEVER ON THE MATTER FROM THE US AUTHORITIES. THE POINT IS SIMPLY THAT ANY WORLDWIDE COMPANY NEEDS TO TAKE ACCOUNT OF ALL ITS CUSTOMERS AND SUPPLIERS, AND TO ENSURE THAT IT IS FREE TO FOLLOW ITS COMMERCIAL JUDGEMENT ANYWHERE WITHOUT CRITICISM OR INTERFERENCE.

E) WITH THE EXPIRY ON 6 JANUARY OF THE BANK OF ENGLAND SAFETY NET FOR THE PRICE OF THE SHARES, THERE IS NATURALLY INCREASED SPECULATION ABOUT THE COMPANY'S FUTURE AND KIO'S INTENTIONS. THAT IS ANOTHER REASON WHY WE NEED AS EARLY A RESPONSE AS POSSIBLE.

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PS/PUS
MR BRAITHWAITE

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INFO DEPT
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MR MAUD
SIR D MIERS

ADDITIONAL 13

PS/NO 10
PS/CHANCELLOR
MR MOORE, HMT
MR MONCK, HMT
PS/SEC OF STATE FOR ENERGY

MR WAKELY, DEPT OF ENERGY
PS/SEC OF STATE FOR T AND I
MR TREDGOLD, DTI

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FM KUWAIT
TO DESKBY 1109COZ FCO
TELNO 007
OF 100930Z JANUARY 88
AND TO DESKBY FIRST CONTACT TOKYO

(TOKYO - FOR PRIVATE SECRETARY TO SECRETARY OF STATE)

YOUR TELNO 4: BP AND THE KIO

1. I HAVE BEEN GIVEN AN APPOINTMENT TO SEE SHAIKH SABAH AL AHMED AL SABAH AT 9.00 ON 11 JANUARY. IT WAS NOT POSSIBLE TO GET AN APPOINTMENT EARLIER OWING TO A STREAM OF VISITORS ON 9 JANUARY AND TO HIS BEING TIED UP WITH THE COUNCIL OF MINISTERS ALL TODAY. WE WILL HOWEVER GET A REPORT OF THE MEETING OFF TO YOU SO AS TO PROVIDE SOME AMMUNITION FOR THE PRIME MINISTER, IF NECESSARY, ON THE AFTERNOON OF 11 JANUARY.
2. POWDER AND SHOT MAY HOWEVER NOT AMOUNT TO MUCH. I SUSPECT WE WILL ACHIEVE NO MORE THAN A HOLDING REPLY SABAH AL AHMED MAY FEEL THE NEED TO CONSULT OTHERS INCLUDING THE OIL MINISTER AND POSSIBLY THE AMIR. THE MINISTER OF FINANCE LEAVES KUWAIT FOR JAPAN AND THE PACIFIC ON 11 JANUARY AND THE HEAD OF THE KUWAIT INVESTMENT AUTHORITY, DR FAHD AL RASHI (TO WHOM MR MELLOR TALKED) IS IN SINGAPORE AND NOT DUE BACK FOR TWO WEEKS. AT THE VERY LEAST HOWEVER THE PRIME MINISTER WILL BE ABLE TO SAY THAT WE ARE IN HIGH LEVEL COMMUNICATION WITH THE GOVERNMENT OF KUWAIT AND CAN REFER AGAIN TO THE ASSURANCES ALREADY MADE PUBLIC IN RESPONSE TO THE MISLEADING ARTICLE IN THE INDEPENDENT ON 8 JANUARY. TODAY'S KUWAIT PRESS GIVES SOME PROMINENCE TO A REUTER REPORT RECORDING THE STATEMENT MADE BY THE TREASURY AS REPORTED IN YOUR TUR. THE SAME ARTICLE ALSO REFERS TO THE LETTER FROM MR KINNOCK TO THE PRIME MINISTER. THERE IS NO COMMENT.
3. YOU SHOULD BE AWARE (THOUGH IT HAS BEEN RATHER OVERTAKEN NOW) THAT THE FINANCE MINISTER, QUESTIONED IN CAIRO ON 8 JANUARY, IS QUOTED AS HAVING SAID THAT KUWAIT'S PURCHASE OF BP SHARES WAS SIMPLY AN INVESTMENT WITH NO ULTERIOR MOTIVE. AS AN INVESTMENT THE SHARES MIGHT BE HELD FOR A LONG OR A SHORT TIME: AS FOR SELLING THE SHARES, THAT WOULD DEPEND ON RECEIVING THE RIGHT PRICE.

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PS/MR MELLOR
PS/PUS
MR BRAITHWAITE
MR MAUD
SIR D MIERS

ADDITIONAL 13

PS/NO 10
PS/CHANCELLOR
MR MOORE, HMT
MR MONCK, HMT

PS/SEC OF STATE FOR ENERGY
MR WAKELY, DEPT OF ENERGY
PS/SEC OF STATE FOR T AND I
MR TREDGOLD, DTI

NNNN



Ch.

PE suggest in addition to the response to "Is there a risk of the KIO selling to a third party?" (KIO announcement: Q+A briefing).

Add to the existing answer:

"But were the question of significant sales to third parties to arise, I am ~~sure~~ ^{confident that} the Kuwaiti authorities would consult us in advance."

[This follows today's consultations with Ali Khalifa]

JS

1. MR MOORE *JW*

2. CHANCELLOR

From: R M BENT
Date: 11 Jan 1988
cc FST

Sir P Middleton
~~Mr Anson~~
Mr Monck
~~Mrs Brown~~
~~Mr M Williams~~
Ms Leahy

PNQ: BRITTOIL SPECIAL SHARE

I attach at Annexes A1-A12 summary details of the 12 Special Shares held by Government in privatised companies.

2. In brief, there are three main types of control mechanisms:

(i) In two cases (Britoil and Enterprise Oil), the Articles of Association provide voting powers for the Special Shareholder in General Meeting in the event of a takeover bid, such as will ensure a simple majority for the Government in any vote notwithstanding the distribution of ordinary voting shares. This enables the Government to make Board appointments and to block unsatisfactory amendments to the Articles of association;

(ii) Alternatively, the Articles eschew Government voting powers but instead place restrictions on those who can hold ordinary voting shares to ensure that control cannot pass unacceptably. These powers take two forms:

(a) Where, consistent with the Treaty of Rome, there are defence or strategic reasons for ensuring UK control (British Aerospace and Rolls-Royce), foreigners are limited to a total of 15 per cent of the ordinary voting shares. This control effectively prevents a foreign take-over, but still permits a UK Group to bid for the entire shareholding;

(b) Where the special exemptions in the Treaty of Rome do not apply, the control has to be non-discriminatory. In these cases (Amersham, Cable and Wireless, Jaguar, British Telecom, Vickers Shipbuilding and Engineering, British Gas, Rolls-Royce and BAA), any person or persons acting in concert is limited to a 15 per cent shareholding each. This does not prevent foreign control (51 per cent) or ownership (100 per cent), but means that it can only come about when several investors independently decide to take up 15 per cent of the stock and to vote for the same resolutions.

R M Bent

PEZ.

 REVIEW OF SPECIAL SHARES

| | | |
|--------|--|---|
| 1. | COMPANY (Privatised) | Amersham International (February 1982). |
| 2. | VALUE AND TITLE | £1 Special Rights Preference Share. |
| 3. | WHEN CREATED | 10 February 1982 (after incorporation, before flotation). |
| 4. | HOW CREATED | Special resolution of company. |
| 5. | HELD BY | Secretary of State for Energy. |
| 6. | WHETHER AND WHEN REDEEMABLE | Holder may require redemption by company at nominal amount at any time on or after 31 March 1988 |
| 7. | RIGHTS^φ | |
| 7(i) | Over Board | - |
| 7(ii) | Over control | To prevent any one person (or group of persons acting in concert) controlling more than 15 per cent of equity. |
| 7(iii) | Over disposal | To veto any material disposal of assets. |
| 7(iv) | Over voluntary winding-up | To veto any voluntary winding-up. |
| 7(v) | Over attending, speaking and voting | To attend, but only to speak or vote on (ii) |

φ Rights are summarised. Full details are contained in the relevant Articles of Association.

In all cases, the special share is protected against usurpation of rights (eg they all carry a veto on the issue of new special shares).

H M TREASURY
11 January 1988

REVIEW OF SPECIAL SHARES

| | | |
|--------|--|--|
| 1. | COMPANY (Privatised) | Britoil (November 1987) |
| 2. | VALUE AND TITLE | £1 Special Rights Preference Share |
| 3. | WHEN CREATED | 9 November 1982 (after incorporation, before flotation) |
| 4. | HOW CREATED | Special resolution of company |
| 5. | HELD BY | Treasury Solicitor as nominee of Lords Commissioners |
| 6. | WHETHER AND WHEN REDEEMABLE | No time limit. Holder may require redemption by company at nominal amount at any time. |
| 7. | RIGHTS^φ | |
| 7(i) | Over Board | - |
| 7(ii) | Over control | Effectively to prevent any one person (or group of persons acting in concert) gaining more than 50 per cent of voting rights or control over Board composition |
| 7(iii) | Over disposal | To veto any material disposal of assets (defined as 25 per cent net assets or 25 per cent source of profit). |
| 7(iv) | Over voluntary winding-up | To veto any voluntary winding-up |
| 7(v) | Over attending, speaking and voting | To attend and speak but only to vote on (ii). |

φ Rights are summarised. Full details are contained in the relevant Articles of Association.

In all cases, the special share is protected against usurpation of rights (eg they all carry a veto on the issue of new special shares).

H M TREASURY
11 January 1988

REVIEW OF SPECIAL SHARES

| | | |
|--------|--|---|
| 1. | COMPANY (Privatised) | Cable and Wireless (October 1981). |
| 2. | VALUE AND TITLE | £1 Special Rights Preference Share. |
| 3. | WHEN CREATED | 23 November 1983 (after privatisation, before secondary sale). |
| 4. | HOW CREATED | Special resolution of company. |
| 5. | HELD BY | Treasury Solicitor as nominee of Secretary of State for Trade and Industry. |
| 6. | WHETHER AND WHEN REDEEMABLE | No time limit. The special share may be redeemed by the company at nominal amount at any time by agreement between the special shareholder and the directors. |
| 7 | RIGHTS^φ | |
| 7(i) | Over Board | To ensure Chief Executive is British. |
| 7(ii) | Over control | To prevent any one person (or group of persons acting in concert) controlling more than 15 per cent of equity. |
| 7(iii) | Over disposal | To veto any material disposal of assets (defined as 25 per cent net assets or 25 per cent source of profit). |
| 7(iv) | Over voluntary winding-up | To veto any voluntary winding-up. |
| 7(v) | Over attending, speaking and voting | To attend and speak but not to vote. |

^φ Rights are summarised. Full details are contained in the relevant Articles of Association.

In all cases, the special share is protected against usurpation of rights (eg they all carry a veto on the issue of new special shares).

H M TREASURY
11 January 1988

 REVIEW OF SPECIAL SHARES

| | | |
|--------|--|---|
| 1. | COMPANY (Privatised) | Jaguar (July 1984) |
| 2. | VALUE AND TITLE | £1 Special Rights Redeemable Preference Share. |
| 3. | WHEN CREATED | 15 June 1984 (before reregistration as plc and flotation). |
| 4. | HOW CREATED | Special resolution of company. |
| 5. | HELD BY | Secretary of State for Trade and Industry. |
| 6. | WHETHER AND WHEN REDEEMABLE | To be redeemed by the company at nominal value on 31 December 1990. |
| 7. | RIGHTS^φ | |
| 7(i) | Over Board | - |
| 7(ii) | Over control | To prevent any one person (or group of persons acting in concert) controlling more than 15 per cent of equity. |
| 7(iii) | Over disposal | To veto any material disposal of assets (defined as 25 per cent net assets or 25 per cent source of profit). |
| 7(iv) | Over voluntary winding-up | To veto any voluntary winding-up. |
| 7(v) | Over attending, speaking and voting | To attend and speak but not to vote. |

^φ Rights are summarised. Full details are contained in the relevant Articles of Association.

In all cases, the special share is protected against usurpation of rights (eg they all carry a veto on the issue of new special shares).

H M TREASURY
11 January 1988

REVIEW OF SPECIAL SHARES

| | | |
|--------|--|--|
| 1. | COMPANY (Privatised) | Enterprise Oil (June 1984). |
| 2. | VALUE AND TITLE | £1 Special Rights Preference Share. |
| 3. | WHEN CREATED | 18 June 1984 (before flotation). |
| 4. | HOW CREATED | Special resolution of company |
| 5. | HELD BY | Secretary of State for Energy. |
| 6. | WHETHER AND WHEN REDEEMABLE | To be redeemed by the company at nominal amount on 31 December 1988, or (if material control has in the meantime passed elsewhere) at any later time stipulated by the special shareholder. |
| 7. | RIGHTS^φ | |
| 7(i) | Over Board | - |
| 7(ii) | Over control | To prevent any one person (or group of 1 persons acting in concert) gaining more than 50 per cent of voting rights. |
| 7(iii) | Over disposal | - |
| 7(iv) | Over voluntary winding-up | To veto any voluntary winding-up. |
| 7(v) | Over attending, speaking and voting | To attend and speak but only to vote on (ii). |

φ Rights are summarised. Full details are contained in the relevant Articles of Association.

In all cases, the special share is protected against usurpation of rights (eg they all carry a veto on the issue of new special shares).

H M TREASURY
11 January 1988

REVIEW OF SPECIAL SHARES

| | | |
|--------|--|---|
| 1. | COMPANY (Privatised) | Sealink (July 1984) |
| 2. | VALUE AND TITLE | £1 Preference Share. |
| 3. | WHEN CREATED | 17 July 1984 (before trade sale). |
| 4. | HOW CREATED | Special resolution of company. |
| 5. | HELD BY | Secretary of State for Transport. |
| 6. | WHETHER AND WHEN REDEEMABLE | No time limit. |
| 7. | RIGHTS^φ | |
| 7(i) | Over Board | - |
| 7(ii) | Over control | To prevent the purchaser's holding dropping below 75 per cent of shares carrying voting rights. |
| 7(iii) | Over disposal | To veto any disposal of a material part of the fleet (defined as 25 per cent book value) and ensures availability of fleet for defence needs. |
| 7(iv) | Over voluntary winding-up | To veto any disposal of the entire undertaking. |
| 7(v) | Over attending, speaking and voting | To attend and speak, but not to vote. |

φ Rights are summarised. Full details are contained in the relevant Articles of Association.

In all cases, the special share is protected against usurpation of rights (eg they all carry a veto on the issue of new special shares).

H M TREASURY
11 January 1988

REVIEW OF SPECIAL SHARES

| | | |
|--------|--|---|
| 1. | COMPANY (Privatised) | British Telecom (November 1984) |
| 2. | VALUE AND TITLE | £1 Special Rights Redeemable Preference Share. |
| 3. | WHEN CREATED | 24 July 1984 (after incorporation, before floatation). |
| 4. | HOW CREATED | By resolution of a committee of the Board. |
| 5. | HELD BY | Treasury Solicitor as nominee of Secretary of State for Trade and Industry. |
| 6. | WHETHER AND WHEN REDEEMABLE | No time limit. Holder may require redemption by the company at nominal amount at any time. |
| 7. | RIGHTS^φ | |
| 7(i) | OVER BOARD | To appoint two Government Directors; to ensure Executive Chairman, or equivalent, is British. |
| 7(ii) | Over control | To prevent any one person (or group of persons acting in concert) controlling more than 15 per cent of equity. |
| 7(iii) | Over disposal | - |
| 7(iv) | Over voluntary winding-up | - |
| 7(v) | Over attending, speaking and voting | To attend and speak but not to vote. |

φ Rights are summarised. Full details are contained in the relevant Articles of Association.

In all cases, the special share is protected against usurpation of rights (eg they all carry a veto on the issue of new special shares).

H M TREASURY
11 January 1988

REVIEW OF SPECIAL SHARES

| | | |
|--------|--|---|
| 1. | COMPANY (Privatised) | British Aerospace (February 1981). |
| 2. | VALUE AND TITLE | £1 Special Share. |
| 3. | WHEN CREATED | 1 May 1985 (after privatisation, before secondary sale). |
| 4. | HOW CREATED | Special resolution of the company. |
| 5. | HELD BY | Treasury Solicitor as nominee of Secretary of State for Trade and Industry. |
| 6. | WHETHER AND WHEN REDEEMABLE | No time limit. Holder may require redemption by company at nominal amount, or conversion into one ordinary share, at any time. |
| 7. | RIGHTS^φ | |
| 7(i) | Over Board | To ensure Directors are British. To appoint Government Director. |
| 7(ii) | Over control | To prevent foreign ownership of more than 15 per cent of shares carrying voting rights. |
| 7(iii) | Over disposal | - |
| 7(iv) | Over voluntary winding-up | - |
| 7(v) | Over attending, speaking and voting | To attend, to speak on (i) and (ii), but not to vote. |

φ Rights are summarised. Full details are contained in the relevant Articles of Association.

In all cases, the special share is protected against usurpation of rights (eg they all carry a veto on the issue of new special shares).

H M TREASURY
11 January 1988

REVIEW OF SPECIAL SHARES

| | | |
|--------|--|--|
| 1. | COMPANY (Privatised) | Vickers Shipbuilding and Engineering Ltd (March 1986) |
| 2. | VALUE AND TITLE | £1 Special Share. |
| 3. | WHEN CREATED | 27 March 1986 (date of privatisation). |
| 4. | HOW CREATED | Special resolution of company. |
| 5. | HELD BY | Treasury Solicitor as nominee of Secretary of State for Defence. |
| 6. | WHETHER AND WHEN REDEEMABLE | No time limit. Holder may require redemption by the company at nominal amount at any time. |
| 7. | RIGHTS^φ | |
| 7(i) | Over Board | To ensure Chairman, Chief Executive, Managing Director and for Joint Managing Directors and majority of all Directors are British. |
| 7(ii) | Over control | To prevent any one person (or group of persons acting in concert) controlling more than 15 per cent of equity. |
| 7(iii) | Over disposal | To veto disposal of whole or material part of assets of company and its subsidiaries (taken as a whole). |
| 7(iv) | Over voluntary winding-up | To veto any voluntary winding-up. |
| 7(v) | Over attending, speaking and voting | To attend and speak on "relative business" but not to vote. |

φ Rights are summarised. Full details are contained in the relevant Articles of Association.

In all cases, the special share is protected against usurpation of rights (eg they all carry a veto on the issue of new special shares).

H M TREASURY
11 January 1988

REVIEW OF SPECIAL SHARES

| | | |
|--------|--|---|
| 1. | COMPANY (Privatised) | British Gas (December 1986) |
| 2. | VALUE AND TITLE | £1 Special Rights Redeemable Preference Share. |
| 3. | WHEN CREATED | 19 August 1986 (before flotation). |
| 4. | HOW CREATED | Special resolution of company. |
| 5. | HELD BY | Secretary of State for Energy. |
| 6. | WHETHER AND WHEN REDEEMABLE | No time limit. Holder may require redemption by the company at nominal amount at any time. |
| 7. | RIGHTS^φ | |
| 7(i) | Over Board | - |
| 7(ii) | Over control | To prevent any one person (or group of persons acting in concert) controlling more than 15 per cent of equity. |
| 7(iii) | Over disposal | - |
| 7(iv) | Over voluntary winding-up | - |
| 7(v) | Over attending, speaking and voting | To attend and speak but not to vote. |

^φ Rights are summarised. Full details are contained in the relevant Articles of Association.

In all cases, the special share is protected against usurpation of rights (eg they all carry a veto on the issue of new special shares).

H M TREASURY
11 January 1988

REVIEW OF SPECIAL SHARES

| | | |
|--------|--|---|
| 1. | COMPANY (Privatised) | Rolls - Royce plc (May 1987). |
| 2. | VALUE AND TITLE | £1 Special Share. |
| 3. | WHEN CREATED | 27 April 1987 (after reregistration as plc, before flotation). |
| 4. | HOW CREATED | Special resolution of company. |
| 5. | HELD BY | Treasury Solicitor as nominee of Secretary of State for Trade and Industry. |
| 6. | WHETHER AND WHEN REDEEMABLE | No time limit. Holder may require redemption by the company at nominal amount at any time. |
| 7. | RIGHTS^φ | |
| 7(i) | Over Board | To ensure Chairman, Managing Director and/or Joint Managing Directors and at least 75 per cent of Directors are British. |
| 7(ii) | Over control | a. Without limit of time, to prevent foreign ownership of more than 15 per cent of shares carrying votes. b. Until 1 January 1989, to prevent any one person (or group of persons acting in concert) controlling more than 15 per cent of equity. |
| 7(iii) | Over disposal | To veto material disposal of assets (defined as 25 per cent net assets or 25 per cent source of profits) of either nuclear business or Group overall. |
| 7(iv) | Over voluntary winding-up | To veto any voluntary winding-up. |
| 7(v) | Over attending, speaking and voting | To attend and speak but not to vote. |

^φ Rights are summarised. Full details are contained in the relevant Articles of Association.

In all cases, the special share is protected against usurpation of rights (eg they all carry a veto on the issue of new special shares).

H M TREASURY
11 January 1988

 REVIEW OF SPECIAL SHARES

| | | |
|--------|--|--|
| 1. | COMPANY (Privatised) | BAA plc (July 1987) |
| 2. | VALUE AND TITLE | £1 Special Share. |
| 3. | WHEN CREATED | 19 June 1987 (before flotation). |
| 4. | HOW CREATED | Special resolution of company. |
| 5. | HELD BY | Secretary of State for Transport. |
| 6. | WHETHER AND WHEN REDEEMABLE | No time limit. Holder may require redemption by the company at nominal amount at any time. |
| 7. | RIGHTS^φ | |
| 7(i) | Over Board | - |
| 7(ii) | Over control | To prevent any one person (or group of persons acting in concert) controlling more than 15 per cent of equity. |
| 7(iii) | Over disposal | To veto disposal of a designated airport. |
| 7(iv) | Over voluntary winding-up | To veto voluntary winding-up of the company or of a subsidiary owning a designated airport. |
| 7(v) | Over attending, speaking and voting | To attend and speak but not to vote. |

^φ Rights are summarised. Full details are contained in the relevant Articles of Association.

In all cases, the special share is protected against usurpation of rights (eg they all carry a veto on the issue of new special shares).

H M TREASURY
11 January 1988

CONFIDENTIAL

DM

FROM: D J L MOORE
 DATE: 11 JANUARY 1988

PS/CHANCELLOR

cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Paymaster-General
 PS/Economic Secretary
 Sir P Middleton
 Mr Anson
 Mr Monck
 Mrs Lomax
 Mr R I G Allen
 Mr Williams
 Mrs Brown
 Ms Leahy
 Mr Dyer

Ch/
 Content with this
 briefing?
 26/1/11
OK

Miss J Wheldon TSOL

BP/BRITTOIL/KIO: QUESTIONS

I attach Q and A briefing on the Bank support scheme (prepared by FIM), on the Britoil situation, and on the KIO.

2. The KIO briefing does not take specific account of the further advice today from our Ambassador to Kuwait. These discussions will need to be taken further by the Foreign Secretary when he returns later this week.

3. When you send the briefing to No 10 would you also please send copies to your opposite number in Energy, DTI and FCO.

DM

D J L MOORE

BP SUPPORT OPERATION**LINE TO TAKE**

Support operation a success. Chancellor set out objectives when scheme announced on 29 October - to secure the proceeds of the sale for the taxpayer, to ensure an orderly aftermarket in BP shares, and to ensure the sale did not add to existing difficulties in world markets. These objectives have been achieved, and less than 2% of the shares that were sold have been repurchased.

BACKGROUND

Under the scheme announced on 29 October the Bank undertook to purchase any partly paid BP shares offered to them, at a price of 70p per share. The scheme closed on 6 January. The Bank purchased a total of approximately 39 million BP partly-paid shares at a cost of about £27 million (excluding expenses). This represents a repurchase by the public sector of less than 2 per cent of the 2,126 million BP shares that were sold in the Government's October offer for sale.

PM's QUESTION-TIME 12 JANUARY: BP BID FOR SHARES IN BRITTOIL

Factual

1. The Chancellor's statement of 11 January in response to a PNQ from John Smith is attached at the annex.
2. Under Takeover Panel rules BP has to make its bid for Britoil by the end of this week. The terms of its bid are not yet known.
3. No other bidders have yet emerged but they could still do so.

Line to take

4. The Government has made it clear that in present circumstances it intends to use the Special Share to prevent any bidder from getting control of the Britoil Board. It would be wrong for me to answer hypothetical questions.

5. Will you assure the House that the independence of Britoil will be maintained? Will you allow Britoil to fall into foreign hands?

I have nothing to add to what the Chancellor said in the House yesterday. I repeat that the powers of the Special Share will be used for so long as it is in the national interest to do so.

6. Assurance that no fudge if BP obtains a significant holding?

The powers of the Special Share are unaffected by the number of ordinary shares a bidder might acquire. But I clearly cannot answer hypothetical questions about a market sensitive matter of this kind.

7. Will you put a time limit on the Special Share?

I am not prepared to say now whether the Special Share will be redeemed at any time. [If necessary; but I understand that the Board of Britoil themselves so not wish the Special Share to

continue indefinitely.]

8. What about the assurance in 1982 that the Special Share would be a most formidable deterrent against a takeover of the majority of Britoil shares

It has remained an effective deterrent for over 5 years. But of course Article 71 explicitly provides for the possibility that a bidder might acquire over 50% of the shares.

9. If any bidder gained control of Britoil could they have the Special Share removed or modified?

No. The Special Shareholder can outvote all other shareholders at a General Meeting on any resolution.

10. Why no guidance on the use of the Special Share?

The Government's position was stated on 18 December.

It would not have been appropriate for the Government to make any more detailed statements covering a whole range of hypothetical situations.

11. What discussions have there been with the Government? Any guidance to BP?

BP made its first purchase of shares in Britoil on 8 December and told the Government of its intentions that day.

The Government has given BP no guidance on the use of the Special Share beyond that in the public statements.

12. The Special Share is confusing to Shareholders

As the Takeover Panel said in its statement of 22 December although the Special is unusual in character, it is an aspect of the affairs of the companies on which shareholders are essentially called on to make their own judgement.

13. MMC reference

It will be for the Director General of Fair Trading to advise the Secretary of State for Trade and Industry whether there should be a reference to the MMC. (NB He is already looking at BP's present holding in Britoil and at KIO's holding in BP.)

14. Implications for Scotland? Britoil's HQ?

The question of Britoil's HQ is a matter for the Britoil Board as it always has been.

15. Impact on development of North Sea?

The Government's main concern has always been to secure the efficient and economic development of North Sea oil and gas resources to the benefit of the UK and has been very successful in doing so.

PRIVATE NOTICE QUESTION : MONDAY 11 JANUARY 1988

RT HON JOHN SMITH - (Monklands East - La)

To ask Mr Chancellor of the Exchequer, if he will make a statement on how he intends to use the Government's special share in Britoil to preserve the independence of the Company.

The powers of the Special Share are set out in Article 71 of Britoil's Articles of Association.

On 18 December the Treasury put out a press statement, stating that in present circumstances the Government intends to use its Special Share in Britoil to prevent any bidder from gaining control of the Britoil Board.

The statement went on to explain that, if and when a formal offer is made for, or control obtained of, more than 50% of Britoil's shares, paragraph 71C of the Articles of Association will come into effect. This allows the Special Shareholder to outvote all other shareholders at a General Meeting on any resolution. It also allows the Special Shareholder to require an Extraordinary General Meeting.

This was reaffirmed on 23 December in the light of the statement that day by the Panel on Takeovers and Mergers about the proposed BP offer for Britoil.

No such offer has yet been made. But, whatever the circumstances, I can assure the House that the powers of the Special Share will be used for so long as it is in the national interest to do so.

I cannot add anything more at this stage.

KIO AND BP

Assurances by the Kuwait Authorities

As the Treasury announced last Friday, the Kuwait authorities have assured us that they have no ambitions to control BP nor any interest in any management role, and that the KIO holding in the company is intended as a long term investment.

Possibility of reduction in present 18.35% holding

They have said that it is a long term investment. Any reduction would be a matter for their commercial judgement.

Possibility of sale of KIO's BP shares to a purchaser unacceptable to HMG

I am confident that they would not make a sale unacceptable to us and that they would consult us if they were contemplating any significant disposal.

Acceptability of present 18.35%

As I said on 19 November it is not surprising that there should be a considerable number of overseas investors in an international company like BP. [It is unrealistic to lay down precise figures as to what is an acceptable level of investment.] But in the case of the KIO what is important is the very firm ~~and helpful~~ assurances the Kuwait authorities have given.

Acceptability of up to 29.9%.

As the Chancellor told the House yesterday, an increase up to 29.9% would seem inconsistent with the assurances given that the KIO has no intention at any time of seeking to exercise control over BP.

Role of Office of Fair Trading and MMC

If there had been any question of the KIO proceeding to a full bid for control the situation would have been examined under

the Fair Trading Act in the normal way.

The KIO's current holding is being considered as a matter of course by the Director General of Fair Trading who will advise the Secretary of State for Trade and Industry whether there may be a merger situation qualifying for investigation and, if so, whether it should be referred to the MMC.

[Note To preserve the Secretary of State's position nothing should be said which indicates that HMG has already concluded that the present KIO holding either is or is not acceptable.]

Timing of Kuwaiti assurances and of Treasury's statement

Assurances were given to Mr Mellor on 23 December. Made public on 8 January in response to enquiries following misleading statements in the press.

Collusion between HMG and Kuwaitis to boost BP share power
(Independent story)

No truth in this whatsoever.

And no truth in claims that Mr Mellor discussed the KIO holding with the Kuwaitis on 4 December.

Continuing contact with Kuwaiti Government

Of course, through usual diplomatic channels, as circumstances require.

BP's views

For them to say.

FROM: MS P M LEAHY

DATE: 11 January 1988

- Not seen*
[Signature]
1. MR M L WILLIAMS
2. CHANCELLOR

cc Miss Sinclair
Mr Michie
Mr Fray

LUNCH WITH SHELL ON TUESDAY 12 JANUARY

You have agreed to lunch with Bob Reid, Chairman of Shell UK on Tuesday 12 January. Peter Everett, Managing Director of Shell UK Exploration, Malcolm Raiser, Financial Director of Shell UK and David Wellham, Managing Director of Shell Transport and Trading, will also be present.

2. A background note on Shell is at annex A.
3. Shell have said they would like to discuss North Sea taxation, ethane taxation and taxation of unleaded petrol. They will also offer you their views on the world oil scene.
4. Mr Fray is circulating a separate brief on Bob Reid's interests in Management education.

NORTH SEA TAXATION

5. Shell have not put in any budget representations and there are no specific issues which they have raised recently. Shell will however have had an influence on UKOOA's budget representations. UKOOA have principally asked for;

- i. the introduction of an "oil allowance" for royalties on existing fields.
- ii. a prt 'uplift' on capital expenditure when safeguard for the field has expired.
- iii. the extension of the 1983 new field reliefs to the Southern Basin ie doubling of the oil allowance to $\frac{1}{2}$ mt a chargeable period and abolition of royalties.

6. You have had the report of the Steering Group on the Fiscal Regime which covers these issues. Shell will be unlikely to expect you to say anything of substance in the pre-budget period. But you might like to ask them if they believe UKOOA's proposals are justified and what impact the changes might have on North Sea development.

PRT safeguard: Deferred expenditure claims

7. You will recall that it was decided not to bring forward legislation in the next Finance Bill to prevent companies obtaining extra PRT relief through the operation of the rules on safeguard by deferring expenditure claims to another chargeable period. Shell were in the forefront of those making representations and may express satisfaction with the outcome. The decision not to legislate should be of benefit to marginal fields such as Shell's North Cormorant field.

PRT nomination scheme

8. You will recall that oil companies have expressed some concern about the dormant penalty provisions associated with the PRT nomination scheme. If these provisions were triggered inter-affiliate transfers of equity crude could be affected. Companies have claimed that this possibility will constrain commercial decisions and affect delicate refinery economics. In recognition of this concern you authorised consultations with the industry and announced that while consultations were continuing the penalty would not apply to transfers on refining before the date on which the Treasury Order which triggered the penalty.

Mossmorran

9. This is of major concern to Shell. A brief and line to take prepared by Inland Revenue is attached at annex B. It had been hoped that work on the hypothetical question of how much BG plc would have paid for ethane used in the Mossmorran cracker would have been concluded by Christmas. In fact Esso's input will not be ready until February at the earliest when the independent consultants' report commissioned by Inland Revenue will be ready.

CORROSION PROBLEMS AT SULLOM VOE

10. You will be aware that severe corrosion problems in the pipework at Sullom Voe caused the closure of the fractionation facilities on both the Brent and Ninian systems operated by Shell and BP respectively. NGLs are having to be flared at about five times the usual rate although efforts are being made to reduce this to a minimum. Repairs to the Ninian system should mean that NGLs from Brent and Ninian could be handled again by March 1988. Repairs to the Brent system may take until the end of the year. If the subject is mentioned you will want to impress on Shell that all operators involved should continue to research and implement options to reduce further NGL losses.

GAS ISSUES

11. Shell are hoping to complete negotiations for the sale of gas from the Sole Pit field (Barque/Clipper) soon. The price British Gas will pay is the main issue.

12. In September Bob Reid announced Shell's intention to develop the Fulmar gas gathering pipeline as a gas gathering system in direct competition to rival schemes including BP's gas gathering proposals. Mr Reid has argued it would be wasteful if excess capacity were built. Department of Energy are giving careful consideration to all the proposals. If pressed you will want to say that you cannot predict at this stage which proposals will succeed. The Government's objectives will be to approve schemes which ensure the best development of gas reserves without undue delay and avoiding wasteful duplication of facilities.

UNLEADED PETROL

13. Shell believe that a substantial duty differential in favour of unleaded petrol should be introduced in the Budget; the existing differential should be increased so that the pump price of unleaded petrol is below that of regular two-star petrol. They feel this should provide the necessary encouragement to the motorist to ensure an increase in the

uptake to meet the EC target of wide availability by 1 October 1989.

14. There are currently about 60 Shell service stations selling unleaded petrol out of a total of about 550. Sales to the motorist remain at very low levels.

Oil prices

15. Since OPEC's December meeting market expectations have been that oil prices will weaken but not collapse. Futures prices suggest a fall of about \$1 over the coming year. The spot price of January Brent has been strong (although it fell 35c to \$17.30 on Thursday 7 January) because of a squeeze on supply by a trader who had bought up a large proportion of wet barrels for January.



P M LEAHY

BACKGROUND NOTE

SHELL

1. The Royal Dutch/Shell Group is owned by two holding companies. 60% belongs to the Netherlands registered Royal Dutch Petroleum Company and 40% to the UK registered The Shell Transport and Trading Company. The Group, currently headed by Peter Holmes, has a corporate philosophy which favours a considerable degree of decentralisation towards operating companies.

2. There are two main Shell companies in the UK. Both are owned 60/40 the Royal Dutch/Shell T & T. They are

Shell International Petroleum Ltd

This is a service company which provides staff, technical services and finance to operating companies in the Shell Group around the world. SIPL is based in the Shell Centre on the South Bank;

Shell UK Ltd

This is one of the largest operating companies in the Shell Group; it is active in the production, refining and marketing of petroleum and petrochemicals. Its headquarters are at Shell Mex House in The Strand. Profits in 1986 of £757 million (after tax) compared with £667 million in 1985, *on a historic cost basis.*

3. Shell UK

Shell UK's interests are organised into three sectors;

i) Shell UK Exploration and Production (Shell Expro) manages all the UKCS activities. It is a major producer from the North Sea in the 50/50 venture with Esso, a partnership in which it acts as operator. It currently operates six producing oil fields on the UKCS - Auk, Brent, Dunlin, Fulmar, North and South Comorant - as well as the Leman Indefatigable and Sean gas fields. Development of the Tern and Eider oilfields continue; production is expected to begin in 1989. Shell announced in July 1987 that they intended to proceed with the Kittiwake development in the Central North Sea. Appraisal work and negotiations continue on Sole Pit, Osprey and the Gannet cluster.

ii) Shell UK Oil (SUKO) is the refining, distribution and marketing arm of the company in the UK. It has refineries at Stanlow and Shellhaven with a combined distillation capacity of 17.3 million tonnes per annum. Stanlow, the larger of the two refineries, is undergoing considerable change at present. Whilst Shell are rationalising the operating workforce at the plant, mainly through voluntary redundancies, the new £190M catalytic cracker will be in service later this year. In addition Shell are

investing a further £90M in a new gas separation unit that will begin operating in mid-1989. SUKO has almost 20% of the oil products and retail petrol markets. It launched "Formula Shell" in the UK 1986 to increase its market share and put more of the marketing emphasis on the quality of the product.

iii) Shell Chemicals UK (SCUK) manufactures chemicals at Stanlow, Carrington and Shell Haven, and markets these products and others made at Shell chemical plants overseas. Shell also jointly own the Fife Ethylene Plant at Mossmorran which is operated by Esso Chemicals. This came on stream, producing feedstock for Stanlow and Carrington aswell as Esso plants, in October 1985.

MOSSMORRAN

1. On the tax front, a major topic is likely to be the Mossmorran case concerning the valuation of ethane for tax purposes. Shell and ESSO are both looking for a speedy resolution to this problem. In October they raised this issue with Scottish Office Ministers; and on 26 November Mr Reid and Sir Archie Forster of ESSO discussed their concern about the time matters were taking with Sir Peter Middleton.

2. The Chancellor will be familiar with the background to this issue (the up-to-date position is detailed in Mr Johns' 22 October note). Broadly, as a result of a Court of Appeal decision on an action instigated by ICI, the Revenue are required to determine the hypothetical question of how much BGC would have paid for the ethane which was in fact used to feed the Mossmorran cracker. This is a difficult and sensitive question, which has necessitated the Revenue obtaining expert advice. BG plc - the obvious source of such advice - was unable to help. So the Revenue have now been forced to examine, along with both outside consultants and the companies themselves, a more indirect approach to the question posed by the Court.

3. On timing, at the 26 November meeting Sir Peter Middleton expressed the hope that work on the new indirect approach would be concluded by Christmas. In fact, ESSO have said they cannot provide their input until February at the earliest, by which time the independent consultants' report commissioned by the Revenue should be available. Clearly no firm conclusions can be reached until then, nor are Shell and ESSO themselves likely to want final decisions to be taken in advance of their own contribution. Even once the Revenue has formed its view, the companies will have the opportunity of a (confidential) appeal to the Special Commissioners if they disagree.

4. Shell/ESSO have in the past indicated that if they do not get what they regard as a satisfactory solution under the Court of Appeal's principles, they will seek alternative redress - probably either a change in the PRT valuation legislation or direct financial support. Either approach is likely to fall foul of European Community objections. The companies should be given no encouragement to think that such solutions will be available; and they should be encouraged to follow the existing approach to the fullest extent possible.

LINE TO TAKE:

Both Treasury Ministers and the Revenue also want to see a speedy resolution to this ethane valuation issue. Time taken to date reflects complexity and hypothetical nature of questions posed by Courts, on which it has been difficult to find independent evidence. Understand new approach now being

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pursued both by Revenue and companies: hope this will soon provide a way forward.

If a legislative or non-tax approach is suggested: stress likely difficulties with the Community rules and say that it is important not to give up the valuation route under the present legislation prematurely.

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MARKET SENSITIVE

*Wh: a statement
making PMA more
clear*

*Ch/ Content for us to arrange
a meeting this p.m.
(Tomorrow morning is, I think,
too crowded already).
20/1/11*

FROM: N MONCK
DATE: 11 January 1988

*When does
BP offer
out?
80*

- 1. SIR P MIDDLETON
- 2. CHANCELLOR OF THE EXCHEQUER

- cc Financial Secretary
- Economic Secretary
- Mr Moore
- Mrs Brown
- Ms Leahy

Miss J Wheldon, T.Sol

Mr Kennington

*I can't say I like the Kennington
draft very much at all. I do not
like the stuff on contractual arrangements
+ I do not think it is wise to spec-
out how we should react to
different sizes of shareholding.*

*If anything I wd go for
consolidation of what we already
have and 50 in this rule
4b**

I attach a note by Mr Kennington somewhat amended by him after discussion with Mr Moore and me on Sunday morning. It contains a draft statement for use shortly after BP posts its offer document after an explanation of the assumptions and aims on which the draft is based.

2. Mr Kennington starts from the proposition that the Government would be in a weak position if BP gets 90 per cent or more of the shares (he will be producing further short notes elaborating this today and tomorrow). His advice is that there is a risk in the Government threatening more than it will in fact be able to achieve. The only effect, since it would not convince BP or any other knowledgeable bidder, would be that the eventual accommodation with a 90 per cent plus shareholder will look like a big climbdown. His draft statement is intended to avoid that danger as well as to pre-empt the likely build up of pressures for a Government statement over the rest of this month or perhaps longer.

3. You will want to discuss Mr Kennington's advice, preferably at a meeting later today.

4. I agree about the weakness of the Government's position if there is a bidder with 90 per cent plus of the shares and about the risk of a realistic settlement looking like a climbdown. You will need to make a tactical judgement on the best response. Another possible approach if, as is likely, some further statement proves to be needed before the outcome of the bid(s) for Britoil is clear, would be:

** Confirmed by Sir PEMs this.*

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MARKET SENSITIVE

(a) to say that it had been suggested [by Britoil] that the Government should announce now a definitive timing for redeeming the special share; but that the Government have decided not to do so, ie is not prepared to say now that the special share will be redeemed at any particular time;

(b) to spell out the special share a little, eg by pointing out that it enables the Treasury to determine the composition of the Board which is given unusually explicit responsibility for running the company in the articles of association.

5. This would be much less frank, realistic and informative than Mr Kennington's approach. There would be an element of (controlled) bluster in it. But it might yield a stronger negotiating position or appear to do so over the period before the outcome of the bid(s) is clear. My own hunch is against coming so clean so early as Mr Kennington's proposal. It is probably impossible to avoid that once you embark on distinguishing publicly between the two scenarios in which there is and is not a significant minority shareholding.

6. I hope it will be possible to discuss this later today or on Tuesday morning.

pp R. Jackson
N MONCK

PRIVATE AND CONFIDENTIAL

10th January, 1988

To: N. Monck, H.M.Treasury

From: I.G.Kennington

BRITOIL

The memorandum below was prepared on 8th/9th January, 1988 (following the meeting with The Chancellor) and before the contents of the Sunday financial press on 10th January relating to BP and Britoil positions on the Special share were available. An advanced draft of the memorandum was discussed with you and David Moore on Sunday the 10th.

The substantial pressure already being engineered by Britoil and BP on H.M.Treasury through these press articles reinforces the view underlying this memorandum that a pre-emptive public statement by H.M.Treasury along the lines developed below is desirable.

A. The wording of the draft Treasury announcement attached to this memorandum is designed for release in circumstances in which:

- i) BP's offer has been posted, and
- ii) neither ARCO nor any other party has announced a rival offer.

The release is proposed for positive tactical reasons in order to improve HMG's public posture in all anticipated future phases of the bidding for Britoil and is designed to improve HMG's present position irrespective of whether a bid subsequently succeeds.

B. The announcement is designed to fit an HMG policy in which HMG:-

MSM?
i) does not wish in the near future to accede to Britoil's request that The Treasury announce its Special Share be redeemed in two or three years time;

ii) does not wish to consider at this early stage in the bidding any termination of the 1982 policy of an independent Britoil Board;

iii) acknowledges (and promulgates at this early stage) that the concept of a Special Share to protect national interest considerations is only appropriate for a company which is either being privatised using the public offer for sale route or is one in which a publicly held minority shareholding exists: a contractual arrangement with a corporate purchaser of a company being sold into the private sector is a more appropriate and effective route; [Note also that the historic precedent of the arrangements with BP could be cited as another example]

iv) recognises, therefore, that the "independent board" route may not be sustainable or practicable if BP (or another bidder) obtains acceptances which enable it to attain 100% of the equity by acquiring compulsorily any outstanding minority;

v) wants the option of being able to seek a contractual route with a successful bidder in lieu of

retaining the Special Share rights and to create a reasonably strong negotiating position for so doing;

vi) has no desire to encourage more bids for Britoil

- BP's bid is now obligatory under the City Code;

vii) wishes a bidder contemplating declaring his bid unconditional with acceptances below the 90% level and leaving ongoing minority shareholders, ~~will~~^{be} have to live with a Special Share and an independent board.

C. The making of an announcement by HMT at this early stage is intended to:-

i) reduce uncertainty in the stockmarket and among investors as to HMG's intentions and as to how it will achieve its objective;

ii) make it apparent that HMG is not considering terminating (at this stage) the 1982 policy statement;

iii) protect HMG from future complaints from Britoil shareholders or bidders that in deciding their actions in relation to a bid (e.g. whether or not to sell their Britoil shares for a certain sum in the stock market or to accept an unsuccessful bid of higher theoretical value) they were not adequately appraised of HMG's position;

iv) pre-empt pressure building up on HMG from bidders, Britoil shareholders, the financial press or the House to make up its mind on the permissible board structure at times more awkward for HMG in the bidding

timetable than the present and avoid HMG having to make an announcement when HMG could be accused of affecting a bid's outcome.

D. The following additional factors should be taken into account:-

i) HMG had two board appointees under Britoil's Articles at a time when it held 35% of Britoil's equity. An HMG stance which requires a 50% plus equity shareholder to be limited to less than two appointees (assuming a similar sized board) would look very unreasonable.

*Why? Quite
difficult*

ii) ARCO may be a reluctant bidder. It will perceive itself to be at a disadvantage as a foreigner in the context of the 1982 independent Britoil board policy. I would expect ARCO to conclude that its original 49% shareholding and asset injection strategy is a non-starter at this time against a BP bid unless that bid is first defeated by Britoil and ARCO and Britoil are both prepared to wait for 12 months to obtain Panel consent to the injection of ARCO's non US assets into Britoil in exchange for Britoil shares without ARCO also having to make a bid. I would expect directors of ARCO, with their exposure to potential stockholder suits in the USA, to be less likely than BP to be willing to make a large investment in Britoil as a subsidiary without obtaining either acceptable

ms.

board control or having an acceptable shareholder agreement with the board of Britoil and the Special Shareholder.

E. Conclusions.

i) A "strong" statement by HMG now is likely to discourage other bidders starting. Having got this far there is evidence that BP is unlikely to be deterred from declaring its offer unconditional with less than 90%.

ii) A "strong" statement is more likely to discourage ARCO from entering the bidding than it is to deter BP from declaring its bid unconditional.

iii) An announcement by HMT shortly after BP posts its offer document along the lines of the draft attached is on balance more likely to save HMG from future problems at critical stages of a bid than it will add to initial problems in the cooler bid atmosphere today.

iv) If ARCO's 49% plan is a non-starter at this time, HMG will not be required to choose between the respective merits of 49% ARCO ownership with an independent board and a 100% BP ownership with a much less independent board. I see HMG as more likely to have to focus on the relative merits of two or more rival bidders for 100% of Britoil's equity and even

more likely on the consequences of a BP bid in isolation which would have to be followed by an appropriate modus vivendi.

Ministers will wish to focus on the policy towards the Special Share enumerated in section B above. I believe this policy, with an announcement along the lines drafted, will give Ministers adequate flexibility, preserve consistency with past positions and avoid most, if not all, future pitfalls which could arise in the bid.

DRAFT 10 JAN 88

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PRESS ANNOUNCEMENT

BRITOIL

Arising from H.M.Treasury's announcements, the first on 18th December, 1987 and the second on 23rd December, 1987 following a decision of the Panel on Take-overs and Mergers, and The British Petroleum Company PLC ("BP") having now made its offer for the Ordinary Share Capital of Britoil PLC ("Britoil"), H.M.Treasury wishes all parties with an interest in the outcome of BP's offer or of any other offer which may be made for Britoil to be appraised with more detail of the Treasury's present intentions as holder of the Special Share in Britoil.

As a result of BP's offer having been made the Special Share now carries, inter alia, a majority of votes at a General Meeting of Britoil shareholders. This majority voting right continues in being unless all offers for Britoil have lapsed and no party has acquired Ordinary Shares having more than 50% of all the voting rights in General Meeting, excluding the enhanced voting rights attaching to the Special Share.

In the event of an offer succeeding but with an outside minority equity shareholding in Britoil remaining in existence, it is H.M. Government's intention to use the Special Share to ensure that control of Britoil remains in the hands of a Board of Directors with a substantial majority of independent members and having an independent chairman and with the majority Ordinary shareholder having no more than two appointees on the Board.

* In the event of all the Ordinary Share Capital of Britoil becoming owned by one party alternative, contractual means could become available to enable H.M. Government to achieve its objective.

The Treasury has invited Britoil to inform its shareholders of the contents of this statement.

* This paragraph will need support by way of notes to City Editors explaining why a Special Share is an appropriate means of protecting national interests in a company privatised through the offer for sale route and a contractual arrangement with the purchaser is more appropriate when the company is sold to a corporate purchaser in the private sector. [See B iii) of Memorandum]

IGK/10.1.88

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MDADAN 1576

1725

CONFIDENTIAL
FM KUWAIT
TO FLASH FCO
TELNO 009
OF 111445Z JANUARY 88
AND TO IMMEDIATE TOKYO

ADVANCE COPY

(TOKYO FOR SECRETARY OF STATE'S PARTY)

MY TELNO 008 AND TELECON RICHARDSON ERD: BP AND THE KIO

SUMMARY

1. NOT MUCH GIVE IN KUWAITI POSITION. WILL PROBABLY GO ABOVE 20 PER CENT BUT NOT BEYOND 29 PER CENT. NOT SEEKING DAY TO DAY INFLUENCE OVER COMPANY BUT WILL EVENTUALLY LOOK FOR ONE OR TWO SEATS ON THE BOARD. READY TO CONSULT ON DISPOSAL BUT NO ACCEPTANCE OF RIGHT OF VETO. NOT WILLING TO BE QUOTED PUBLICLY MUCH BEYOND STATEMENTS ALREADY MADE. READY TO HOLD TALKS IN LONDON.

DETAIL

2. FOLLOWING MY MEETING WITH SHAIKH SABAH (MY TELNO 008) I HAD A LONG SESSION WITH THE OIL MINISTER WHO IS ALSO ACTING FINANCE MINISTER DURING KHORAFI'S TWO WEEK ABSENCE. HE WAS VERY MUCH ON THE BALL, FRIENDLY BUT COMBATTIVE.

3. HE BEGAN BY SAYING THAT THERE WAS SOME MISUNDERSTANDING BETWEEN US ON WHAT FIGURE THE KIO WERE AIMING FOR. HE HAD TOLD MR MELLOR THAT THEY MIGHT GO ABOVE 20 PER CENT. (THIS IS IN LINE WITH OUR REPORTING TELEGRAM AT THE TIME.) WHILE WE WERE TALKING, A CALL CAME THROUGH FROM THE KIA DIRECTOR GENERAL, CURRENTLY IN SINGAPORE, IN THE COURSE OF WHICH AL RASHID DENIED HAVING EXPLICITLY NAMED TWENTY PER CENT AS THE CEILING. ALTHOUGH MY RECOLLECTION IS PERFECTLY CLEAR THAT THE 20 PER CENT FIGURE WAS NAMED, I SAW NO POINT IN ARGUING OVER WHAT IS CLEARLY A PIECE OF KUWAITI BACKTRACKING.

4. ALI KHALIFAH WENT ON TO SAY THAT IT WAS HIS UNDERSTANDING THAT KIO WERE FREE TO ACCUMULATE UP TO 29 PER CENT OF BP'S

X *is helpful, I will.*
but no 25% must be held
The Kuwaitis.
Hammond on no 25% hold
then is partition
sign on 20%
25% of 5% a de facto
Nov - this is a matter for BP
as much as
for BP
for an
quint
of KIO
board
responsibility,
given
no
capital
of
interest.

SHARES. HE COULD CONFIRM THAT THEY DID NOT INTEND TO GO ABOVE THIS. AT THE SAME TIME THEY WERE QUITE LIKELY TO GO BEYOND 20 PER CENT. HE HAD JUST SPOKEN TO THE KIO WHO HAD SAID THEY HAD KEPT OUT OF THE MARKET IN THE LAST FEW DAYS BECAUSE OF HIGHER PRICES BUT MIGHT WELL RETURN IF THE PRICE DROPPED AGAIN.

5. SO FAR AS EXERCISING CONTROL OVER THE COMPANY WAS CONCERNED, IT FOLLOWED FROM THE FACT THAT THEY WERE NOT GOING TO GO ABOVE 29 PER CENT THAT WE COULD BE ASSURED ON THAT POINT. ON THE QUESTION OF A MANAGEMENT ROLE, WHILE THEY DID NOT INTEND TO INTERVENE IN THE DAY TO DAY RUNNING OF THE COMPANY, ANYMORE THAN THEY DID WITH OTHER COMPANIES IN WHICH THEY HAD A MAJOR SHARE HOLDING, THEY WOULD NEVERTHELESS EXPECT AT SOME STAGE TO ACQUIRE ONE OR TWO SEATS ON THE BOARD. IF IT WOULD HELP, THEY WOULD BE READY TO HOLD BACK FOR A FEW MONTHS ON THIS. HOWEVER THEY WOULD BE NEGLIGENT AS INVESTORS IF THEY FAILED TO PLAY AN ACTIVE ROLE ON THE BOARD. EVEN AT THE PRESENT LEVEL OF SHAREHOLDING THEY WOULD BE ENTITLED TO AT LEAST ONE SEAT. EVEN WITHOUT A PLACE ON THE BOARD, THEIR INFLUENCE COULD HARDLY BE IGNORED.

6. ON POINT C OF THE SPEAKING NOTE (YOUR TELNO 005) ALI KHALIFA SAID HE THOUGHT THE WHOLE QUESTION OF THE KUWAITIS SELLING OUT THEIR SHAREHOLDING WAS ENTIRELY ACADEMIC. THERE WERE SOUND FINANCIAL REASONS WHY THEY WOULD NOT SELL OUT TO A PREDATOR. PROBABLY NONE OF THE OIL MAJORS COULD MOBILIZE THE KIND OF MONEY NECESSARY TO BUY BP (HE ASSUMED THE MONOPOLIES AND MERGERS COMMISSION WOULD INSIST ON A 100 PER CENT BID). THEY HAD NO INTEREST IN SELLING ALL OR EVEN PART OF THEIR STAKE TO ANYONE ELSE. THEY WOULD RATHER SEE A BIDDER BUY ON THE OPEN MARKET AND DRIVE UP THE VALUE OF THE KUWAITI SHAREHOLDING IN THE PROCESS. AT THE SAME TIME, ALI KHALIFA SAID HE WAS READY TO CONSIDER GIVING AN UNDERTAKING THAT BEFORE DISPOSING OF ITS SHARE, KUWAIT WOULD CONSULT HMG OR BP AND POSSIBLY GIVE THEM FIRST RIGHT OF REFUSAL. WHAT THEY COULD NOT ACCEPT HOWEVER WAS THAT THERE SHOULD BE ANY KIND OF VETO OVER THEIR RIGHT TO DISPOSE OF THE SHARES. NOR COULD HE ACCEPT THAT ANY UNDERTAKING TO CONSULT SHOULD BE MADE PUBLIC.

7. ALI KHALIFA SAID HE UNDERSTOOD THE CURRENT POLITICAL PROBLEM AND AGREED THAT WE SHOULD WORK TOGETHER TO TRY TO DEFUSE IT. THERE WAS NOT MUCH MORE THAT COULD BE SAID PUBLICLY, HOWEVER. WE COULD REPEAT THAT THIS WAS A LONG TERM COMMERCIAL INVESTMENT BY THE KUWAITIS. WE COULD ALSO SAY THAT KUWAIT WAS NOT SEEKING

TO EXERCISE ANY CONTROL OVER BP. WE COULD ALSO SAY THAT IT WAS NOT LOOKING FOR A MANAGEMENT ROLE PROVIDED IT WAS UNDERSTOOD THIS DID NOT EXCLUDE THEIR BEING REPRESENTED ON THE BOARD. HOWEVER WE SHOULD SAY NOTHING ABOUT THEIR INTENTIONS AS REGARDS THE EVENTUAL LEVEL OF THEIR SHAREHOLDING EXCEPT THAT IT WOULD NOT GO BEYOND THE TAKEOVER BID THRESHOLD. SO FAR AS CONSULTATION WAS CONCERNED, WHILE HE WAS READY TO TALK GOVERNMENT TO GOVERNMENT OR COMPANY TO COMPANY THEY WOULD WISH TO AVOID GIVING PUBLICITY TO ANY SUCH TALKS. KUWAIT FREQUENTLY CAME UNDER PRESSURE FROM OTHER GOVERNMENTS ABOUT THEIR INVESTMENT AND ACQUISITIONS POLICY. THEIR GENERAL LINE WAS THAT THEY OPERATED WITHIN THE RULES OF THE COUNTRY CONCERNED AND THAT THERE WAS NOTHING TO DISCUSS. HE WOULD WISH TO AVOID CREATING A PRECEDENT OVER BP THAT MIGHT BE QUOTED BY ANOTHER GOVERNMENT.

8. ON THE QUESTION OF THE POTENTIAL IMPACT OF THE KUWAITI SHAREHOLDING ON BP'S ABILITY TO OPERATE GLOBALLY, ALI KHALIFA SAID THERE WAS NO CONFLICT OF INTEREST. THE POINT HAD BEEN MADE BY BP IN EARLIER CONSULTATIONS WITH THE KIO. IN HIS VIEW THIS WAS QUOTE HOGWASH UNQUOTE. THERE WERE NO COUNTRIES (EXCEPT SOUTH AFRICA) WHERE BP AND THE KUWAITIS DID NOT OPERATE. THEY WERE IN THE US, CANADA, AUSTRALIA, CHINA, SOUTH EAST ASIA AND LATIN AMERICA. THE KUWAITIS WERE AS WELCOME ANYWHERE AS BP.

9. I SUGGESTED THAT CURRENT CONCERNS IN LONDON MIGHT STEM IN PART FROM UNCERTAINTY ON THE PART OF BP AS TO THE KUWAITI'S INTENTIONS. SHAIKH ALI SAID THAT HE ALWAYS SAW SIR D WALTERS OR CAZALET WHEN IN LONDON. HE WOULD BE PASSING THROUGH LONDON ON 25 - 26 JANUARY AND WOULD BE HAPPY TO SEE BP AND ANYONE ON THE GOVERNMENT SIDE WE CARED TO NOMINATE. HE ALSO SAID THAT IF IT WOULD HELP, HE WOULD BE READY TO TALK TO MR KAUFMANN. THIS WOULD BE BY WAY OF RETURN FOR THE CALL WHICH THE LATTER HAD PAID ON HIM DURING HIS RECENT VISIT TO KUWAIT. I SAID I WAS SURE HIS OFFER WOULD BE WELCOME.

10. I REFERRED BRIEFLY TO THE QUESTION OF A POSSIBLE REFERENCE TO THE MONOPOLIES AND MERGERS COMMISSION. ALI KHALIFA SAID THE KUWAITIS WERE WELL AWARE OF THE RULES. WE SHOULD EXPECT THEM TO OPERATE WITHIN THE FULL LIMIT OF THE REGULATIONS AND TO DEPLOY ALL LEGAL MEANS TO PROTECT THEIR SHAREHOLDING SHOULD THE MMC BECOME INVOLVED.

11. ONE FINAL POINT WHICH HE PARTICULARLY ASKED TO BE CONVEYED

IN CONFIDENCE WAS THAT HE HAD BEEN DISTURBED TO SEE SUGGESTIONS IN THE PRESS THAT BRITTOIL'S GOLDEN SHARE MIGHT BE DEPLOYED IN SOME WAY TO OBSTRUCT KUWAIT'S PARTICIPATION IN BP. HE DID NOT CARE WHETHER BP TOOK OVER BRITTOIL BUT DID NOT WISH TO SEE ANY TRANSFER OF BP'S ASSETS TO THE LATTER COMPANY. THEY WOULD USE EVERY MEANS AT THEIR DISPOSAL TO BLOCK ANY MOVE IN THIS DIRECTION WHICH WAS INCONSISTANT WITH BP'S OBLIGATION TO TREAT ALL ITS SHARE HOLDERS ON AN EQUAL FOOTING.

COMMENT

12. THIS WAS A TOUGH MEETING. MY IMPRESSION IS THAT WE CANNOT DEMAND THE KUWAITIS TO BE COMMITTED TO ANY LIMIT BELOW 29 PER CENT ON THEIR HOLDING. WE HAVE SIGNALLED OUR CONCERN BUT IF THE KUWAITIS SEE IT IN THEIR COMMERCIAL INTEREST TO GO ON BUYING AT THE RIGHT PRICE THEN THEY WILL DO SO BUT NOT NECESSARILY AS HIGH AS 29 PER CENT. FOR US TO STATE PUBLICLY AND UNILATERALLY THAT WE DO NOT WANT THE KIO STAKE TO EXCEED 20 PER CENT GIVEN (A) THEIR ASSURANCES THAT A TAKE OVER IS NOT THEIR INTENTION AND (B) THAT WE KNOW THEY ARE LIKELY TO EXCEED THIS FIGURE, WILL ONLY IRRITATE THEM AND IS UNLIKELY TO SUCCEED IN STOPPING THEM DOING WHAT THEY WANT.

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INFO IMMEDIATE TOKYO (FOR PRIVATE SECRETARY TO SECRETARY OF STATE)

MY TELNO 7: BP AND THE KIO

1. I DULY SPOKE AS INSTRUCTED TO SHAIKH SABAH THIS MORNING, LEAVING A COPY OF MY SPEAKING NOTE. AS I HAD ANTICIPATED HE WAS NOT FULLY IN THE PICTURE AND SAID HE WOULD HAVE TO CONSULT THE OIL MINISTER WHO HE WOULD BE SEEING AROUND MIDDAY AT THE AIRPORT FOR THE ARRIVAL OF PRESIDENT MUBARAK. HE PROMISED TO COME BACK WITH A REPLY IMMEDIATELY HE HAD DONE SO.

2. HOWEVER SHAIKH SABAH WHO WAS FRIENDLY AND SEEMED ANXIOUS TO HELP CLEARLY UNDERSTOOD THE PROBLEM. HE SAID THAT THE KUWAIT GOVERNMENT HAD NO WISH TO EMBARRASS MRS THATCHER OVER THIS. HE REFERRED TO THE EARLIER ASSURANCES WHICH HAD BEEN GIVEN TO MR MELLOR. (HE APPEARED TO HAVE NO DIFFICULTY WITH THE FACT THAT THESE HAD BEEN USED PUBLICLY BY THE CHANCELLOR.) HE WAS LESS CERTAIN THAT THE KUWAITIS WOULD WISH TO BE ASSOCIATED WITH A PUBLIC STATEMENT ABOUT THEIR INTENTION TO LIMIT THEIR PURCHASES TO A SPECIAL PERCENTAGE. HE SUGGESTED, HOWEVER THEY MIGHT BE WILLING TO PUT THIS IN A PRIVATE LETTER TO HMG. SIMILARLY HE HAD RESERVATIONS ABOUT MAKING PUBLIC ANY UNDERTAKINGS AS REGARDS DISPOSAL BUT REPEATED THAT KUWAIT COULD BE RELIED UPON TO ACT RESPONSIBLY AND THOUGHT THAT THEY MIGHT BE READY TO CONSIDER SOME FORM OF ADVANCE CONSULTATION.

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SIR P MIDDLETON

Ch.
To see. Subject to PEM's
advise, do you want to hold
a meeting on this note (and
on its predecessor)?

FROM: N MONCK

DATE: 11 January 1988

cc Chancellor
Financial Secretary
Economic Secretary
Mr Moore
Mrs Brown
Ms Leahy

[The answer to your question
on the previous note is that we expect
the BP offer to go out tomorrow or
Thursday - but we have no firm
news at this stage.]

Miss J Wheldon, T.Sol

Mr Kennington

2.12/1

BRITOLL : SPECIAL SHAREHOLDER'S POWERS

I attach Mr Kennington's second note. Para 6 deals with a possible share issue.

N MONCK

PRIVATE & CONFIDENTIAL

11 January 1987

TO : N MONCK, HM Treasury

FROM: I G KENNINGTON

BRITOIL

SPECIAL SHAREHOLDER'S POWERS

This note considers the role of the Special Share after conclusion of a successful bid for the equity of Britoil. It seeks to identify the "pressure points" available on the new equity owner in a 100 per cent ownership situation and in a majority ownership situation with a minority situation.

During the offer period of a bid, additional considerations and restraints are imposed on the actions of the directors without obtaining prior shareholder approval in general meeting under the City Code. This period is not considered in this note.

1. The Special Share's enhanced voting rights provide the holder with a single majority on polls at general meetings of Britoil. This right remains in being after the bid.

2. The right of the Special Shareholder to requisition a general meeting also remains. In practice this means a general meeting could be held and a poll taken very quickly if the Board co-operates, ie within three weeks (or four weeks if a Special Resolution is required - ie one requiring a 75 per cent majority of those present and voting). Without Board support and assuming no co-operation, it could take nearer four months, before the poll is taken.

3. The Directors of Britoil are given full powers to manage the business under the unusual Article 92 which grants those powers to the exclusion of the Company in General Meeting unless the Statutes or the Articles require a general meeting to be held. In Britoil's case the Board can dispose of all its assets, acquire other or additional assets without being required to obtain approval in general meeting. Nevertheless, the Directors have to act in the interests of the Company and effect all such transactions at a fair price. As the Special Shareholder has no economic interest in such transactions, the Special Shareholder would be powerless in this situation unless new shares are being issued (see 5 below).

4. In practice it is unlikely a Board serving under a 100 per cent equity parent would be willing to move against the interests of the equity shareholders unless an action is clearly against the wider interests of the Company. The position of the Board is very different if minority equity shareholdings continue in being.

5. The Directors of Britoil currently have approximately 150 million ordinary shares at their disposal to use as consideration for the acquisition of assets (other than A*). By an ordinary resolution at a requisitioned EGM the Special Shareholder is able to withdraw this delegated power or reduce it to, say, such smaller number of shares as may be required to cover any options outstanding.

6. My initial view on the inter-relationship of Article 92 with Article 71 is that the Special Shareholder would be unable to compel the Directors to issue additional shares in exchange for assets in order to water-down a big shareholder. This could be achieved with the Board's co-operation but the Directors would have to be satisfied their actions were in the interests of the Company and were not merely to assist the Special Shareholder thwart the ambitions of the large shareholder.

7. From the above it follows that if the Directors of Britoil could sell all the assets and business to its parent company for a fair value, the Special Shareholder would be powerless to stop it. If the parent held 100 per cent of the equity, there is no shareholder with an equity interest to challenge the fairness of the price received. If a public equity minority remained in Britoil, the Board would need to tread more carefully and would be unlikely to sell (without minority shareholder approval) unless the price received was

(a) the highest obtainable, and

(b) attained the level the bid defence document may put on it.

8. The Special Shareholder is able to stop a voluntary winding up of Britoil if the 100 per cent parent sought to have Britoil assets distributed in specie to the parent shareholder and the Special Share redeemed.

9. None of the above points detract from the nuisance value attaching to the Special Share in the circumstances envisaged in this note.

* copy illegible

Conclusion

A. In reality the Special Shareholder has little power to restrain pressures on Britoil from the parent unless there is an on-going minority equity interest. In the latter case, the Board is better able to take an independent stance.

B. The Special Shareholder needs the co-operation of the Britoil Board to thwart unacceptable asset movements in or out of Britoil - particularly if a 100 per cent subsidiary.

The above focuses on only a small number of key issues. I would be happy to deal with others orally. The legal position in some of the situations may not be the determining factor - particularly if it involves requesting a Board of Directors to take a course of action against the wishes of the majority shareholder.

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TELNO 012
OF 120945Z JANUARY 88
AND TO DESKBY 130100Z TOKYO

TOKYO FOR SECRETARY OF STATE'S PARTY

MIPT: BP AND KIO

1. TEXT OF MR KINNOCK'S LETTER TO THE PRIME MINISTER IS AS FOLLOWS:

QUOTE

DEAR PRIME MINISTER,

YOU WILL BE AWARE THAT THE KUWAIT INVESTMENT OFFICE NOW OWNS NEARLY 20 PER CENT OF THE EQUITY OF BP AND THAT IT COULD, IF IT SO WISHED, INCREASE THIS STAKE.

THE KUWAITI ORGANISATION HAS BEEN ABLE TO TAKE THIS ACTION PARTLY BECAUSE YOUR GOVERNMENT SOLD OFF THE CONTROLLING PUBLIC STOCK AND PARTLY BECAUSE THE STOCK WAS SOLD IN THE WAKE OF THE STOCK MARKET CRASH AT A KNOCK-DOWN PRICE.

TWO MONTHS AGO (19 NOVEMBER) I ASKED YOU IN THE COMMONS WHAT YOUR ATTITUDE WAS TO THE FACT THAT THE KUWAITI SHARE OF BP STOCK THEN STOOD AT 1U PER CENT. YOUR ANSWER WAS THAT IT WAS QUOTE NOT SURPRISING THAT THERE SHOULD BE SOME INTERNATIONAL INVOLVEMENT IN BP UNQUOTE BECAUSE BRITAIN IS A QUOTE GLOBAL UNQUOTE ECONOMY AND BP IS A MULTINATIONAL COMPANY.

I AND MANY OTHERS THOUGHT THEN THAT YOUR RESPONSE WAS, TO SAY THE LEAST, COMPLACENT AND CARELESS OF NATIONAL INTEREST IN VIEW OF THE STRATEGIC ECONOMIC, INDUSTRIAL AND POLITICAL IMPORTANCE OF BP AS THE MAJOR BRITISH OIL COMPANY.

SINCE THAT TIME, THE ANXIETIES ABOUT THE IMPLICATIONS OF KUWAITI SHARE HOLDINGS HAVE REGRETTABLY PROVED TO BE WELL PLACED AND THEY PROVOKE SEVERAL IMPORTANT QUESTIONS.

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FIRST, THE KUWAITI INVESTMENT OFFICE IS, AS YOU KNOW, A KUWAITI GOVERNMENT ORGANISATION AND WHILST THE OFFICE HAS NOT ACTED IMPROPERLY WITHIN THE TERMS OF THE MARKET, IT IS CLEAR THAT THE SCALE OF THEIR OPERATION AND THEIR PRESENT AND POTENTIAL OWNERSHIP HAS SERIOUS IMPLICATIONS FOR OUR COUNTRY.

THE KUWAITIS ARE NATURALLY PART OF THE OPEC CARTEL, THEY ARE ALREADY SPREADING THEIR INTERESTS IN UPSTREAM AND DOWNSTREAM OIL ACTIVITIES, THEY NOW HAVE A SUBSTANTIAL AND - IF THEY SO DESIRE - INFLUENTIAL SHARE OF BP AND OBVIOUSLY, WHEN WE CEASE TO BE A NET EXPORTER OF OIL, THEIR INTERESTS WILL BE CONTRARY TO OURS.

IS YOUR ATTITUDE TO THOSE FACTS THE SAME AS IT WAS WHEN THE KUWAITI INVESTMENT OFFICE HAD 10 PER CENT OF BP? WHAT WOULD YOUR VIEW BE OF AN EFFORT BY THE KUWAITI INVESTMENT OFFICE TO INCREASE ITS BP HOLDINGS TO 25 PER CENT OR EVEN TO A 30 PER CENT CONTROLLING SHARE?

WILL YOU TAKE THE ACTION WHICH YOU ARE EMPOWERED TO TAKE UNDER PART II OF THE 1975 INDUSTRY ACT TO ENSURE THAT THE NATIONAL INTEREST IS PROTECTED?

WHAT ENQUIRIES HAVE YOU CAUSED TO BE MADE ABOUT THE KUWAITI INVESTMENT OFFICE'S INTENTIONS AND, IF ANY ENQUIRIES HAVE BEEN MADE, WHAT HAS BEEN THE RESPONSE?

SECOND, BP IS ABLE AND NOW APPARENTLY MORE THAN WILLING TO SECURE COMPLETE OWNERSHIP OF BRITOIL. IN PURSUIT OF YOUR PRIVATISATION POLICIES, YOU WILL EVENTUALLY HAVE TO SAY WHEN THE BRITOIL QUOTE GOLDEN SHARE UNQUOTE - RETAINED BY YOUR GOVERNMENT IN ORDER TO SAFEGUARD THE COMPANY IN ITS INFANCY - WILL BE REDEEMED. IF AND WHEN THAT OCCURS, OWNERSHIP BY ANOTHER CONCERN WILL CLEARLY MEAN CONTROL BY THAT OTHER CONCERN.

ARE YOU GOING TO DEPART FROM YOUR POLICY AND RETAIN THAT GOLDEN SHARE, COME WHAT MAY, IN ORDER TO PREVENT CONTROL OF BRITOIL BY ANOTHER COMPANY? OR ARE YOU GOING TO NAME A DATE FOR REDEMPTION OF THE GOLDEN SHARE AND ALLOW BRITOIL TO BE TAKEN OVER BY A CONCERN 20 PER CENT OR 25 PER CENT OR MORE OF WHICH IS OWNED EITHER BY THE KUWAITIS OR BY ANY SINGLE PRIVATE, INSTITUTIONAL OR GOVERNMENTAL INVESTOR?

YOUR RESPONSE TO ALL OF THESE QUESTIONS WILL BE OF CONSIDERABLE PUBLIC INTEREST. I MUST ASK YOU THEREFORE TO GIVE CLEAR ANSWERS TO EACH ONE OF THEM AND TO DO SO AS A MATTER OF URGENCY.

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YOURS SINCERELY
NEIL KINNOCK

UNQUOTE

2. THE TEXT OF THE PRIME MINISTER'S REPLY, DATED 11 JANUARY, IS AS FOLLOWS:

QUOTE

DEAR MR KINNOCK

THANK YOU FOR YOUR LETTER OF 7 JANUARY ABOUT BP.

YOU ASKED FIRST ABOUT THE KUWAIT INVESTMENT OFFICE'S HOLDING OF BP SHARES. AS THE TREASURY HAVE ALREADY MADE CLEAR, THE KUWAITI AUTHORITIES HAVE ASSURED THE GOVERNMENT THAT THEY HAVE NO AMBITIONS TO CONTROL BP NOR ANY INTEREST IN ANY MANAGEMENT ROLE, AND THAT THE KIO HOLDING IN BP IS INTENDED AS A LONG TERM INVESTMENT.

IF THERE HAD BEEN ANY QUESTIONS OF THE KIO PROCEEDING TO A FULL BID FOR CONTROL THE SITUATION WOULD HAVE BEEN EXAMINED UNDER THE FAIR TRADING ACT IN THE NORMAL WAY: AND, AS YOU POINT OUT, THE INDUSTRY ACT POWERS ARE AVAILABLE. THE FAIR TRADING ACT ALSO APPLIES TO CERTAIN MINORITY HOLDINGS AND THE DIRECTOR GENERAL OF FAIR TRADING IS CURRENTLY CONSIDERING THE KIO HOLDING IN BP IN THIS CONTEXT.

YOU ALSO ASKED ABOUT BRITOIL. THE GOVERNMENT HAS ALREADY MADE ITS POSITION CLEAR. IN PRESENT CIRCUMSTANCES WE INTEND TO USE THE SPECIAL SHARE TO PREVENT ANY BIDDER FROM GAINING CONTROL OF THE BRITOIL BOARD.

YOURS SINCERELY
MARGARET THATCHER

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TOKYO FOR SECRETARY OF STATE'S PARTY

MY TWO IPTS : BP AND KIO

1. THE FOLLOWING ARE QUESTIONS AND ANSWERS DRAFTED BY TREASURY OFFICIALS ON 11 JANUARY, RECOMMENDING A LINE FOR THE PRIME MINISTER TO TAKE IN THE HOUSE LATER TODAY (12 JANUARY):

Q: ASSURANCES BY THE KUWAIT AUTHORITIES

A: AS THE TREASURY ANNOUNCED LAST FRIDAY, THE KUWAIT AUTHORITIES HAVE ASSURED US THAT THEY HAVE NO AMBITIONS TO CONTROL BP NOR ANY INTEREST IN ANY MANAGEMENT ROLE, AND THAT THE KIO HOLDING IN THE COMPANY IS INTENDED AS A LONG TERM INVESTMENT.

Q: POSSIBILITY OF REDUCTION IN PRESENT 18.35 PERCENT HOLDING.

A: THEY HAVE SAID THAT IT IS A LONG TERM INVESTMENT. ANY REDUCTION WOULD BE A MATTER FOR THEIR COMMERCIAL JUDGEMENT.

Q: POSSIBILITY OF SALE OF KIO'S BP SHARES TO A PURCHASER UNACCEPTABLE TO HMG.

A: I AM CONFIDENT THAT THEY WOULD NOT MAKE A SALE UNACCEPTABLE TO US AND THAT THEY WOULD CONSULT US IF THEY WERE CONTEMPLATING ANY SIGNIFICANT DISPOSAL.

Q: ACCEPTABILITY OF PRESENT 18.35 PERCENT.

A: AS I SAID ON 19 NOVEMBER IT IS NOT SURPRISING THAT THERE SHOULD BE A CONSIDERABLE NUMBER OF OVERSEAS INVESTORS IN AN INTERNATIONAL COMPANY LIKE BP. (OPEN SQUARE BRACKETS) IT IS UNREALISTIC TO LAY DOWN PRECISE FIGURES AS TO WHAT IS AN ACCEPTABLE LEVEL OF INVESTMENT (CLOSE SQUARE BRACKETS). BUT IN THE CASE OF THE KIO WHAT IS IMPORTANT IS THE VERY FIRM ASSURANCES THE KUWAIT AUTHORITIES HAVE GIVEN.

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Q: ACCEPTABILITY OF UP TO 29.9 PERCENT.

A: AS THE CHANCELLOR TOLD THE HOUSE YESTERDAY, AN INCREASE UP TO 29.9 PERCENT WOULD SEEM INCONSISTENT WITH THE ASSURANCES GIVEN THAT THE KIO HAS NO INTENTION AT ANY TIME OF SEEKING TO EXERCISE CONTROL OVER BP.

Q: ROLE OF OFFICE OF FAIR TRADING AND MMC

A: IF THERE HAD BEEN ANY QUESTION OF THE KIO PROCEEDING TO A FULL BID FOR CONTROL THE SITUATION WOULD HAVE BEEN EXAMINED UNDER THE FAIR TRADING ACT IN THE NORMAL WAY.

THE KIO'S (UNDERLINE) CURRENT (END UNDERLINE) HOLDING IS BEING CONSIDERED AS A MATTER OF COURSE BY THE DIRECTOR GENERAL OF FAIR TRADING WHO WILL ADVISE THE SECRETARY OF STATE FOR TRADE AND INDUSTRY WHETHER THERE MAY BE A MERGER SITUATION QUALIFYING FOR INVESTIGATION AND, IF SO, WHETHER IT SHOULD BE REFERRED TO THE MMC.

(NOTE TO PRESERVE THE SECRETARY OF STATE'S POSITION NOTHING SHOULD BE SAID WHICH INDICATES THAT HMG HAS ALREADY CONCLUDED THAT THE PRESENT KIO HOLDING EITHER IS OR IS NOT ACCEPTABLE.)

Q: TIMING OF KUWAITI ASSURANCES AND OF TREASURY'S STATEMENT.

A: ASSURANCES WERE GIVEN TO MR MELLOR ON 23 DECEMBER. MADE PUBLIC ON 8 JANUARY IN RESPONSE TO ENQUIRIES FOLLOWING MISLEADING STATEMENTS IN THE PRESS.

Q: COLLUSION BETWEEN HMG AND KUWAITIS TO BOOST BP SHARE POWER (INDEPENDENT STORY)

A: NO TRUTH IN THIS WHATSOEVER.

AND NO TRUTH IN CLAIMS THAT MR MELLOR DISCUSSED THE KIO HOLDING WITH THE KUWAITIS ON 4 DECEMBER.

Q: (UNDERLINE) CONTINUING CONTACT WITH KUWAITE GOVERNMENT (END UNDERLINE)

A: OF COURSE, THROUGH USUAL DIPLOMATIC CHANNELS, AS CIRCUMSTANCES REQUIRE.

Q: BP'S VIEW.

A: FOR THEM TO SAY.

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GOVERNOR, BANK OF ENGLAND
MR T SMITH, BANK OF ENGLAND

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FROM: MS P M LEAHY

DATE: 12 January 1988

CHANCELLOR

cc PS/Economic Secretary
Mr M L Williams

LUNCH WITH SHELL: OIL PRICES

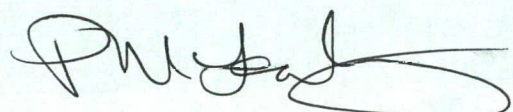
This minute gives additional briefing to that provided in my minute of yesterday in the light of today's FT and Wall Street Journal articles about Saudi oil policy (attached).

2. Both newspapers refer to an article in the Middle East Economic Survey (widely regarded as a mouth piece of the Saudis) which confirms that the Saudis are discounting and selling oil at market related prices. The Wall Street Journal goes further and suggests that Saudi Arabia is preparing for a fall of about \$1.50 to \$15 per barrel. *in average world oil prices*

3. Some weakness in oil prices has been widely anticipated in the early part of this year. But a semi-official confirmation of Saudi Arabian discounting has had a significant adverse impact on sentiment. March Brent has fallen 45c to \$15.90 at this morning's opening.

4. If market perceptions remain pessimistic very significant destocking above the seasonal average could take place. The worry of course is that once prices start falling there is nothing to stop them falling to very low figures. And it may be harder for discipline to be restored than it has been before.

5. Any bearish sentiment on investment in the oil sector is likely to be felt most by the majors such as Shell (or BP) because of the possibility of takeovers of the smaller companies such as Britoil, Enterprise, Lasmo.



P M LEAHY

Saudi Arabia Is Preparing For Oil Prices to Drop to \$15

Signs of OPEC Discounting Cause Futures to Plunge By 56 Cents in New York

By JAMES TANNER

Staff Reporter of THE WALL STREET JOURNAL

Saudi Arabia is quietly preparing for an oil price of \$15 a barrel.

That would be a drop of about \$1.50 a barrel from the current \$16.50 average of world oil prices and \$3 a barrel below the official benchmark of \$18 set by the Organization of Petroleum Exporting Countries more than a year ago but now widely ignored.

Largely because of such signs of price discounting within OPEC, oil prices generally dropped yesterday. Crude-oil futures plunged 56 cents a barrel, to \$16.75, on the New York Mercantile Exchange.

Leading Defender

The Saudis still are considered the leading defender of the benchmark and of OPEC pricing and production discipline. But sources close to developments said senior oil officials in Saudi Arabia expect oil prices to fall further soon—perhaps by the end of this month—and are planning to take steps to offset the impact on the kingdom's oil revenue.

Whatever the level of prices next month, the sources said, the Saudis will push to get their production, currently around 3.8 million barrels a day, back to their OPEC quota of 4.3 million barrels a day. "Although their production may dip slightly below four million barrels a day in early January, they will average up to their full quota within weeks," one source said. "Maintaining steady market share is their top priority," he said.

The new higher figures for world oil demand disclosed yesterday by the International Energy Agency could postpone the price drop expected by the Saudis, the sources said. As reported, the IEA has sharply revised upward its estimate of world oil demand, by more than one million barrels a day for 1987, while projecting further consumption gains for 1988. Some oil economists and analysts expect such revisions to have a firming effect on oil prices.

Kuwait Offer

According to the Dow Jones International Petroleum Report, Kuwait has offered to sell its crude oil to some Japanese companies and at least one potential U.S. client at prices linked to the spot market. Petroleum Intelligence Weekly reported the spot-market part of international oil trade is growing at an inexorable pace despite OPEC efforts in the past year to return to official-priced term contracts for its oil.

And the Middle East Economic Survey, which often reflects Saudi Arabia's official views, confirmed previously published reports that Saudi Arabia is selling oil at market-related prices to the four U.S. oil companies that operate Arabian American Oil Co., or Aramco.

Through official channels, Saudi Arabia continued to deny any discounting of its oil, officially priced at \$17.52 a barrel for Arabian Light, the chief grade. "We haven't received any information that (Saudi) oil would sell for anything except official prices," said an Aramco spokesman in Washington.

The Saudis, in fact, have begun to signal strongly to others in OPEC that they won't look lightly on further infractions of official prices or production quotas. "They're not out to break the market," one source close to developments said, "but if anybody is cheating, all bets are off."

Saudi Arabia 'sells oil at below official Opec rates'

BY RICHARD JOHNS

SAUDI ARABIA has been giving preferential terms to its four big oil customers - Exxon, Chevron, Texaco and Mobil - since October as an inducement to maintain their purchases and as a means of fulfilling its quota under the Organisation of Petroleum Exporting Countries' production sharing accord.

The four US oil groups have enjoyed what amounts to a price discount since October, which has taken the form of an increase in the per barrel fee they are paid for the joint service operation they perform for the Arabian American Oil Company (Aramco), according to industry executives and market analysts.

They were commenting on a report in the newsletter, Middle East Economic Survey. The publication says in its latest edition that the US concerns, "though invoiced on the basis of official prices for their Saudi liftings, have . . . (in fact) for some time past been making actual payments on a market basis with final settlement deferred."

The weekly newsletter did not give details but noted that Iran, Iraq and Qatar - all members of Opec - had been selling

oil at below the official selling rates agreed by the organisation at the end of 1986.

After the report was published, US crude fell 41 cents to \$16.90 at the start of trading on the New York Mercantile Exchange.

In Europe, the buyer-seller rate for March delivery of Brent Blend, the key North Sea crude, fell to \$16.35-\$16.40 compared with \$16.60-\$16.65 at Friday's close.

Exposure of the pricing device, which was conceded last summer after Mr Hisham Nazer, Saudi Arabian Oil Minister, came under pressure from the companies, could prove a heavy blow to Opec's efforts to stabilise oil prices around a central reference price of \$18 per barrel.

In practice, other Opec members, such as Nigeria and the United Arab Emirates, have offered similar incentives by widening the so-called "equity margins" enjoyed by companies which still have a stake in their producing operations and provide services similar to those performed by the four US concerns for Aramco.

Saudi Arabia's retrospective arrangement, however, appears

calculated not to come within the scrutiny of the Dutch firm of auditors appointed by the full Opec conference in December to examine the accounts of all member states. Any such move by the leading Opec producer seems bound to weaken the group's overall commitment to price discipline.

It is understood, meanwhile, that Exxon, Chevron, Texaco and Mobil began talks in Riyadh with the Saudi Ministry of Oil on the level of their liftings during the rest of the first and second quarters.

In January, Exxon nominated options on 220,000 barrels a day, Chevron 225,000 b/d, Texaco 450,000 b/d and Mobil 300,000 b/d. Mitsubishi, its fifth biggest customer, cut orders from 100,000 b/d to 40,000 b/d in response to the kingdom's adherence to official selling rates.

Last year Mr Nazer made clear that Saudi Arabia would not accept a level of output below the 4.34m b/d agreed under the 15.06m b/d production sharing pact for 12 of the 13 Opec members (excluding Iraq).

Commodities, Page 30

FROM: MS P M LEAHY

DATE: 12 January 1988

PS/CHANCELLOR

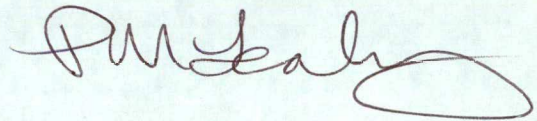
cc PS/FST
 PS/EST
 Sir P Middleton
 Mr Anson
 Mr Monck
 Mr D J L Moore
 Mr R I G Allen
 Mrs M E Brown
 Mr M L Williams
 Mr S B Johnson
 Mr Call
 Ms Wheldon - T.Sol

*X/STW.
 1 lot in for @ all
 Supplies of Arco in
 plan to buy a
 half share (going
 over cash)
 sale of new
 of BP.*

BRITOIL

Salomons are now bidding for 10 million Britoil shares at 450p on behalf of Arco. This would increase Arco's current holding in Britoil from 23.48% to 25% - a crucial blocking level if BP obtained the remaining 75%.

2. There are rumours in the market that BP and Arco have been having discussions about whether one should sell out to the other and on what terms. Arco's move if successful would obviously strengthen its hand.



P M LEAHY

CONFIDENTIAL

FROM: N J ILETT
 DATE: 12 January 1988

CHANCELLOR

cc: Chief Secretary
 Financial Secretary
 Sir P Middleton
 Mr Anson
 Mr Monck
 Mr Scholar
 Mrs Lomax
 Mr Moore
 Mr Turnbull
 Mrs Brown
 Miss Noble
 Mr L Watts
 Mr Devereux
 Mr Neilson
 Mr Cropper

*Thanks. Clear to state
 to amalgamate BP in this
 way, & in 1982 in the
 US both apt & purchase.
 (1 mlt note issued, not
 appear to be to state
 Governor for
 South Africa copy
 20.1.88)*

TRANSFER OF BP SHARES FROM THE BANK TO THE TREASURY

At your meeting on 6 January, you thought you would want to transfer the BP shares which the Bank has just bought to the Treasury as soon as the Bank is free to dispose of the shares, which is at the end of April. This submission explains the formalities.

2. The shares will have to be purchased from the Issue Department at market value, plus stamp duty. A vote will be necessary. There will be no effect on the PSBR. The purchase of the shares will have no effect on public expenditure, because their original acquisition by the Issue Department rated as public expenditure and all that is now involved is a transfer between central government accounts. But the stamp duty on the transaction will add slightly to public expenditure, though obviously it will be offset by additional tax receipts.

3. The precedent is the transfer of ex-Burmah BP shares to the Treasury late in 1981. I attach a copy of your predecessor's minute to the Prime Minister at that time.

M.

N J ILETT

CONFIDENTIAL



Mr. Bingham

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

FST
MST C
MST L
Sir D Wass
Mr Ryrie
Sir A Rawlinson
Mr Quinlan
Mr Middleton
Miss Brown
Mr Burgner
Mr Kelly
Mr Collinson
Mr Monaghan
Mr Wicks
Mr Thornton

Mr Hosker - T St

TRANSFER OF BP SHARES FROM THE BANK TO THE TREASURY

Now that Burmah have announced that they do not intend to appeal against the High Court judgement in favour of the Bank of England, I have decided, in agreement with the Bank, to transfer to the Treasury as quickly as practicable the Bank's holding of some 311m BP shares.

2. I plan to announce my intention as soon as Parliament returns, by means of an inspired Written Question. This should be no surprise, since we have made clear, for example most recently in the offer document for the BP rights issue, that it was the intention to transfer the shares in due course. The actual transfer cannot take place before the approval of a Winter Supplementary Estimate for the purchase of the shares. But an early announcement will help to show that the transfer is only a logical tidying up of business between the Government and the Bank, now that the legal case is out of the way. If the announcement were delayed until later in the year, it could lead to speculation about a further BP share sale, with adverse stock market effects. The Estimate will need to provide the Treasury with funds to pay the Bank a sum equivalent to the shares' stock market valuation in order to maintain the statutory backing for the note issue, together with associated stamp duty. The amount of the Estimate will be around £1bn depending on stock market prices. The payments will be transfers between Central Government accounts. They will not affect the CGBR or the PSBR and will have no monetary effects.

CONFIDENTIAL



3. I am sending copies of this minute to Willie Whitelaw, Peter Carrington, Nigel Lawson, Michael Havers and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be "G.H." with a flourish.

(G.H.)

19 October 1981

RESTRICTED

141144
MDHOAN 6458

RESTRICTED
FM FCO (AMENDED TELNO - PREVIOUSLY NO 8)
TO DESKBY 121400Z KUWAIT
TELNO 11
OF 121030Z JANUARY 88
AND TO DESKBY 130100Z TOKYO

W Green

TOKYO FOR SECRETARY OF STATE'S PARTY

YOUR TELNO 009: BP AND KIO

1. MY FIRST IFT CONTAINS AN EXCHANGE OF LETTERS BETWEEN MR KINNOCK AND THE PRIME MINISTER. WE EXPECT THE CONTENTS OF THESE LETTERS TO BECOME PUBLIC VERY SOON BUT UNTIL THEN THEY ARE FOR YOUR INFORMATION ONLY. IF QUESTIONED ABOUT THE ROLE OF THE DIRECTOR GENERAL OF FAIR TRADING, YOU SHOULD EXPLAIN THAT UNDER THE FAIR TRADING ACT THE POWER EXISTS TO REFER TO THE MMC PARTIAL HOLDINGS WHICH MAY CONFER THE ABILITY MATERIALLY TO INFLUENCE THE POLICY OF THE TARGET COMPANY. THE DG IS, THEREFORE, AS A MATTER OF COURSE CURRENTLY CONSIDERING THE KIO HOLDING IN BP IN THIS CONTEXT. (FOR FURTHER DETAILS, SEE PARA 2 AND 3 OF MY TELNO 7 (NOT TO TOKYO) AND RELEVANT QUESTION/ANSWER IN MY SECOND IFT.)

2. MY SECOND IFT CONTAINS QUESTIONS AND ANSWERS DRAFTED BY TREASURY OFFICIALS FOR THE PRIME MINISTER TO USE IN THE HOUSE LATER TODAY (12 JANUARY). IN THE EVENT OF THESE BEING USED, YOU WILL WISH TO NOTE THAT WE ARE READY TO GO PUBLIC, WITH MR MELLOR'S CONCURRENCE, ON THE FACT THAT HE PERSONALLY RECEIVED ASSURANCES FROM THE KUIWAITIS ON 23 DECEMBER. WE ASSUME THE KUWAITIS WILL HAVE NO DIFFICULTY WITH THIS SINCE IT IS CLEAR FROM YOUR CONVERSATIONS WITH SHAIKH SABAH AND ALI KHALIFAH (YOUR TELNOS 8 AND 9) THAT THEY UNDERSTAND THE POLITICAL NEED FOR US TO MAKE THESE ASSURANCES PUBLIC.

3. YOU WILL ALSO NOTE THAT THE REPLY TO THE QUESTION ABOUT DISPOSAL IS FORMULATED AS A UNILATERAL STATEMENT OF HMG'S VIEW (QUOTE I AM CONFIDENT UNQUOTE) AND DOES NOT REFER TO ANY ASSURANCES FROM THE KUWAITIS.

4. WE SHALL SEND YOU THE VERBATIM TEXTS OF ANY PARLIAMENTARY EXCHANGES ON THE MATTER.

HOWE

RESTRICTED

141144
MDHOAN 6458

YYYY

DISTRIBUTION

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PLANNERS

NEWS DEPT

INFO DEPT

PS

PS/PUS

PS/MRS CHALKER

PS/MR MELLOR

MR BRAITHWAITE

MR MAUD

SIR D MIERS

ADDITIONAL 15

PS/NO.10

PS/CHANCELLOR

MR MOORE/HM TREASURY

MR MONCK/HM TREASURY

PS/SEC OF STATE/D ENERGY

MR WAKELY/D ENERGY

PS/SEC OF STATE/DTI

MR TREDGOLD/DTI

GOVERNOR/BANK OF ENGLAND

MR T SMITH/BANK OF ENGLAND

NNNN



FROM: J M G TAYLOR *pwp*
DATE: 13 January 1988

MR ILETT

cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Scholar
Mrs Lomax
Mr Moore
Mr Turnbull
Mrs Brown
Miss Noble
Mr L Watts
Mr Devereux
Me Neilson
Mr Cropper

TRANSFER OF BP SHARES FROM THE BANK TO THE TREASURY

The Chancellor was grateful for your minute of 12 January.

2. He has commented that it is clearly sensible to amalgamate the state holding in BP in this way, and the 1981 precedent is both apt and useful.

A handwritten signature in black ink, appearing to be 'JMG'.

J M G TAYLOR



FROM: J M G TAYLOR
DATE: 13 January 1988

MS LEAHY

cc PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr D J L Moore
Mr R I G Allen
Mrs M E Brown
Mr M L Williams
Mr S B Johnson
Mr Call
Ms Wheldon - T.Sol.

BRITOIL

The Chancellor has seen and noted your minute of 12 January.

2. He has commented that he would not be at all surprised if Arco are planning to strike a hard bargain (going beyond cash) over the sale of their holding to BP.

A handwritten signature in black ink, appearing to be "J M G TAYLOR".

J M G TAYLOR

PWF

FROM: MS P M LEAHY

DATE: 13 January 1988

1. MR D J L MOORE *DJM 13/1.*
2. CHIEF SECRETARY

cc **Chancellor**
Financial Secretary
Paymaster-General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Scholar
Mrs Lomax
Mr R I G Allen
Mrs M E Brown
Mr M L Williams
Mr Bent
Mr Neilson
Mr S B Johnson
Mr Call

Ms Wheldon - T.Sol

AUTUMN STATEMENT DEBATE: BP/BRITTOIL/KIO

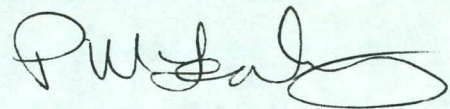
Background and Q and A briefing is attached as follows:

- a. BP's bid for Britoil at annex A;
 - b. the KIO's stake in BP at annex B;
 - c. the Bank of England support scheme for BP shares at annex C.
2. The line to take on each of these three topics is:
- a. in present circumstances the Government intend to use the Special Share in Britoil to prevent any bidder from gaining control of the Britoil Board;
 - b. The Kuwait authorities have assured us that they have no ambitions to control BP nor any interest in any

management role, and that the KIO holding in the company is intended as a long term investment;

c. the Bank support operation was a success. The arrangements fully achieved their objectives - they secured the proceeds of the sale for the taxpayer, ensured an orderly aftermarket in BP shares and ensured that the sale did not add to existing difficulties in world markets. Moreover less than 2% of the shares sold have been repurchased.

3. The terms of BP's bid for Britoil may be known at the time of the debate (the formal offer document has to go out by Friday). These terms are unlikely to affect the briefing but we will of course submit additional material if appropriate.

A handwritten signature in black ink, appearing to read 'P M Leahy', with a large, stylized flourish at the end.

P M LEAHY

BP BID FOR SHARES IN BRITOilLine to take

The Government has made it clear that in present circumstances it intends to use the Special Share to prevent any bidder from getting control of the Britoil Board. It would be wrong for me to answer hypothetical questions.

Defensive

Will you assure the House that the independence of Britoil will be maintained? Will you allow Britoil to fall into foreign hands?

I have nothing to add to what the Chancellor said in the House on 11 January. The powers of the Special Share will be used for so long as it is in the national interest to do so.

Assurance that no fudge if BP obtains a significant holding?

The powers of the Special Share are unaffected by the number of ordinary shares a bidder might acquire. But I clearly cannot answer hypothetical questions about a market sensitive matter of this kind.

Will you put a time limit on the Special Share?

I am not prepared to say now whether the Special Share will be redeemed at any time. [If necessary: but I understand that the Board of Britoil themselves do not wish the Special Share to continue indefinitely.]

What about the assurance in 1982 that the Special Share would be a most formidable deterrent against a takeover of the majority of Britoil shares

It has remained an effective deterrent for over 5 years. But of course Article 71 explicitly provides for the possibility that a bidder might acquire over 50% of the shares.

If any bidder gained control of Britoil could they have the Special Share removed or modified?

No. The Special Shareholder can outvote all other shareholders at a General Meeting on any resolution.

Why no guidance on the use of the Special Share?

The Government's position was first stated on 18 December.

It would not have been appropriate for the Government to make any more detailed statements covering a whole range of hypothetical situations.

What discussions have there been with the Government? Any guidance to BP?

BP made its first purchase of shares in Britoil on 8 December and told the Government of its intentions that day.

The Government has given BP no guidance on the use of the Special Share beyond that in the public statements.

The Special Share is confusing to Shareholders

As the Takeover Panel said in its statement of 22 December although the Special Share is unusual in character, it is an aspect of the affairs of the company on which shareholders are essentially called on to make their own judgement.

MMC reference

It will be for the Director General of Fair Trading to advise the Secretary of State for Trade and Industry whether there should be a reference to the MMC. (NB He is already looking at BP's present holding in Britoil and at KIO's holding in BP.)

Implications for Scotland? Britoil's HQ?

The question of Britoil's HQ is a matter for the Britoil Board as it always has been.

Impact on development of North Sea?

The Government's main concern has always been to secure the efficient and economic development of North Sea oil and gas resources to the benefit of the UK and has been very successful in doing so.

AUTUMN STATEMENT DEBATE THURSDAY 14 JANUARY 1988: BP'S BID FOR BRITTOIL SHARES

Britoil was formed out of the upstream assets of BNO. 51% of the shares in Britoil were offered for sale in 1982. The remainder were sold in the middle of 1985.

2. The Government retained a Special Share in the company. This is held by the Treasury Solicitor on behalf of the Lords Commissioners of the Treasury.

3. Ordinarily the Special Share carries the right to receive notice of, attend and speak at General Meetings but no right to vote.

4. In certain circumstances the Special Share gains special voting rights:

a. if the Government has reasonable grounds for believing that someone is trying to obtain, or has obtained, control of the Board the Special Share can be used to call for a poll on resolutions relating to the appointment of Directors and can out-vote other shareholders on a poll;

b. if anyone acquires, or makes an offer for, more than 50% of Britoil's ordinary shares the Special Share can be used to outvote any resolutions of the company in General Meeting, and can require an EGM to be called (at which it could put forward resolutions).

5. The Secretary of State for Energy in 1982 (Mr Lawson) said that these powers were an effective means of protecting Britoil's independence against unacceptable changes in control. In the recent exchange in the House of Commons the Chancellor was careful not to suggest that Britoil's independence would be maintained no matter what. He said the powers of the Special Share would be used 'for so long as it is in the national interest to do so'. (Extracts from Hansard attached).

6. The test of the power of the Special Share began on 8 December when BP announced that it had bought 14.9% of Britoil at a price of £3 and went on to tender for further shares at this price to take its holding to 29.9%. The intervention of Arco meant that this tender offer failed. After it had lapsed BP announced on 18 December that it would make a full bid for the company at a price of £4.50. This was allowed by the Takeover Panel and a formal offer has to be made by Friday 15 January. Currently BP own 29.8% of Britoil.

7. Arco's intervention came on 11 December when it announced that it had acquired 7.7% of Britoil at £3.50 and that it intended increasing its holding to 29.9%. It also announced that it had reached agreement in principle with Britoil whereby it would transfer all or most of its oil and gas interests outside the US in exchange for a shareholding in Britoil taking its total maximum shareholding to 49.9%. The Takeover Panel has pointed out that their agreement to this might not be forthcoming. There is speculation that Arco may also make a full bid for Britoil once the terms of BP's bid are known.

8. Arco's current shareholding is 23.48% of Britoil. It has just announced that it is in the market for a further 10 million shares (taking its shareholding to 25%) at a price of £4.50. This would be a crucial blocking level if BP managed to obtain the remaining 75%.

Britoil

3.31 pm

Mr. John Smith (Monklands, East) (*by private notice*): To ask the Chancellor of the Exchequer whether he will make a statement on how he intends to use the Government's special share in Britoil to preserve the independence of the company.

The Chancellor of the Exchequer (Mr. Nigel Lawson): The powers of the special share are set out in article 71 of Britoil's articles of association.

On 18 December the Treasury put out a press statement, stating that in present circumstances the Government intend to use their special share in Britoil to prevent any bidder from gaining control of the Britoil board.

The statement went on to explain that, if and when a formal offer is made for, or control obtained of, more than 50 per cent. of Britoil's shares, paragraph 71C of the articles of association will come into effect. This allows the special shareholder to outvote all other shareholders at a general meeting of any resolution. It also allows a special shareholder to require an extraordinary general meeting. This was reaffirmed on 23 December, in the light of the statement that day by the Panel on Takeovers and Mergers about the proposed BP offer for Britoil.

No such offer has yet been made. But, whatever the circumstances, I can assure the House that the powers of the special share will be used for so long as it is in the national interest to do so.

I cannot add anything more at this stage.

Mr. Smith: The Chancellor will be aware of the widespread concern, particularly among the management and employees of Britoil, that it is well known that British Petroleum wishes to take over the company. The Chancellor's statement that he would use the golden share did not seem to act as "a formidable deterrent", as the right hon. Gentleman predicted the golden share would on a previous occasion in the House. BP seems determined to proceed with its bid.

Would it not make matters much clearer if the Chancellor were to make it clear that the purpose of the golden share is, as he has told the House on a number of occasions, to deter a bid for Britoil, rather than to in some way modify the consequences of the takeover, as BP seems to imagine it might be? I invite the Chancellor of the Exchequer to make it clear that Britoil will be maintained as an independent company, with its corporate headquarters in Glasgow, and that the fundamental basis of the golden share will be maintained, whatever bids are forthcoming in the next few days.

Mr. Lawson: I have nothing to add to what I have said. This is a highly market-sensitive matter and it would not be proper for me to say anything further. I add that I do not think that this line of questioning—although I do not dispute the right hon. and learned Gentleman's right to ask the questions if he wishes to do so—is helpful to Britoil.

The location of the headquarters of Britoil is, of course, a matter for the Britoil board, as it has always been.

Sir Hector Monro (Dumfries): Following what my right hon. Friend said about the headquarters in Glasgow and the facilities in Aberdeen, is it not in the national interest that they should remain where they are?

Mr. Lawson: I note what my hon. Friend has said, and I repeat what I said a moment or two ago, that the location of the headquarters of the company is a matter for the board, as it has always been. The special share ensures the independence of the board.

Mr. Bruce Millan (Glasgow, Govan): The Chancellor's statement is welcome as far as it goes, but it does not go very far, because it contains certain qualifications. Will he give an assurance that neither now, in this "market-sensitive period", as he calls it, nor later will he tell British Petroleum that if it gains control of the company's shares he will somehow allow his present powers to lapse, perhaps after a period? We want an absolute assurance that that will not happen and that Britoil will be maintained as an independent company.

Mr. Lawson: As I have already said, whether to use the share is a matter about which the Government will have to make up their minds in the light of the circumstances at the time and in the overriding light of the national interest. I have said that in the present circumstances we will use it.

Mr. Teddy Taylor (Southend, East): As the Chancellor of the Exchequer, rightly or wrongly, has been saddled with this very controversial, but highly undemocratic, power, would it be sensitive to the national interest for him to seek the views of those bidding for Britoil as to whether they intend to support regional development and maintain the centre of the company in Glasgow?

Mr. Lawson: Any company interested in acquiring Britoil is perfectly free to reveal its intentions on any matter.

Mr. Andrew Welsh (Angus, East): Will the Chancellor give a clear and unequivocal pledge to use the golden share to protect the independence of Britoil, so that that is clear in *Hansard*? May I encourage him to fulfil that pledge and assure us that if there is a change in that commitment there will be a full debate and vote in the House on a matter of such great importance to the Scottish economy?

Mr. Lawson: I cannot give any assurance about a debate—that is not a matter for me—but when I was Secretary of State for Energy in 1982 and this special share was set up, I gave a pledge that if and when the share were to be redeemed the House would be informed first.

Mr. Tim Smith (Beaconsfield): Does my right hon. Friend agree that raising this matter by means of a private notice question is of no help whatever to Britoil and is likely to be of advantage, only to, and in the interests of, a predator?

Mr. Lawson: That may be the case.

Mr. George Galloway (Glasgow, Hillhead): This is the first time that I have witnessed the legendary arrogance and complacency of the Chancellor of the Exchequer.

Mr. Geoffrey Dickens (Littleborough and Saddleworth): The hon. Gentleman should be here more often:—[*Interruption.*]

Mr. Speaker: Order.

Mr. Galloway: It is not a pretty sight. The Chancellor's answer to an earlier question about the siting of Britoil's headquarters was staggering in its indifference. I am

Mr. Galloway:

constituency, where the headquarters are situated, there are 800 people—Government Members may laugh like buffoons—

Mr. Speaker: Order. The hon. Gentleman should not use language like that.

Mr. Galloway: I apologise, Mr. Speaker. These 800 people are very worried and frightened about their future, yet all the Chancellor can say is that it is somehow a matter for the market place or the company to decide. Can the Chancellor find it within himself to assure my constituents and the people of Glasgow that he wants the headquarters of Britoil to remain there, and that he wants Britoil to remain an independent company?

Mr. Lawson: I welcome the hon. Gentleman on one of his infrequent visits to the House. Had he listened, he would have heard me say that the location of the company's headquarters is a matter for the board, as it always has been. When Britoil was formed from the old British National Oil Corporation, the board decided to locate its headquarters in Glasgow and, as the hon. Gentleman will know, it built a spanking new building to house those headquarters. That is where they remain to this day.

The board has unusual powers. That is why the power of the special share to control the board is especially interesting. Article 92 of the Britoil articles of association states:

"The business of the company shall be managed by the directors to the exclusion of the company in general meeting."

Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): Does my right hon. Friend agree that there is already large and welcome foreign investment in North sea oil, but that it would cause concern if companies such as Britoil and British Petroleum were to fall under foreign control, with the result that almost all the strategic qualities of North sea oil would be controlled by foreign interests? Does he agree that any such foreign bid for Britoil or BP would be stoutly resisted, under the provisions of the Industry Act 1975, in the best interests of this country?

Mr. Lawson: As I made clear in 1982 when I was Secretary of State for Energy, the purpose of the special share in Britoil is to ensure that control over the company does not fall into unacceptable hands. As for BP, my hon. Friend will be aware of the assurances that we have received from the Kuwaitis.

Mr. Charles Kennedy (Ross, Cromarty and Skye): Given the Chancellor's welcome confirmation of the Treasury's position on this issue, will he confirm that he does not agree with the criticism that has been made against Britoil—unfairly, in many people's eyes—that it is using tactics to try to increase the share offer from about 450p to 600p? Is that not an unfair allegation against the company?

Mr. Lawson: It would be wrong for me to venture into those waters, but I have noted what the hon. Gentleman has said.

Mr. John Marshall (Hendon, South): Will my right hon. Friend confirm that the golden share in Enterprise

Oil has a life of five years? Why should Britoil be treated differently from Enterprise Oil? As my right hon. Friend is a believer in free markets, will he tell us how the golden share will encourage Britoil to become more efficient? It is to be protected by a share structure as antiquated as that of the Savoy.

Mr. Lawson: It is not all that antiquated. It was introduced only in 1982. However, I feel much older now than I did then—perhaps I am. My hon. Friend is right to point to the fact that some golden shares are time-limited, whereas others are not. I read in the newspapers today that the Britoil board envisages the day when the golden share in Britoil will no longer exist.

Mr. D. N. Campbell-Savours (Workington): Is not the need to act reinforced by the news that the Kuwaitis are buying BP shares and now have 18 per cent. of them? Is it not true that the Kuwaitis have refused to give an undertaking that they will not purchase 29.9 per cent. of the company? Is there not a danger that the Arabs might pick up a large section of North sea oil on the cheap?

Mr. Lawson: There is nothing to stop someone buying shares cheaply after a fall on the stock market. The hon. Gentleman must be aware of the assurances given by the Kuwaitis that they are not seeking control over the company or the management. It would be inconsistent with those assurances if they acquired a shareholding of 29.9 per cent.

Mr. Jonathan Aitken (Thanet, South): Will my right hon. Friend clarify what he means by his frequent references to the "national interest"? Does he mean Scotland's national interest, or is he concentrating on Britain's national interest? If it is the latter, what difference can it make whether the oilfields are owned by British Petroleum or by Britoil?

Mr. Lawson: I am the Chancellor of the Exchequer of the United Kingdom and a member of the Government of the United Kingdom, and it is therefore the national interest of the United Kingdom about which I am speaking. However, obviously that does not mean that I would be indifferent to the views of Scottish Members.

Mr. Dick Douglas (Dunfermline, West): May we take it from the Chancellor's reply that, as the inventor of the golden share, he intends to use it to keep Britoil as an independent company? Given the sensitivity of the market, should he not, in all fairness, convey that to the chairman of BP, Sir Peter Walters, as soon as possible, with the backing of all the legal opinion that he can muster?

Mr. Lawson: Britoil has, of course, been independent since it was floated more than five years ago. Article 71C explicitly envisages the possibility of a bidder acquiring more than 50 per cent. of the shares and states in those circumstances what the powers of the special share are. I have nothing to add to that.

Several Hon. Members rose—

Mr. Speaker: Order. I regret that I have not been able to call all those hon. Members wishing to speak. This is an extension of Question Time. We have another private notice question.

KIO AND BP**Assurances by the Kuwait Authorities**

As the Treasury announced on 8 January, the Kuwait authorities have assured us that they have no ambitions to control BP nor any interest in any management role, and that the KIO holding in the company is intended as a long term investment.

Possibility of reduction in present 18.35% holding

They have said that it is a long term investment. Any reduction would be a matter for their commercial judgement.

Possibility of sale of KIO's BP shares to a purchaser unacceptable to HMG

I am confident that they would not make a sale unacceptable to us and that they would consult us if they were contemplating any significant disposal.

Acceptability of present 18.35%

As I said on 19 November it is not surprising that there should be a considerable number of overseas investors in an international company like BP. [It is unrealistic to lay down precise figures as to what is an acceptable level of investment.] But in the case of the KIO what is important is the very firm assurances the Kuwait authorities have given.

Acceptability of up to 29.9%.

As the Chancellor told the House on 11 January, an increase up to 29.9% would seem inconsistent with the assurances given that the KIO has no intention at any time of seeking to exercise control over BP.

Role of Office of Fair Trading and MMC

If there had been any question of the KIO proceeding to a full bid for control the situation would have been examined under

the Fair Trading Act in the normal way.

The KIO's current holding is being considered as a matter of course by the Director General of Fair Trading who will advise the Secretary of State for Trade and Industry whether there may be a merger situation qualifying for investigation and, if so, whether it should be referred to the MMC.

[Note To preserve the Secretary of State's position nothing should be said which indicate that HMG has already concluded that the present KIO holding either is or is not acceptable.]

Timing of Kuwaiti assurances and of Treasury's statement

Assurances were given to Mr Mellor on 23 December. Made public on 8 January in response to enquiries following misleading statements in the press.

Collusion between HMG and Kuwaitis to boost BP share price
(Independent story)

No truth in this whatsoever.

And no truth in claims that Mr Mellor discussed the KIO holding with the Kuwaitis on 4 December.

Continuing contact with Kuwaiti Government

Of course, through usual diplomatic channels, as circumstances require.

BP's views

For them to say.

The KIO bought into BP cheaply as a direct result of the Government's foolishness in going ahead with the BP sale

Always possible for someone to buy shares cheaply after a fall in share prices. The Bank support operation meant that the Kuwaitis had to pay more than they would have otherwise.

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NOT FOR PUBLICATION, BROADCAST OR USE ON CLUB TAPES
BEFORE 1400 HRS ON FRIDAY 8 JANUARY 1988

TREASURY STATEMENT ON BP/KIO

The Kuwait authorities have assured us that they have no ambitions to control BP nor any interest in any management role, and that the KIO holding in the company is intended as a long term investment.

end

AUTUMN STATEMENT DEBATE THURSDAY 14 JANUARY: BP/KIO BACKGROUND

The build up of the KIO's stake in BP is shown below:

| | <u>% of ordinary shares</u> | <u>shares million</u> |
|-------------|-----------------------------|-----------------------|
| 19 November | 10.06 | 600 |
| 1 December | 10.44 | 622.5 |
| 7 December | 11.52 | 687 |
| 11 December | 13.07 | 779.5 |
| 16 December | 15.02 | 895.75 |
| 18 December | 16.06 | 957.5 |
| 22 December | 17.07 | 1017.9 |
| 30 December | 18.03 | 1075 |
| 5 January | 18.35 | 1094 |

2. The KIO has therefore bought almost exactly half of the shares sold in the Government/BP combined offer of 2,194 million shares in October 1987.

3. The OFT are currently looking at whether the KIO's stake gives it material influence over BP. If the KIO increased its stake to 30% it would have to make a bid for all the shares. At this stage the bid could be referred to the MMC. If the MMC found that the merger, or any aspect of it, was against the public interest, the Secretary of State for Trade and Industry has powers under the Fair Trading Act to stop the merger.

4. Provision for control of foreign interest in important UK manufacturing undertakings is contained in the Industry Act 1975. If it appears to the Secretary of State for Trade and Industry that there is a serious and immediate probability of a change of control (defined as 30% of voting shares being transferred to a non-resident) and if that change would be contrary to the interests of the UK or any substantial part of it he may prevent the change of control.

BP SUPPORT OPERATION: PRESS OFFICE BRIEFING ON CLOSING STATEMENT**POINTS TO MAKE**

Support operation a success. Chancellor set out objectives when scheme announced on 29 October - to secure the full proceeds of the sale for the taxpayer, to ensure an orderly aftermarket in BP shares, and that the sale did not add to existing difficulties in world markets. These objectives have been achieved.

DEFENSIVE**Expenses of the support operation**

The expenses have not yet been finalised. They will be accounted for on a Treasury Vote in the usual way, like the costs of the rest of the BP sale. The extra expenses incurred by the taxpayer in setting up the support operation will in any event be negligible compared to the benefits the taxpayer has received from the sale proceeding as planned.

Expenses of the sale

These have not yet been finalised. Final figures will be announced to the House of Commons as soon as possible.

Kuwait/Britoil etc

[On substance, no change to existing press line.] Without the support operation the KIO could have bought its shares cheaper.

Why did price of partly-paid BP shares rise sharply on 5 and 6 January?

Market demand for a sound investment.

When will the Bank sell its shares?

No decision has been taken. The terms of the share purchase arrangements are that the Bank will not sell shares purchased in the offer before 30 April 1988 unless it can do so at a price in excess of 120p per share.

Will the Bank transfer its shareholding to the Treasury?

This is a possibility, but no decision has been taken. The Treasury retained 68 million shares to meet bonus entitlements to small shareholders in the offer. Most of these shares will not be needed for that purpose. The Treasury will sell them in due course but no decision has been taken on the method or timing of sale.

PSBR effects

Negligible (same as impact on privatisation proceeds).

Impact on privatisation proceeds

Privatisation proceeds will be reduced by £27 million in 1987-88. The impact in future years depends on when the shares are sold again by the Government. If the Government has not sold the shares by 1989/90, the total impact of the Bank scheme would be to reduce privatisation proceeds by £109 million (£27m in 1987/88, £41 million in both 1988/89 and 1989/90).

How many people sold to the Bank?

Approximately 11,000 acceptances were received.

Why are the Bank's figures only "approximate"?

A few applications to sell need further checking; some of the forms have not been filled in correctly; and some applications handed in over bank branch counters may have been delayed in transmission. But the final outcome is expected to be close to the figures announced today.

Government remarkably lucky

The objective of the buy back scheme were made clear by Chancellor when scheme announced (see points to make). These objective has been achieved. Always accepted that this might result in Bank having to buy back some BP shares, but judgement was that support operation would give market time to absorb the offer. This judgement has been proved correct.

CHANCELLOR ANNOUNCES OUTCOME OF THE BP SHARE SUPPORT SCHEME

Rt Hon Nigel Lawson, Chancellor of the Exchequer, today announced the outcome of the BP share support arrangements:

"The BP share support scheme which I announced in the House of Commons on 29 October closed yesterday. It has resulted in the Issue Department of the Bank of England purchasing a total of approximately 39 million BP partly-paid shares at a cost of about £27 million. This represents a repurchase by the public sector of less than 2 per cent of the 2,126 million BP shares that were sold in the Treasury's offer which closed on 28 October.

The arrangements I announced on 29 October have thus fully achieved their objectives. They have secured virtually the full proceeds of the sale for the taxpayer, in exceptionally difficult circumstances, while avoiding a disorderly market in BP partly-paid shares, which are now trading above the 70p buy-back price."

PRESS OFFICE
HM TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG
01 270 5238

2/88

Notes to editors

The BP share issue support arrangements were announced by the Chancellor on 29 October 1987. On 5 November, the Chancellor announced that the scheme would end no later than 3.30 pm on Wednesday 6 January.

The combined offer for sale on 15 October was for a total of 2,194 million partly-paid shares. Of these;

1,735 million were the Treasury's holding of 31.5% of the company's equity

459 million came from the rights issue which was part of the combined offer.

Of the 2,194 million shares, 68 million were retained by the Treasury to meet bonus entitlement claims by small shareholders and were consequently not underwritten. So (2,194m - 68m) ie 2,126 million shares were underwritten and actually sold. Of these, the Bank of England Issue Department has now bought about 39 million, which represents 1.8% of shares actually sold. Together, the Bank's recent purchases and the Treasury's shares retained to meet bonus entitlements represent 1.8% of BP's ordinary share capital, which compares with the 31.5% of BP which the Treasury held before its Offer for Sale and the related rights issue.

The sale price in the offer was 330p per share, of which 120p was payable immediately, and 105p on each of 30 August 1988 and 27 April 1989. The total proceeds of the sale to the Exchequer in instalments spread over 3 years before expenses and net of purchases by the Bank of England can be calculated as follows:

Total shares sold less rights issue:

(2,126m - 459m) ie 1,667m at 330p = £5,501m

Less shares purchased by the Bank

39m at 280p (70p for first instalment, 105p for second and third instalments)

= £ 109m
£5,392m

This represents proceeds per share sold and not bought back of (£5,392m ÷ 1,628m) ie 331p; and proceeds per share originally sold of (£5,392m ÷ 1667m) ie 323p - to which can be added in due course the proceeds of the shares which the Bank has bought back.



[Handwritten signature]

Ch.

You may like to have
those tels. with you for your
meeting with Mr Parkinson
this evening (you have the folders)

[Red handwritten signature]
Alvin
Barnes

[Red handwritten initials]
17



Ch.

BP: K10.

You may like to have these
tels. with you, in case the PM
raises this in the margins of
Cabinet.

2. Incidentally, Lord Young is v. keen to
be kept involved in discussions on this.

I assume, however, that you do not
want him along for (part of) your
meeting with Mr Parkinson tonight
/orw

3. The Bank we also been to be kept involved (they are up to date on developments). No need for any particular action on this: I mention it for completeness.

J
17/11

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*Mr Parkerson's
for this on this
Ali Khalifa
son
later
copy*

BP/KIO

FCO TELNOS 11,12 AND 13: BP AND THE KIO

1. I IMAGINE IN THE LIGHT OF OUR PUBLIC STATEMENTS TO DATE THAT THERE WILL BE SOME CONCERN AT THE PROSPECT OF THE KUWAITIS SEEKING A SEAT ON THE BP BOARD. I MUST ADVISE THAT ANY FURTHER POLITICAL REPRESENTATIONS ON THIS SUBJECT HOWEVER ARE UNLIKELY TO PRODUCE THE DESIRED RESULT AND MAY EVEN BE COUNTER PRODUCTIVE.

2. AS I REPORTED IN MY TELNO 9, ALI KHALIFA CLEARLY BELIEVES THAT THE PRESENT LEVEL OF SHAREHOLDING GIVES KUWAITIS THE RIGHT TO BE REPRESENTED ON THE BP BOARD AND THAT IT WOULD BE INCONSISTENT WITH THEIR RESPONSIBILITIES IF THEY FAILED TO PURSUE THIS. IT WOULD BE HIGHLY UNUSUAL FOR FOR SO LARGE A HOLDING NOT TO CARRY WITH IT THE RIGHT TO NOMINATE A BOARD MEMBER. SHAIKH ALI IS, I THINK TRYING TO BE HELPFUL IN NOT PRESSING FOR A SEAT ON THE BOARD FOR 3 TO 6 MONTHS BUT UNLESS I HAVE READ HIM INCORRECTLY HE WOULD NOT BE READY TO CONCEDE THE PRINCIPLE OUTRIGHT. IF HE FELT THAT WE WERE TRYING TO PUT HIM IN A CORNER HE WOULD, I SUSPECT, BE TEMPTED TO PUBLICISE THE REPRESENTATIONS WHICH WE HAVE ALREADY MADE TO THE KUWAITIS. (THERE IS ALREADY A RUMOUR CIRCULATING IN KUWAIT THAT I SAW ALI KHALIFA ON 11 JANUARY TO ASK HIM NOT TO BUY ANY MORE BP SHARES.)

3. IF NEVERTHELESS YOU FEEL THAT A FURTHER APPROACH IS NECESSARY I ADVISE AGAINST USING THE FOREIGN MINISTER TO FOREIGN MINISTER NET. ALTHOUGH SHAIKH SABAH AL WDMED WOULD SEEK TO AVOID A ROW WITH A FRIENDLY COUNTRY HE SHOWS NO SIGNS OF WISHING TO GET INVOLVED IN THIS PARTICULAR ISSUE. HE WOULD ALMOST CERTAINLY PASS ANY MESSAGE FROM THE SECRETARY OF STATE STRAIGHT ON TO SHAIKH ALI KHALIFA AS HE DID WITHOUR EARLHWA^{IER} DO REPRESENTATIONS. ANY MESSAGE WOULD BETTER COME FROM THE CHANCELLOR TO SHAIKH ALI (IN HIS CURRENT CAPACITY AS ACTING FINANNE MIVOSTERTL AND THIS WOULD HAVE THE ADVANTAGE OF DIRECTLY REACHING THE KEY PLAYER. BUT I DO NOT THINK HE IS GOING TO BE BUDGED ON THIS PARTICULAR POINT AND IN STICKING TO HIS GUNS

HAS PROBABLY ALREADY CLEARED HIS LINES WITH OTHER SENIOR MEMBERS OF THE RULING FAMILY.

4. AS SEEN FROM HERE THE BEST COURSE OF ACTION WOULD BE:

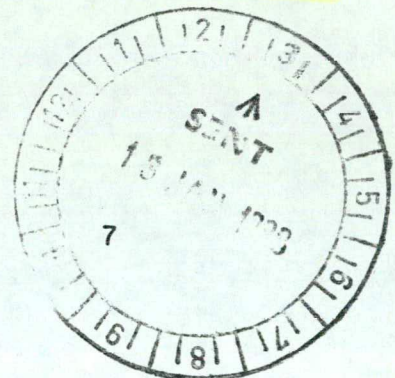
(A) TO TAKE UP SHAIKH ALI'S OFFER TO TALK TO THE GOVERNMENT AND TO BP IN LONDON ON 25/26 JANUARY. HE HAS REPEATEDLY SAID THAT HE WOULD WELCOME THE CHANCE TO TALK TO BP AT THE HIGHEST LEVEL. HE TOLD ME THAT WHEN IN LONDON HE ALWAYS TOUCHES BASE WITH THE CHAIRMAN OR WITH PETER CAZALET BUT IN HIS CONVERSATIONS SO FAR THE SUBJECT OF KUWAITI PURCHASES OF BP SHARES HAS NOT BEEN RAISED (I GATHER HE HAD A WORD WITH SIR D WALTERS IN DECEMBER). HE IS VERY HAPPY TO REPEAT HIS ASSURANCES ABOUT KUWAIT'S INTENTIONS PERSONALLY TO BP. THE OFFER COULD BEST BE ACCEPTED IN THE FORM OF AN INVITATION (PERHAPS FROM THE CHANCELLOR) WHICH MIGHT ALSO ASK THAT THE KUWAITIS AVOID TAKING ANY FURTHER ACTION IN THE MEANTIME WHICH WOULD UPSET AN ALREADY DELICATE SITUATION.

(B) LET ANY OFT DELIBERATIONS TAKE THEIR COURSE. I THINK ALI KHALIFA HIMSELF PROBABLY UNDERSTANDS THE INDEPENDENT STATUS OF THE DIRECTOR GENERAL OF FAIR TRADING. HOWEVER, THE KUWAITIS WILL BE LESS INCLINED TO VIEW THE PROCEEDINGS AS IMPARTIAL IF THEY HAVE IN THE MEANTIME BEEN SUBJECT TO FURTHER POLITICAL PRESSURES FROM THE BRITISH GOVERNMENT AIMED AT LIMITING THEIR FREEDOM OF ACTION.

HINCHCLIFFE

YYYY

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PS/MR MELLOR

NNNN



*Proton
may*

FROM: D J L MOORE
DATE: 14 JANUARY 1988

PS/CHANCELLOR

cc

Ch
*Content with this line
(also for our own use at
Questions this p.m.). ?*
25/14/11

- PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir P Middleton
- Mr Anson
- Mr Monck
- Mr R I G Allen
- Mr Williams
- Mrs Brown
- Ms Leahy
- Mr B O Dyer
- Mr Call

Miss Wheldon TSOL

BP BID FOR BRITOIL: PM'S QUESTIONS

BP have now made their bid. I attach copies of the press release.

2. I recommend that the attached line should be given to No 10 for PM's Questions this afternoon and used by the Chief Secretary if necessary in the debate tonight.

3. No 10 should also be given a copy of the BP press release.

D J L MOORE

BP bid for Britoil

Nothing new. Bid announced before Christmas (18/12). HMGS's position was outlined to the House by the Chancellor
~~Cannot add at this stage to what the Chancellor said to the House~~
on Monday when he explained the powers of the Government's Special Share in Britoil:

- in present circumstances the Government intend to use their Special Share in Britoil to prevent any bidder from gaining control of the Britoil Board
- the powers of the Special share will be used for so long as it is in the national interest to do so.

Now that BP has made a formal offer for the whole of Britoil's ordinary shares, 71C of the Articles of Association comes into effect.



PRESS RELEASE

FOR IMMEDIATE RELEASE

January 14, 1988

BP ISSUES OFFER FOR BRITOIL

The British Petroleum Company p.l.c. is today despatching the documents relating to the offer, announced on December 18, 1987, for the whole of the issued ordinary share capital of Britoil plc not already owned by the BP group. The BP group currently holds 29.8 per cent of Britoil.

In addition to the cash offer of 450p for each Britoil ordinary share, BP has introduced a part share alternative on the basis of one ordinary share in BP plus 190p in cash for each Britoil ordinary share.

The full cash offer values the issued ordinary share capital of Britoil at approximately £2,270 million. Based on the middle market price of 259p for BP ordinary shares on January 11, 1988, the part share alternative values each Britoil ordinary share at 449p.

For Britoil shareholders, the cash offer represents an increase in capital value of 140 per cent and an increase in income of 227 per cent (see note 3).

In an accompanying letter, BP Chairman Sir Peter Walters describes the offer price as "extremely attractive" for Britoil shares which were trading at 187p on December 7, 1987, the day before BP acquired its initial 14.9 per cent stake. Since December 8, shareholders with more than 50 per cent of the share capital of Britoil have sold their shares at a price of 450p or below.

The letter adds: "HM Government holds a Special Share in Britoil which in present circumstances gives the Government the right to a majority of votes cast at a General Meeting. BP is fully aware of the rights attaching to the Special Share and the statements made by HM Treasury and will seek discussions with the Government in due course.

"The Panel on Takeovers and Mergers has confirmed that we may proceed with our offer on the conditions contained in our announcement. The offer is not conditional upon the outcome of any discussions we may have with the Government regarding the Special Share."

Commenting on the agreement in principle for Arco to obtain up to a 49.9 per cent interest in Britoil through market purchases and an issue of new Britoil ordinary shares, Sir Peter says: "If this agreement went forward, Arco could effectively control Britoil without paying an adequate premium and without giving the remaining Britoil shareholders an opportunity to sell."

Outlining the reasons for the offer, Sir Peter adds: "BP regards the waters surrounding the British Isles as an area of strategic importance with excellent long-term potential. Britoil has a large exploration portfolio but does not, we believe, have the financial resilience necessary to exploit it as rapidly and effectively as it deserves. Their portfolio complements our position and combining the interests of our two companies will lead to more effective exploration and development of Britoil's assets."

"Whilst BP and Britoil have approximately the same amount of acreage in UK waters, BP's exploration efforts in 1986 and 1987 were very much greater. We believe that the integration of the exploration activities of the two companies will not only enhance revenues generated from the industry in Britain but also will contribute to the security and success of the offshore industry throughout the UK, particularly in Scotland."

In his letter to Britoil shareholders, Sir Peter states that BP already has a substantial presence in Scotland and has been operating there for many years. "Of the 28,000 people we employ in Britain, over 6,000 are based in Scotland, where we are one of the largest industrial employers. Following successful completion of the acquisition, Glasgow would become the business headquarters and decision centre of the combined UK oil and gas exploration and production business of BP and Britoil. The chief executive of that business and his staff would be based in St. Vincent Street in Glasgow."

"Aberdeen would continue as an operations HQ, and we do not expect that overall employee numbers in Glasgow and Aberdeen, taking BP and Britoil together, would fall as a result of the acquisition. As a matter of policy, Britoil employees who join the BP group would be treated on an equal footing with existing BP staff as far as career opportunities are concerned."

Sir Peter states: "We have a high regard for the skill and enthusiasm of the people who work for Britoil and the combination of our two companies will create a powerful British-based team with the ability to meet the growing challenges of exploring and developing the hydrocarbon resources of the British Isles."

Commercial Rationale

Discussing the commercial rationale for the proposed acquisition, the BP offer document says of Britoil: "As an exploration and production company, it is dependent on income from production to sustain new investment, particularly in its exploration activity, so vital to future growth for both the company and shareholder value.

"When oil prices collapsed during 1986, Britoil reduced staff and, most importantly for shareholders, exploration activity (measured in net wells drilled) and dividends."

The offer document says that BP's record in the UK includes:

- increased offshore exploration activity (measured in net wells drilled) in 1986 and 1987 and over 20 per cent average growth a year in this area since 1982
- dividends increased even in 1986, reflecting the financial strength of the BP group
- 350 million barrels of proven oil and 2,800 billion cubic feet of proven gas added to UK reserves between 1982 and 1986
- an increase in estimated net proved oil reserves for the Forties field of 240 million barrels during 1987, through improved field technology and good field production practice
- continuing build-up in skilled technical and experienced operating staff, with currently over 3,000 people involved in UK exploration and production.

The offer document states that the discovery and subsequent development of future offshore resources will become increasingly challenging.

"New fields will be harder to find and are likely to be smaller than those discovered to date. These changes will require strong management, the development and application of advanced technologies and financial strength together with a willingness to risk capital, particularly in today's volatile and low oil price environment.

"BP has the necessary management skills and technological resources. Its financial strength and diversified business activities enable it to take a long-term view and avoid a stop-go approach to its exploration and development programme. Britoil on its own will find it difficult to emulate this approach."

The BP offer document is being mailed directly to all Britoil shareholders today. Acceptances should be received not later than 3pm, Thursday, February 4, 1988.

Notes

- 1 The part share alternative is dependent upon the offer becoming unconditional in all respects and also upon the Council of the Stock Exchange granting permission for the BP ordinary shares which are being issued to be admitted to the Official List not later than seven days after the offer becomes unconditional in all respects.
- 2 The part share alternative is not available to North American shareholders.
- 3 The increase in capital value of 140 per cent quoted in the offer document is based on the difference between the offer price of 450p and the middle market quotation of 187p as derived from the Stock Exchange Daily Official List on December 7, 1987, the day before BP acquired its 14.9 per cent stake in Britoil.

The increase in income of 227 per cent also quoted in the document is based on the difference between the gross annual income to be obtained from placing the gross cash consideration on deposit at an interest rate of eight per cent per annum and the gross dividend of 11.0p per Britoil ordinary share which was paid in respect of the year ended December 31, 1986.

PRESS ENQUIRIES:

BP Press Office

01-920 6543
01-920 7738
01-920 6060

Schroders

W.M. Samuel

01-382 6414

8/4/A000



dti

the department for Enterprise

CONFIDENTIAL & MARKET SENSITIVE

Handwritten notes:
67 1/1
20

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1

| CH/EXCHEQUER | |
|--------------|------------------|
| REC. | 15 JAN 1988 |
| ACTION | MR D.J.L. MOORE |
| COPIES TO | CST, FST, EST |
| | SIR P. MIDDLETON |
| | MR N MONCK |
| | MR M WILLIAMS |
| | MRS M BROWN |
| | MS LEAHY |

Department of Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

MISS J NHeldon T SOL

Direct line 215 5422
Our ref DW5CNA
Your ref
Date 15 January 1988

Handwritten notes in red:
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Relevant...
P.S. Is LBY answer...
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political...
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is a further...
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PEM was going to speak to Sir B Hayes
about all this on Friday afternoon. We
shall find out first thing on Monday what
happened.

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PEM on Monday.
2. I see need for X,
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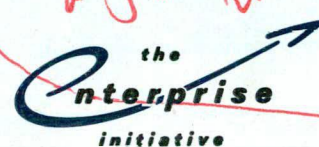
KUWAITI HOLDING IN BP

Following our conversation last night, and as my responsibilities under the Fair Trading Act (and conceivably the 1975 Industry Act) could well be of crucial importance, I thought I should let you and colleagues know what scope for action I have and how I propose to proceed.

As the Prime Minister told the Leader of the Opposition in her letter of 11 January, the Fair Trading Act applies both to full bids and certain minority holdings. I attach a note on the Act and other relevant legislation prepared by my Department's lawyers in consultation with FCO lawyers which sets out the background more fully. From this you will see that the position in the present case is by no means straightforward. In particular, the status of the Kuwait Investment Office (KIO) and the existence of the State Immunity Act 1978 are unwelcome complications, and it is clearly on the cards that the Kuwaitis may wish to make full use of them. Nevertheless they do not seem to be impediments that should stop the Fair Trading Act procedures from being followed in the normal way.

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approach.
But there is,
I suppose,
no harm





the department for Enterprise

CONFIDENTIAL
MARKET SENSITIVE

Although the Director General of Fair Trading (DGFT) has begun some preliminary work he has so far held off from approaching the Kuwaitis. But now that the Kuwaitis have been reminded by our Ambassador of the Fair Trading Act procedures (and in response Ali Khalifa, the Oil Minister, said that they were well aware of them) it seems to me that we should not be concerned if the DGFT decides to approach them without further delay. This would be entirely in accordance with normal practice; it would be helpful in indicating to the Kuwaitis that there is concern; it might deter them from buying more BP shares (or at least make it clear that they were doing so at their own risk); and it would be a more comfortable state of affairs if we were asked how the DG's enquiries were progressing. There will be a measure of flexibility in the time the DGFT takes to complete his enquiries and similarly in the time I take to consider his advice.

It remains to be seen how the Kuwaitis will respond when the DGFT approaches them. They may well say that they have made their position clear to HMG and in order to put him in a position to provide advice we may need to give the DGFT our formal account of what has taken place. (My officials have already kept OFT officials in the picture informally). As far as possible, however, we should encourage the Kuwaitis to provide information to the DGFT in the normal way.

As the attached note indicates, and though it would be exceptional for me not to, I am not bound to accept the DGFT's advice as to reference to the Monopolies and Mergers Commission (MMC). Similarly if the Kuwait holding were to be referred to the MMC and found to be against the public interest I have discretion whether or not to act on their findings. So the involvement of the DGFT and the MMC does not lead to an inexorable conclusion, with one important exception - if the MMC were to clear the Kuwaiti holding I would have no powers under the Fair Trading Act to proceed against it. (An added complication in the case of partial holdings is that if the MMC were to clear them and the holder were later to make further acquisitions which in total were referred to the MMC and found to be against the public interest it would not be possible to force divestment below the level of the 'cleared' holding).

As we agreed it would seem sensible and courteous for you and Cecil Parkinson to take the opportunity to see Ali Khalifa when he is in London on 25/26 January. But what is said at any such meeting will need to be most carefully



the department for Enterprise

CONFIDENTIAL
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X | prepared. I should be grateful if my officials could be consulted closely about the briefing since it is likely that in due course I shall have to consider whether to exercise my powers under the Fair Trading Act. Indeed normally when there is the possibility of a reference to the MMC we take great care to avoid any Ministerial or official comment, either in public or to the parties, on the merits of the case.

Unless I hear from you to the contrary on Monday morning I propose to inform the Director General of the situation and of my approach to it.

I am copying this letter to the Prime Minister, Geoffrey Howe, Cecil Parkinson, Patrick Mayhew, and Sir Robin Butler.

*Yours sincerely
Stephen Ratchiffe*

(Approved by the Secretary of State and signed in his absence)

NOTE ON POWERS OF SECRETARY OF STATE

Fair Trading Act 1973

1. The Secretary of State for Trade and Industry has power to make a reference to the Monopolies and Mergers Commission ("the MMC") when it appears to him that there may be a merger situation qualifying for investigation.

Qualifying mergers

2. A qualifying merger involves two or more "enterprises" ceasing to be distinct by their coming under common control. It appears that the Kuwaiti Investment Office ("the KIO") acts as agent for the Kuwaiti Government which owns or controls enterprises such as Gulf Europe and (presumably) oil enterprises in Kuwait for the purposes of the Act. The acquisition of the ability materially to influence the policy of an enterprise (such as BP) is treated as the acquisition of control. It seems likely that because of KIO's shareholding of more than 18% of the shares in BP it would be found by the MMC to have the ability materially to influence the policy of BP, though this must depend on the size of other shareholdings in BP and the ability of the Kuwaitis to get a nominee on BP's board.

References

3. The Director General of Fair Trading ("the DGFT") has a duty to advise the Secretary of State on whether arrangements

may constitute a qualifying merger and if so to recommend what action the Secretary of State should take. The Secretary of State is not obliged to follow the advice of the DGFT. The Secretary of State has power to refer a merger to the MMC within 6 months of the acquisition taking place. He may also refer any proposed merger before it takes place (eg if there were to be an announcement of a full bid).

Interim powers

4. When a reference has been made there is power for the Secretary of State under the Fair Trading Act to make an interim order by statutory instrument (operating during the reference and for a short period after publication of the Report) to prohibit the acquisition of further shares in the target company and to prohibit the bidding company from exercising voting rights in excess of a specified percentage, usually 15%, since building up a large shareholding and influencing the management of the company may prejudice the reference or impede the taking of action following the report of the MMC. Normally companies are prepared to give undertakings to that effect and there is no need to make an order.

5. If the KIO were not prepared to give undertakings and refused to obey an order it would not be possible to enforce an order by injunction in the court since the State Immunity Act 1978 provides that no injunction may be made against a state. An order could make any agreement for the sale of shares to the KIO void though there would be territorial limits to the scope of such an order. If an order were made prohibiting KIO from exercising voting rights but KIO did not obey, it would appear that BP might be justified in disregarding any votes so exercised.

MMC investigations

6. Although a state is immune from the jurisdiction of the courts under the State Immunity Act 1978 the MMC is not a court.

7. The MMC are required to investigate and report on whether a qualifying merger exists and whether it may be expected to operate against the public interest. In determining the latter point they are required to take into account all matters which appear to them relevant. While the MMC have power to require persons to give information and supply copies of documents to them there could be problems in enforcing any order against KIO since the principal officials of the KIO have diplomatic immunity but the FCO view is that its documents enjoy no immunity. However it seems likely that information about the existing enterprises of the Kuwaitis will be available through, eg, the FCO or the Bank of England and the MMC should be able to obtain such information from them.

8. The MMC may be given, initially, up to 6 months to carry out their investigations, but recently three or four month periods have been given. A further 3 months may be allowed if necessary.

Powers following a report

9. If the MMC conclude that the merger may not be expected to operate against the public interest, the Secretary of State has no power to take any action under the Fair Trading Act in respect of the merger. If they conclude that it

may be expected to operate against the public interest, action can be taken. Normally the practice would be to seek undertakings from the bidding company not to buy further shares and to reduce its existing holding to a level at which material influence cannot be exercised. If a company is unwilling to give undertakings an order may be made by the Secretary of State to the same effect, but as mentioned above an order against the KIO could not be enforced by injunction. The Fair Trading Act also enables an order to be made requiring shares to be cancelled. Such an order would be subject to an affirmative resolution by both Houses of Parliament and would be hybrid. It would appear therefore that the Secretary of State could make an order providing for BP to cancel a proportion of the shares held by the KIO or its nominees, for other shares to be allotted in their place, for those shares to be sold and the proceeds to be handed over to the KIO. Such steps would not be affected by the State Immunity Act since no court proceedings would be involved.

Companies Act 1985

10. BP shares are traded in New York in the form of American Depository Receipts ("ADRs"). For the purpose of the disclosure of interests provisions under the Companies Act 1985, any holding through an ADR is required to be included in the notification to BP. A register of notified interests has to be kept by BP and this would indicate whether any notified holding was in ADRs. There will be an entry in relation to Kuwaiti interest and this will establish whether the holdings already notified include any held through the ADR custodian.

11. Arrangements are being made to inspect the register of notified interests. If there has been no disclosure

it may mean either that no shares have been acquired in ADR form by the Kuwaitis or that they have not notified them.

12. If it proves necessary to do so the matter can be investigated further by the use of powers under the Companies Act. If appropriate, sanctions can be applied by the Secretary of State without court proceedings.

Industry Act 1975

13. There are powers under the Industry Act 1975 which are exercisable in relation to changes in control of important manufacturing undertakings. The statutory definition of these is wide enough to cover BP but the powers cannot be used unless there is a serious and immediate probability of the KIO being able to exercise at least 30 per cent of the votes in BP. In such a situation the Secretary of State may by order prohibit the change of control or vest the shares in himself or his nominee. A vesting order could also be made if a change in control has taken place. There could, however, be difficulty in enforcing a prohibition order against a State and there are territorial limits to the scope of such an order. Such orders are to be made by statutory instrument and are subject to an affirmative resolution of each House of Parliament. In the case of a vesting order there is a requirement for the payment of compensation.

DEPARTMENT OF TRADE AND INDUSTRY

The Lord Williams of Elvel - To ask Her Majesty's Government whether they will refer the acquisition by the Kuwait Investment Office of a substantial holding British Petroleum plc to the Monopolies and Mergers Commission.

My Lords, the Kuwait Investment Office holding is being considered in the normal way under our merger control procedures by the Director General of Fair Trading. He will advise me whether there may be a 'merger situation' which qualifies for investigation and, if so, whether it should be referred to the MMC.




FROM: J M G TAYLOR
DATE: 19 JANUARY 1988

CHANCELLOR

KUWAITI HOLDING IN BP: OFT

Sir Peter Middleton held his meeting this evening about Lord Young's letter of 15 January (attached). Sir Patrick Wright (FCO), Sir Brian Hayes (DTI), and Sir Peter Gregson (Energy) were present.

2. The meeting concluded that the Office of Fair Trading should be allowed to approach the KIO without further delay. Initially this would take the form of a low-key approach to the KIO in London. The OFT would simply ask factual questions about developments in the KIO's holding in BP.
3. The meeting reached this conclusion for three reasons:
 - a. because the statutory independence of the DGFT would make the Government's position increasingly uncomfortable if it was not allowed to proceed in the normal way;
 - b. because the Kuwaitis are clearly aware that inquiries would normally be undertaken, and may begin to question the position if these do not happen soon;
 - c. because, most importantly, Parliamentary Questions will soon be asked. Indeed, Lord Young must answer a question on this tomorrow (question and draft answer attached). Moreover, the Prime Minister in her letter to Kinnock said that the DGFT "is currently considering the KIO holding in BP".
4. If you are content, Sir Peter Middleton's office will confirm to the DTI tomorrow that we have no objection to the OFT setting in hand their enquiries.


J M G TAYLOR

consider the question of how important it is to preserve Britoil's separate identity in Scotland.

4. We have also been looking at the question of replacements on the Britoil Board should that be necessary. This is discussed in the second note.

5. As this note explains there could be critical path difficulties in giving the necessary notice before an AGM or EGM, the timing of which would not be under our full control. We also need to have some suitable candidates lined up, and it would be helpful to have comments, and further ideas, on those suggested in paragraph 9 of the note.

6. In spite of the risks in delaying, our provisional view is that we should not give notice of an intention to replace Britoil Directors as soon as BP acquire 51%. That would look highly confrontational and we first need to establish what is the attitude of the Britoil Directors (and they will not necessarily all take the same line) to continuing to run an independent company. In particular we need to know whether they would be willing to do so on the lines sketched out in the first note - though there is a tactical question of whether we discuss these ideas first with BP or with Britoil. But obviously we do not want to call an EGM prematurely or to throw off Britoil Directors before we knew whether an acceptable basis for operation can be established.

7. We are however, investigating one other ploy, suggested by Ms Wheldon, which might remove or ease the choice between taking a (probably small) risk of losing our ability to change the Board at the relevant time and adopting an excessively confrontational posture. This would be to give notice quickly that the Special Share holder would be proposing at the AGM to dismiss the four Directors who would not be retiring automatically. (We would also have to nominate one new Director to ensure that there are seven Directors because those appointed at the AGM can only add two in-year.) We could counter the confrontational appearance by explaining that this was a technical move to ensure that we could use the Special Share

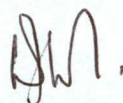
if we wanted to, that it would be open to us either to re-appoint the dismissed Directors or indeed to withdraw the proposal if the forthcoming discussions with Britoil/BP went satisfactorily. It seems worth checking this ploy technically even if you decide in the end to take the slight risk involved in taking no such action.

8. If you agree with paragraph 6, our public holding line if BP were to move to a 50%+ holding, might be:

It remains the position that the powers of the Special Share will be used for so long as it is in the national interest to do so. In the new circumstances, of BP's ~~successful~~ acquisition of a majority of Britoil's ordinary shares, we will now discuss the situation with them, and with the Britoil Board. We cannot say anything further at this stage.

9. I have put up separate notes today with draft replies to Sir P Shelbourne's letter to Sir Peter Middleton and to Mr John Smith's letter to you. Both - and probably not coincidentally - are probing on how in practice the company would be run if BP were successful.

10. By next Tuesday we have to advise OFT, who are looking at the BP bid, how we think the Special Share "affects any public interest issues raised by the BP takeover bid". Provisionally, we intend to reply very briefly, referring to your statement of 11 January and suggesting that OFT should consider their remit as though there were no Special Share. Energy and the Scottish Office have also been asked for comments on their interests in the bid. We are in touch with them on the replies.



D J L MOORE

SECRET

BRITOIL AND BP

1. This note sets out a possible approach for negotiation if BP were to acquire most or all of Britoil's shares.

2. First, the Government would negotiate a set of assurances with BP, and in consultation with the Britoil Board. Then, if the negotiations were successful, the assurances would be made public and the Government would:

i. forthwith, allow BP, say, two Board representatives on Britoil

ii. after a period, redeem the Britoil Special Share if it had been satisfactorily demonstrated that BP were honouring the assurances given

But if BP were to backtrack on the assurances their Britoil Board representatives would be removed under the powers of the Special Share. We are satisfied that this would be a reasonable basis for using the Special Share.

3. This approach would give effect to the assurance that the powers of the Special Share will be used for so long as it is in the national interest to do so.

4. Assurances and points for negotiation

Two main assurances would be sought. These would build on the statements already made by BP on their proposed increased commitment to Scotland (and expectations on employment) and on their intention to pursue a more vigorous exploration programme, on the acreage acquired, than that pursued by Britoil. BP's present intentions are set out in paragraphs 5.1 and 6.5 of their submission to the OFT - see extracts attached.

5. The aim in negotiation would be to sharpen up these assurances. On Scotland, the commitment to build up activities

in Glasgow ought to be supported by an agreed time-table. For so long as the Special Share was in force there would have to be agreement that Britoil kept its North Sea assets (see paragraph 8). The remaining BP expectations on employment would be noted; but it would be unreasonable to require a firm commitment to particular numbers.

6. On exploration etc it would again be the objective to backup the proposals with a time-table. BP could be required to commit a stated amount of annual expenditure which was demonstrably higher than any undertakings given by Britoil.

7. If assurances on these lines were given, and then published, they would give substance and credibility to BP's claim that the change was in the interest of Scotland and of the economy more generally. They would provide criteria on which to base a judgement of for how long it was in the national interest to keep the Special Share in play.

8. In the BP bid document, Sir Peter Walters (page 9) writes that "following the successful completion of the acquisition, Glasgow would become the business headquarters and decision centre of the combined UK oil and gas exploration and production business of BP and Britoil. The Chief Executive of that business and his staff would be based in St. Vincent Street in Glasgow." This needs clarification. It would be unacceptable if BP were proposing to take away Britoil's main North Sea assets and effectively sweep them immediately into the BP group to which the Special Share does not apply. It would obviously be essential to guard against this and (pending a Government decision to redeem the Special Share) for the Britoil company to remain in existence and to continue to keep its present assets, possibly more rather than less. (Alternatively a new combined company might be set up to which the Special Share applied.) But this should not necessarily mean that in the meantime BP could not start building up their Glasgow activities as they have proposed.

9. There is a further question on how many and which posts BP would have on the Britoil Board. It would seem reasonable for them to have 2 Board members out of the minimum total of

7, and probably for one of those to be the Chief Executive if the assumption is that BP will in due course earn themselves the right to full affective control. But the Chairman (in succession to Sir Philip Shelbourne who retires in April) should be a part-time non-executive with no BP connections. This would give credibility to the claim that for the time being Britoil was operating as an independent company and in accordance with the published criteria against which BP were to be judged.

10. As part of the package, we should seek assurances from BP that they would not take up, or maintain, a full 100% holding in the interim period. Again this would help with the credibility of the arrangements. (And if they did hold 100% it may be necessary to negotiate a change in the Britoil Articles of Association to remove a defect which might otherwise enable BP to withhold cooperation from providing a forum at an EGM.)

11. It would be for later consideration how long the Special Share should run, and whether a possible termination date should be announced. One approach might be to say that the Special Share will be terminated no earlier than [a date, in say, 1989] with the decision subject to satisfactory observance of the assurances laid down.

5.1 This commitment to Scotland will be increased with the acquisition of Britoil; BP has announced that it will ensure that the rights, including pension rights, of the existing 1,800 employees of Britoil will be fully safeguarded. In the event of a successful bid:-

(i) Glasgow will become the business headquarters and decision centre of BP's UK oil and gas exploration and production business. The chief

executive of that business and his staff will be based there.

(ii) Aberdeen will remain as the operations centre, as is presently the case for both BP's and Britoil's exploration and production activities.

(iii) BP does not expect that overall employee numbers in Glasgow and Aberdeen, taking BP and Britoil together, will fall as a result of a successful bid.

(iv) Britoil employees will be treated, as a matter of policy, on an equal footing with existing BP staff as far as career opportunities are concerned.

6.5 Far from having adverse consequences for the public interest, BP maintains that the merger will bring about positive benefits. Discovery and subsequent development of the North Sea's resources will in future

become increasingly challenging, for example in the deeper water frontier exploration areas. New fields will be harder to find and are likely to be smaller than those discovered to date. Economic maximisation of national resources in the overall context of the changing UK hydrocarbon province will require the appropriate combination of managerial, financial and technical strengths. The application of BP's financial strength together with its technical and commercial expertise will permit more effective management of Britoil's assets; following the merger, BP intends to:-

- (a) explore acreage licensed to Britoil more fully and faster, reversing the sharply declining trend in Britoil's UK exploration activity;
- (b) undertake an active programme of technical and commercial appraisal of Britoil's discoveries, to ensure their timely development; and
- (c) apply its production engineering and reservoir management expertise to Britoil's producing fields, seeking to improve recoverable reserves from these fields.

CONFIDENTIAL

BOARD REPLACEMENTS

If BP or another bidder succeed in acquiring a majority of Britoil shares one of the early issues that will need to be resolved is whether the existing Britoil Board can be relied on to operate the company independently of the majority shareholder. If not, you will want to consider whether to replace the Board (or some Board members) and how soon to take the necessary steps.

2. Mr Monck's minute and attachment of 23 December to Sir P Middleton (copied to you and other recipients of this minute) discussed this briefly in the context of a possible bid favoured by the Britoil Board. It could also be an issue, however, if a bidder succeeds against the recommendation of the Board and the Board conclude that, in the circumstances, they would prefer to defer to the wishes of the successful bidder.

3. If it was decided to replace the Britoil Board (or some Board members) with other Directors who we believed were prepared to take an independent attitude it would be best to give notice of this as soon as the bidder obtained 51 per cent of the company because the bid could go unconditional at any time thereafter and pressure could then build up quickly to the compulsory acquisition point. BP could obtain 51 per cent or more of the shares at any time. Replacing the whole Board would involve putting forward at least seven named replacements. But fewer would be needed if it could be established, through interviews, that some of the existing Board (eg the executives) were likely to be reliable.

4. There are two routes we could follow. One would be to requisition an EGM, which would have to be held within two months. The alternative would be to give notice that the Board changes would be made at the next AGM. The date of this is normally at the end of April but could be left by the Board as late as July (and equally could be brought forward ahead of April).

5. In both cases we can only be absolutely certain of being able to change the Board if we move fast. The Board do not have to give us more than 21 days notice of an AGM and we need to serve notice of our intention to remove Board members before this in order to meet the statutory requirement of notice for such changes. Since there is no fixed date for the AGM this means that we could be caught out unless we gave the necessary notice quickly, ie before the Board starts making any tactical move such as moving forward its AGM.

6. So far as an EGM is concerned, you will recall that one of the reasons for ensuring the independence of the Board at an early stage is that there may be a technical problem in changing the Board at an EGM when there is a 100 per cent shareholder. A bidder which obtains 90 per cent of the shares could* compulsorily purchase all those remaining and on the face of it there would not be a quorum at an EGM unless it co-operated. Richard Sykes and our Scottish Counsel, The Dean of Faculty, David Hope, has advised that there is a reasonable chance that a court will accept an HMG application resisting the acquisition of all its shares for this reason (or alternatively will order BP to form a quorum as and when an EGM is called) but we cannot be certain of this.

7. The time taken to dispose of any application to the court resisting compulsory acquisition should in practice give us additional time and therefore flexibility. However, David Hope cannot give any assurance on this. Such an application could take months to dispose of, particularly taking into account the possibility of an appeal, but could take as little as two weeks.

8. The problem about a quorum does not incidentally apply to an AGM and one of these must be held in each year.

9. One of the main difficulties of moving quickly would be finding experienced replacements of the right calibre who were prepared to take on the role the Government saw for them. Department of Energy officials have come up with some names for consideration - John Raisman (58) formerly of Shell, Sir Austin Pearce (66) formerly of Esso, John Heeney, formerly Chairman of Saxon Oil, John Lowein formerly of Mobil oil and Sir Donald Maitland (65), a former Government Director of Britoil. One other possibility might be John Maltby (59) who is due to retire soon from chairmanship of Burmah. These have not of course been sounded out about their attitude and may therefore not be willing or suitable.

10. Sir Peter Middleton has already seen Sir Philip Shelbourne and David Walker to find out what they had to say about the potential relationship between the Britoil Board and a successful bidder. At that meeting Sir Philip and David Walker indicated that they would find it very difficult to run the company as it had been run before if there was a 100 per cent shareholder. It may be sensible to have further individual meetings with them and also with the other Board members to establish more clearly whether any Government action might be necessary.

* subject to an argument on Crown application
which we are exploring



Ch.

Britoil.

David Moore understands from David Simon (BP) that the Britoil board are currently discussing the proposed BP/ARCO deal. Simon is waiting to hear the outcome of the Board's discussions. There may be an announcement this afternoon.

2. The reason why the Britoil board are discussing this is, of course, because they had a prior deal with ARCO.

Ch.
W. S. P. -

JF
2/1

CONFIDENTIAL

FROM: D J L MOORE
DATE: 21 JANUARY 1988

SIR PETER MIDDLETON ✓

cc attached for PPS

cc Mr Monck
Mr Williams
Ms Leahy

Miss Wheldon TSOL

BRITOIL

I attach a stalling reply to Shelbourne on the lines we discussed.
The last paragraph is based on advice from Miss Wheldon.

DJM.

D J L MOORE

I am inclined to delete the last sentence - from the square brackets



Permanent Secretary
H M TREASURY cc F.S.T.

Ch/ You still have the
Chancellor, ~~letters from~~ Smith + Shelbourne

You might like ^{to}
to glance at the proposed
replies to Smith and Shelbourne
together. If you do not feel
compelled to reply to Smith
too quickly, you could wait
for the Moore's submission
later today. It goes through the
options following the meeting with
you yesterday morning and
and a meeting I subsequently
took with all concerned

Tom Simon.

Under. ^{Em} Shelbourne 2/12/72
Answers. 1/12/72
to Mr Moore's before
OK as
wait
submission
reply
to Smith.

CONFIDENTIAL

DRAFT LETTER TO :

Sir Philip Shelbourne
Chairman
Britoil plc
5 Upper Belgrave Street
LONDON
SW1X 8BD

January 1988

Thank you for your letter of 20 January about the exercise of the Special Share.

I have looked very carefully again at the questions you have raised and I agree that there may shortly come a time when we should meet to discuss them. But, for the moment, I cannot usefully go beyond what the Chancellor said in the House of Commons on 11 January.

If, nevertheless, there are any points you want to make to me at this stage I would of course be glad to see you.

You asked about the Chancellor's reference, in his statement to the House, to Article 92 of the Britoil Articles of Association. I do not think that there is any issue of ~~particular~~ significance here. But the Chancellor was correctly making the point that Article 92 - ^{is unusual in explicitly} ~~in~~ referring to the business of the company being managed by the Directors "to the exclusion of the company in general meeting". ~~[does not follow standard form. He did not suggest that the Britoil Board's powers are, as a result, more constrained than the powers of the Board of any other listed company.]~~

Em.

[Sir Peter Middleton]

SECRET



FROM: J M G TAYLOR

DATE: 21 January 1988

MR D J L MOORE

cc PS/Financial Secretary
 PS/Economic Secretary
 Sir P Middleton
 Mr Anson
 Mr Monck
 Mr Williams
 Mrs Brown
 Miss Leahy
 Miss Wheldon T/Sol

BRITOIIL

The Chancellor was grateful for your submission of today's date. *wje.*

2. He is glad to note that we are satisfied that it would be a proper use of our powers to dismiss BP's representatives from Britoil, if they reneged. This is most important. He is uneasy about Miss Wheldon's ploy (paragraph 7 of your minute) that we might give notice quickly of a proposal at the AGM to dismiss the four directors who would not be retiring automatically. He agrees, however, that we can reconsider this ploy when we have all the facts (about the attitudes of the Britoil board in particular).

3. He has amended the 'public holding line' (your paragraph 8) slightly, so that it reads:

'It remains the position that the powers of the Special Share will be used for so long as it is in the national interest to do so. In the new circumstances of BP's acquisition of a majority of Britoil's ordinary shares, we will now discuss the situation with them, and with the Britoil board. We cannot say anything further at this stage.'

4. He is otherwise content with your advice, subject to any strong views to the contrary which the Financial Secretary and the Economic Secretary may have.

JH
 J M G TAYLOR

Thanks. I had better telephone Mr Rippon on Mon AM.

Ch/ Press line, no previously agreed, below. (As you discussed with DJLM, we will only use the first sentence (+ weasel words about "looking closely at developments") if anything transpires this

et



JJB-107

FROM: J J HEYWOOD
DATE: 22 January 1988

PS/CHANCELLOR

*Mr Moore's
other submission,
not this one!*

*(It's about appointing
people to the British Board)*

cc PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr D J Moore
Mr Williams
Mrs M E Brown
Ms Leahy
Miss Wheldon T.Sol

BRITTOIL

The Financial Secretary has seen Mr Moore's submission of 21 January.

2. On the second note, the Financial Secretary has commented that he would be very cautious about appointing Sir Austin Pearce. He suggests Christopher Tugendhat as an alternative.

9.17

JEREMY HEYWOOD
Private Secretary