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CHANCELLORS 1987
BRITISH PETROLEUM
AND OIL PAPERS

26-11-87

DD'S 25yB NAJW 22-11-96

FROM: G R WESTHEAD
DATE: 23 October 1987

MR M JOHNS - IR

cc PS/Chancellor 2
PS/Sir P Middleton
Mr Cassell
Mr Scholar
Mr M Williams
Miss Sinclair
Mr Cropper

Mr Battishill - IR
Mr Painter - IR
Miss Hill - IR
Mr Kuczys - IR
PS/IR

MOSSMORRAN

This is to confirm that the Economic Secretary is content with the briefing attached to your minute of 22 October on the above and for this to be passed over to the Scottish Office, for use by their Secretary of State when he sees Shell at the end of the month.

Guy Westhead.

GUY WESTHEAD
Assistant Private Secretary

3687/006

SECRET & MARKET SENSITIVE

Passed on to [illegible] by Ch.

PMP

FROM: D J L MOORE
DATE: 23 OCTOBER 1987

SIR PETER MIDDLETON

cc: PS/Chancellor
PS/FST
Mr Cassell
Mr Monck
Mr Peretz
Mrs Lomax
Mrs ME Brown

Miss Wheldon - T.Sol.

Mr Henderson - S&M.

~~This~~ This Mrs Brown's note is ~~what~~ seriously inadequate. I have ~~attempt~~ therefore not only answered these questions but enlarged the list of relevant questions. Also, re X, 8b appears to have been worked on for the last Britoil sale (Nov 1982). Note also following key points:

BP SALE

I attach a draft note prepared by Mrs Brown, after discussions among some of us, this afternoon. This would be a basis for the Treasury's response if a majority of the underwriters proposed that the underwriting agreement should be terminated.

(1) Problem for underwriters is not BP strike (loss relating to market) but much bigger losses on other shares via crash. But this cannot be a relevant consideration.

(2) If there is need for authorities to inject more liquidity into market, this must be on basis of liquidity which can be subsequently recovered, not ongoing gilts.*

Memo: Amount @ issue of 1st instalment approx £2½ bn, of which £1½ bn (equivalent to, say, one month's funding) in UK market, rest offshore (esp US).

Rothschilds

2. At 5.20 p.m. Mr Richardson telephoned me to say that Rothschilds, as the lead underwriter, had held a meeting of the underwriters at 3.00 p.m. to discuss Section 8 of the underwriting agreement (extract attached). He said that the meeting:

(a) were unanimous that there had been an "adverse change in ~~the~~ national or international financial . . . conditions";

(b) did not dispute that the change was of a magnitude and severity as to be material in the context of the offer;

(c) did not reach a view on whether they were confronting a "proper underwriting risk".

Richardson volunteered that they were divided roughly 50/50 on (c). They wished to consider developments in markets over the weekend, in particular in the USA and Hong Kong. Richardson said that the underwriters had been advised that they should judge (c) as "expert witnesses" regardless of any sub-underwriting obligations they might have.

* eg plan to sell gilts (to Gov. Broker to [illegible])

3. At the underwriters' request, Rothschilds will reconvene the meeting at 10.00 a.m. on Monday, 26 October.

4. For the record, all these facts were volunteered to me by Richardson. I expressed no views. Richardson confirmed to me (in a subsequent conversation) that there had been no question of consultation.

BP

5. Mr Simon of BP told me, on his initiative, at 3.30 p.m. that the BP Executives now judged that with the present price and market conditions it was in BP's interests for the offer to be pulled.

6. At 5.30 p.m. he confirmed that this was also the view of non-Executives he had consulted. BP's judgment was based on their expectations of a poor aftermarket in the medium term and the effect of an overhang of stock on the Company. His own judgment was very much coloured by the meetings at the Treasury yesterday with the various territorial groups and in particular by the implications for the UK underwriters of a poor retail response. He did not expect BP's judgment to change next week.

7. I took note and said that I would report here. I told him that Treasury Ministers' position remained as stated. There would be no further discussion with them before Monday.

8. Under the arrangements, BP cannot pull out unilaterally.

Mrs Brown's Note

9. The pros & cons of going ahead are very difficult to judge. The main consideration is not confined to what is a "proper underwriting risk". There are also these

questions:

(a) What further damage, if any, might there be to general market conditions if the BP offer goes ahead?

None, since (following clear statements by HMG – inc C/X) market is already assuming this

(b) Is it consistent with HMG's obligations to the taxpayer to give up proceeds at 330p a share for uncertain proceeds from a later sale?

No

(c) Would the BP sale have an adverse effect on the reputation of the privatisation programme and on HMG's wider share ownership policies? (95,000 retail investors have applied so far).

No. Insofar as adverse effect of BP crash on privatisation, it is ~~[illegible]~~ incurred by millions who bought shares in previous privatisations. Cf this, 95,000 an insignificant number

We need to look further at these questions in the light of developments early next week. If consultations do take place, we must expect the questions raised to include (a) and (c) and our legal advice is that we must look at them with an open mind.

D J L MOORE

Enc:

(d) Do underwriters stand to make a loss that clearly ~~exceeds~~ any normally conceivable underwriting loss?

No. Because of instalments etc, 'true' price @ which underwriters acquire is approx 308.5p ([illegible]). Present price of 276p represents an implied loss of [illegible]: [illegible] less than many past underwriting losses (give figs) 10½%

(e) Wd failure by underwriters to honour their obligations damage reputation of City entities at home & abroad?

Yes

(f) Is it acceptable to bale out underwriters at taxpayers' expense, given not only substantial fees earned by City ~~ingtitutions~~ from past privatisations but also even more substantial profits ~~[illegible]~~ they have made from privatisation share having been placed with them @ offer price

No

(g) Wd (f) have an adverse effect on the reputation of the privatisation programme?

Yes

(h) Wd a decision to pull the issue be politically damaging to HMG?

Yes

EXTRACT FROM BP UNDERWRITING AGREEMENT:-

procure that such legal advisers shall, to such extent as may in the circumstances be reasonable, co-operate fully in dealing with any such claim but without prejudice to the right of the indemnifying party to settle or compromise such claim as it or they think fit, subject only to prior consultation to the extent reasonable and practicable in all the circumstances with each indemnified party concerned and with Rothschilds.

7.05 If, in respect of any claim or action brought against an indemnified party the defence of which has been assumed by an indemnifying party, the relevant indemnifying party determines that it or they intends (whether by reason of any fact or matter which is asserted or proved in such claim or action or otherwise) to assert that the indemnity contained in Clause 7.01 does not extend to costs, charges, damages, expenses, losses or liabilities that result therefrom by reason of the operation of Clause 7.03, the relevant indemnifying party shall promptly notify the indemnified party of such intention. In such event, the relevant indemnifying party shall consult with the indemnified party and keep it informed about the defence and shall, to the extent reasonable and practicable in the circumstances, conduct the defence in such manner as may from time to time be agreed between the relevant indemnifying party and the indemnified party, but failing such agreement in such manner as the relevant indemnifying party shall determine.

7.06 The right of any person to be indemnified pursuant to Clause 7.01 is without prejudice to its obligations under this Agreement or (in the case of Rothschilds) to its obligations under the Agency Agreement or any other agreement with the relevant indemnifying party and (in any such case) without prejudice to any liability on the part of any such person for any antecedent or other breach of any of the terms of this Agreement or (in the case of Rothschilds) of the Agency Agreement or of any other agreement with the relevant indemnifying party.

8. <u>Termination</u>

8.01 If between the execution of this Agreement and the time when this Agreement becomes unconditional in all respects there shall, in the reasonable opinion of the Treasury or a majority in number of the Underwriters, have been:-

(a) any adverse change in national or international financial, political, industrial or economic conditions or currency exchange rates or exchange controls; or

(b) any press or public announcement or comment concerning BP or any of its subsidiaries (or the Offers or the Fixed Price Offer or the International Offer (including the Overseas Offerings)), or any agreement or arrangement or act or thing which would require any such press or public announcement or comment to be made, in the United Kingdom or elsewhere by or on behalf of BP falling within the restrictions imposed by Clause 3.11 which has not, insofar as such approval is required, been approved by the Treasury and Rothschilds prior to its release or (as appropriate) prior to the agreement or arrangement being entered into or the act or thing being done or (where BP is required to do so by any applicable law or regulation or by any stock exchange on which Ordinary Shares (or depositary receipts relating thereto) are listed) which has been made, entered into or done without prior consultation with the Treasury and Rothschilds; or

(c) any press or public announcement in the United Kingdom or elsewhere about the Offers or the Fixed Price Offer by or on behalf of any Minister of the Crown;

which, in the reasonable opinion of the Treasury or a majority in number of the Underwriters, is (or in the case of any such announcement, comment, agreement, arrangement, act or thing the effect of which is) of such magnitude and severity as to be material in the context of the Offers or the Fixed Price Offer, and which (in the case of an opinion formed by a majority in number of the Underwriters) should not, in the reasonable opinion of a majority in number of the Underwriters, be regarded as a proper underwriting risk in the context of the Offers or the Fixed Price Offer, the Treasury and Rothschilds on behalf of the Underwriters (after consulting with BP) shall consult as to what action shall be taken in relation thereto, and if the Treasury and Rothschilds on behalf of the Underwriters shall not agree whether or not the Offers should proceed the Treasury and Rothschilds shall jointly consult the Bank of England, and shall before reaching a decision take full account of the Bank of England's assessment.

8.02 The Treasury confirm that they have informed the Bank of England of the contents of the foregoing sub-clause.

8.03 If:-

(a) any of the conditions referred to in Clause 2.01 is not fulfilled; or

(b) following any consultation pursuant to Clause 3.10 or any consultation pursuant to Clause 8.01 the Treasury and Rothschilds on behalf of the Underwriters shall agree that the Offers or the Fixed Price Offer should not proceed; or

(c) the Allocation Announcement has not been made either:-

(i) within 96 hours (or such longer period as may be agreed between the Treasury and Rothschilds on behalf of the Underwriters) after Rothschilds shall have been notified of the number of Ordinary Shares comprised in Valid Applications, the number of International Offered Shares and the Determined Offer Price; or

(ii) by 6.00 p.m. on 9th November, 1987;

whichever shall be the earlier; or

(d) pursuant to Clause 3.14 the Treasury rescind or treat as repudiated the International Offer Agreement without the prior written consent of Rothschilds on behalf of the Underwriters (not to be unreasonably withheld or delayed),

this Agreement (other than Clause 8.04 below and the provisions of the other Clauses referred to in Clause 8.04 below) shall terminate and Rothschilds shall notify BP thereof as soon as reasonably practicable thereafter.

8.04 In the event that this Agreement is terminated (in the manner and to the extent referred to in Clause 8.03), the parties hereto shall be released and discharged from their respective obligations hereunder or pursuant hereto except for:-

(a) the liability of the Treasury and BP for the payment of costs, charges and expenses as provided in Clause 5.02 or under the indemnity contained in Clause 7.01;

(b) the liability of the Treasury and BP to pay the commissions referred to in Clause 5.01 if this Agreement shall terminate in any of the circumstances mentioned in Clauses 8.03(a) (except as a result of the condition in Clause 2.01(c) not being satisfied) or 8.03(c) or shall terminate pursuant to any consultation referred to in Clause 3.10 unless such consultation takes place as a result of an event falling within the provisions of Clause 3.10(c) having occurred or being likely to have occurred; and

(c) the liability of any party hereto by reason of their, his or its antecedent breach of the terms of this Agreement.

8.05 In the event that the Treasury and BP shall be liable to pay the commissions referred to in Clause 5.01 by virtue of Clause 8.04(b), such commissions will be paid in London two business days in London after the date on which this Agreement is terminated.

8.06 If any consultation pursuant to Clause 3.10 or 8.01 does not result in the Treasury and Rothschilds on behalf of the Underwriters agreeing that the Offers should not proceed neither the Treasury nor any of the Underwriters shall thereafter be entitled to rescind this Agreement solely by reason of any matter which gave rise to the said consultation.

9. International Offer Agreement

9.01 Each party hereto agrees with the other parties hereto, in the case of the Underwriters (for themselves and as agents for the several Sub-underwriters and, in the case of the liabilities arising pursuant to the matters referred to in Clause 7.01(v), each person who controls any Underwriter (or Sub-underwriter) within the meaning of either Section 15 of the Securities Act of 1933 or Section 20 of the Securities Exchange Act of 1934 of the US), that the provisions of Clauses 3.04, 3.07 (other than in relation to Recitals (O) and (P)), 3.09 (other than in relation to the Receiving Bankers Agreement), 3.10, 3.11, 3.12, 3.13 (other than in relation to the Prospectus and the Receiving Bankers Agreement), 4.06, 6.02, 7.01(iv) and 7.01(v) (and the related wording contained in the preamble of Clause 7.01

SECRET

A SHOULD TERMINATION PROCEDURES BE TRIGGERED?

(1) Questionable whether drop in share prices constitutes "an adverse change in national or international financial ... or economic conditions ... which ... is of such magnitude and severity as to be material in the context of the Offers."

Stock market changes alone do not constitute such a change. £/$ exchange rate has held up. Oil price up to over $19. Bond markets around world have risen. Interest rates have been reduced. Other indicators satisfactory (eg. companies' trading position).

[Contrary argument: Very difficult to argue that this precondition for triggering the termination procedures does not apply. Biggest ever fall in share prices over so short a period. Outside range of price volatility used in published SIB/TSA studies to formulate capital adequacy rules for securities dealers in equities.]

(2) Do not accept that the offer is one "which should not... in the reasonable opinion of the underwriters be regarded as a proper underwriting risk ...".

Proper underwriting risk includes sharply falling price - whether of BP stock particularly, or as part of more general fall in share prices.

Most privatisation issues in past have taken place against background of steeply rising share prices - from which sub-underwriters have benefitted in shape of firm placing.

This is only 4th privatisation issue where underwriters left with stick. Must take rough with smooth.

Fall below underwritten price not unprecedented. [Cable & Wireless 1983? Enterprise 1984? To be checked]. Yet still underwritten.

X

Underwriters well aware of volatility of BP and other oil stocks. Must have taken that into account in bidding for primary underwriting (at lowest ever average commission rate of 0.018 per cent) and in taking sub-underwriting allocations.

[**Contrary arguments**]

- other UK equity issues being pulled

- BP favour termination - implies they do not regard present conditions as "proper underwriting risk".

Response: HMT's judgement is that it is proper to go ahead, for reasons given above, and on wider national interest grounds.]

B MARKET ARGUMENTS

[Underwriters may argue

- Forcing underwriters to pay first instalment of up to £2.5 bn world-wide will take further liquidity out of markets and in some cases may cause problems in meeting capital requirements. This will worsen present conditions;

- Those left with BP stock will sell out and cause

  (a) collapse in BP share price;
  (b) more general collapse in prices - further blow to market confidence;

- Government should not continue with BP issue when, internationally, most equity issues being pulled.]

Response:

- Advice from regulatory authorities to date is that

  (a) UK underwriters and sub-underwriters not in financial difficulties which would put in question ability to honour obligations under BP offer. Financial institutions' deposits have been rising in recent months. Most should be able to pay up without recourse to unplanned borrowings/ sales of other equity investments.]

  (b) No representations from overseas regulatory authorities to pull the issue. [Supplement with - <u>if necessary confidential</u> - material on the advice taken - notes of telephone conversations with Bank etc. Shows HMT took careful steps at every stage to satisfy itself re wider implications of continuing with BP offer.]

- Recent meetings with UK and overseas advisers and underwriters on BP Offer have indicated that orderly selling arrangements in the after market under consideration. And assurances of at least some stock being retained by underwriters/selling groups/large institutions for medium term.
  [Support with notes of meetings].

  Therefore do not accept danger of any durable knock-on effect on share prices generally, despite unprecedented size of BP issue. Underwriting is widely spread around world.

- No indications that performance of BP itself in question. ie. not selling dud stock.
  [Press comment - Lex this week - has pointed to good medium-term prospects.
  Earlier comments on BP's excellent prospects etc.]

SECRET

C. NATIONAL INTEREST ARGUMENTS

Duty to Taxpayer

- large costs sunk in offer [about £120 million ignoring tax if offer proceeds. Cost estimate if offer terminated to be supplied]

- is underwritten

- therefore right to secure for taxpayer assured price of 330p as planned, rather than some unknown future price. Government's plans assume gross receipts from BP sale of at least (ie. at 330p) £1 billion in 1987-88, and of £2.3 billion in each of 1988-89 and 1989-90.

Acknowledge that if retain shares, is still prospect of future sale, and dividends meanwhile. But Government policy is to divest such holdings. Market reacted favourably when decision to sell announced: ie. perceived to be good for Company. BP's financial plans assume receipt of £1.5 bn this year - will suffer if sale cancelled.

Strength of London as Financial Centre

Important to show can bear this underwriting risk.
Overseas banks and brokers eager to move in on privatisation underwriting.

Privatisation Programme

General collapse in share prices will undoubtedly have harmed retail support for privatisation programme. Question for Government is whether terminating the BP Offer would further damage the programme, or strengthen it for future.

On balance, believe harmful to future sales to pull this one:

- would indicate that Government not resolute in its determination to divest equity holdings;

- suggests Government does not hold underwriters to their obligations - under sway of City - bad example to private sector.

  [**Contrary argument:** no longer wider share ownership sale. Proves that Government's main motive is to raise money.]

  Response: would much prefer to have sold large proportion of BP shares to small investors. But in exceptional market circumstances had to take into account other national considerations - especially duty to taxpayer.

D **WIDER SHARE OWNERSHIP**

[Underwriters may argue that:

- no point in sale, since will not achieve Government's objective of widening share ownership;

- unsophisticated investor will have been influenced by advertising campaign to date, and has not been sufficiently warned of pitfalls now.

  Since [95,000] have applied - irresponsible to continue, given that they cannot withdraw.]

Response:

- Other national considerations taken into account in view that should proceed: not just wider share ownership;

- Government has always made clear that shares can go down as well as up. Specific health warnings/caveats in prospectus and elsewhere. Ministers have made clear investors must make up own minds in present circumstances (quotes). Adverts (except basic factual) withdrawn.

859/24

Wilson
Blunden

[illegible] 20, [illegible]
[illegible] of Barber

SECRET AND MARKET SENSITIVE

SIR PETER MIDDLETON

FROM: D J L MOORE
DATE: 25 October 1987

cc PS/Chancellor
PS/Financial Secretary
Mr Cassell
Mr Monck
Mr Peretz
Mrs Lomax
Mrs Brown
Mr Bent
Miss Wheldon (T.Sol)
Mr Henderson - Slaughter and May

Fallbacks BE
B of E stabilises
pool; buy back
@ a price etc.

[illegible] v. [illegible]

~~[illegible]~~
~~25/10 [illegible]~~

BP SALE

Following your meeting this morning Mrs Brown and I have prepared the attached notes. They are preceded by a note by Mr Henderson advising us on the procedures if the underwriters do seek to consult us on termination.

2. The main note is written as a draft ready for adaptation in response to a written submission from Rothschilds on behalf of the underwriters. There are a few gaps and facts to be checked on Monday morning.

3. The two annexes are an assembly of points we could draw on if necessary.

(a) Can [illegible] [illegible] [illegible] (ck. [illegible])
(b) [illegible] [illegible] (B of E)

"To soon"

DJM.

D J L MOORE

859/5

SECRET

Procedure if UK Underwriters seek to invoke termination clause in Underwriting Agreement (Clause 8) attached to note of 23/10, below

NOTE BY SLAUGHTER AND MAY

1. Underwriters should indicate they are seeking consultations under Clause 8 and in particular indicate (with reasons) that a majority in number of the Underwriters have formed the opinion that

(i) between 8 a.m. on 15 October and the date when the Underwriting Agreement becomes unconditional (currently expected to be 30 October) there has been an adverse change of the kind described in paragraph (a); and

(ii) the adverse change is of such magnitude and severity as to be material in the context of the offer; and

(iii) the adverse change should not be regarded as a proper underwriting risk in the context of the offers.

2. The Treasury and Rothschilds (on behalf of the Underwriters) must then consult BP as to what action shall be taken in relation to 1.

3. The Treasury and Rothschilds (on behalf of the Underwriters) must then consult together as to what action should be taken in relation to 1 (taking into account now their consultations conducted with BP under 2.)

4. If Treasury and Rothschilds do not agree whether or not the offers should proceed, they must jointly consult the Bank of England and before reaching a decision must take full account of the Bank of England's assessment.

5. Unless the Treasury and Rothschilds agree that the offers should not proceed, they continue and the Underwriting Agreement remains in place. (See Clause 8.03(b) and Clause 8.06).

Notes

(a) The points made in the note of the conference with Counsel (John Mummery) should be borne in mind especially as to the nature of the consultations and full disclosure of Treasury arguments and reasoning.

(b) The above summary assumes strict observance by the Treasury with all other provisions of the Underwriting Agreement eg. regarding announcements and other unilateral actions which may fundamentally alter the position of the underwriters.

(c) All the consultation and decision-making steps should be conducted on a formal basis, with a careful record being made.

(d) In the light of the potential significance of these procedures, as much preparation of the Treasury position should take place in advance of each stage of the procedures.

(e) What, if any, is the position of the Overseas Underwriters on the consultation procedure and Clause 8 is being considered further.

Slaugh~~e~~ter and May
25 October 1987

859/12

SECRET

A <u>SHOULD TERMINATION PROCEDURES BE TRIGGERED</u>?

Under Clause 8.01 of the Underwriting Agreement, 3 conditions have to be satisfied before the consultation procedures on termination can be triggered. The Treasury's views, taking each in turn, are:

(1) **<u>Has there been "any adverse change in national or international financial, political, industrial or economic conditions or currency exchange rates or exchange controls" (Clause 8.01(a)</u>?**

The Treasury would not accept that there has been an adverse change in political, industrial or economic conditions, nor in conditions relating to exchange rates or exchange controls, either nationally or internationally, since the execution of the BP Underwriting Agreement on 15 October 1987.

A good deal of attention has been focussed during this period on <u>underlying</u> problems in the world economy. But none of the national or international indicators of which we are aware has reflected any downturn in economic performance in the specific period since 15 October.

?

The case for triggering the consultation process rests, in our view, solely on whether there has been any adverse change in national or international <u>financial</u> conditions. Since 15 October there has been an unprecedented fall in share prices worldwide. We question, however, whether stock market changes alone contribute a general change in financial conditions of the kind we believe is envisaged in the Underwriting Agreement. [Evidence that other financial indicators are sound: interest rates down, bond markets have risen, ~~oil price up to over $19.~~ Exchange rates steady.]

two oil price collapses; but this, [illegible] [illegible] a [illegible] sustained ([illegible]

(2) **Are any of adverse changes "of such magnitude and severity as to be material in the context of the [international] Offers or the Fixed Price Offer ..."?**

The Treasury accepts that the recent fall in share prices is material in the context of the international Offers and the Fixed Price Offer, since it is likely to change investors' judgements about the value of the Offers. We nevertheless question, as explained in (1) above, whether there has been a change in general financial conditions of a kind which should trigger consultations on termination.

(3) **Are any adverse changes of such magnitude and severity that they "should not ... be regarded as a proper underwriting risk in the context of the Offers or the Fixed Price Offer"?**

In the Treasury's view, a proper underwriting risk includes a sharp drop in the share prices, whether of BP alone, or as part of a more general fall in equity prices.

[This section to be checked and expanded. We are not aware of any new equity issues in the UK which, having been underwritten, have been terminated since 15 October. Siebe, Optical & Medical and Tod have each completed rights issues in which the underwriters have had to take up a portion of the shares (43 per cent, 48 per cent and 3 per cent respectively). Position re: French privatisations and NTT.]

These are being checked with Paris/Tokyo Embassies

segment differing sizes

In three previous Government sales a [proportion] of the shares have been left with the underwriters (Britoil 1982, Cable and Wireless 1983, Enterprise Oil 1984). The consultation procedures were not invoked on any of these occasions.

Britoil 70%

(3? lower than price on date of application)

The Treasury recognises that the nature of underwriting agreements for private sector issues varies considerably. In some cases underwriters have very limited "escape clauses", restricted only to the emergence of mistaken information in the prospectus. In other cases the scope for withdrawal from underwriting commitments is more widely drawn. However, the Government has always agreed clear and stringent conditions with the underwriters of Government issues. Clause 8 of the BP Underwriting Agreement is in line with the Agreement reached in [all] previous privatisations: it provides for consultation about the possibility of termination, under certain conditions; but unless, following the consultation procedures, the Treasury agrees to termination, the Offers go ahead.

The BP underwriters were well aware of the volatility of BP and other oil stocks. They must have taken that - as well as the binding nature of the Underwriting Agreement - into account when they bid for the BP underwriting at the lowest ever average commission rate of 0.018 per cent. The primary underwriters were each offered sub-underwriting (at a fixed commission of 1 per cent) of up to 10 per cent of their primary underwriting allocation. Only 2 of the 17 underwriters turned this down.

Finally, the Treasury notes that, despite the exceptional size of the BP Offer, the underwriting risk was reduced in two ways. First, the underwriting was widely spread, both within the UK (through the normal process of sub-underwriting), and internationally (between management groups in the United States, Canada, Japan and Europe). Secondly, the offer is in partly paid form. Only the first instalment of 120p per share is payable immediately. The two subsequent instalments of 105p each are payable on 30 August 1988 and 27 April 1989.

859/15

B MARKET ARGUMENTS

[The Treasury understands that the main points made by the underwriters with regard to market conditions are:-

(i) There are liquidity problems in both the UK and international markets. BP underwriters (mainly overseas) may have difficulty in meeting their commitment to purchase their underwritten shares. Alternatively, the drain on their liquidity of borrowing to meet their BP commitment will depress buying activity and hinder the revival of share prices generally;

(ii) The underwriters will be under pressure to reduce the capital requirements imposed on them by the supervisors (both in the UK and overseas). This will dispose them to sell their BP allocations, not to hold them until prices recover. There will thus be a buyers' market, and the BP price could fall considerably below present levels;

(iii) Heavy selling of BP shares could undermine confidence more generally.]

The Treasury has kept in close touch with the [UK] authorities (so far as is proper given the Bank of England's role under the Underwriting Agreement). We have taken careful steps at every stage to satisfy ourselves that proceeding with the BP Offer would not have damaging national or international implications.

In response to the points listed above:-

(i) The advice received from the UK regulatory authorities to date is that none of the UK primary underwriters or sub-underwriters has liquidity problems which would influence its ability to honour its BP underwriting obligations. The financial institutions' deposits have been rising in recent months, and we query whether the take-up of BP shares would of itself lead to widespread further selling of other equity stock.

No representations about the liquidity of any of the overseas underwriters have been received from any overseas authorities.

(there will come — inevitably

The Treasury held separate discussions with the UK, US, Japanese and European financial advisers/lead underwriters to the BP Offer on Thursday 22 October, and with the Canadian advisers/lead underwriters on 23 October. There was no suggestion at any of these meetings that the underwriters could not meet their commitments, although the Canadian lead underwriter emphasised that the financial markets in North America were very fragile.

However, the Treasury notes that the impact of the BP sale on liquidity generally is limited. Underwriters will be required to pay only the first instalment of 120p (£2.55 billion worldwide). Of that, about £1.5 billion will be paid immediately by the Government to BP, who have indicated that they will use it to reduce their borrowings. Total market liquidity will thus be reduced in the short term by only about £1.0 billion worldwide as a result of the BP Offer. These sums are relatively insignificant in the context of worldwide cash flows.

(ii) [Capital ratios: FIM to provide material on extent to which capital requirements may place pressure on UK and overseas banks to sell BP stock rather than retain for medium term.]

It is extremely difficult to judge the extent to which underwriters will sell rapidly into the pre undertakings?

after-market, or retain their BP allocations for the medium term. At the Treasury's meetings on 22 and 23 October, the US, European and UK underwriters indicated that efforts would be made to retain a considerable proportion of the stock in the hands of long-term investors (either the underwriting groups themselves, or carefully-selected institutional purchasers). The Japanese underwriters had not yet addressed the question in detail. The Canadians (with a £126 million commitment on the first instalment) were the most pessimistic about the possibility of preventing rapid selling. [The Treasury's notes of these meetings are available.]

On balance whilst the Treasury recognises the need to guard against liquidity and capital problems caused by the fall in share prices generally, it does not consider that terminating the BP Offer would significantly alleviate these difficulties, nor that continuing with it would significantly exacerbate them. In so far as liquidity problems did emerge, HMG would take action to deal with them, and the Treasury has no reason to believe that other Governments would not do likewise.

In these circumstances, the Treasury believes there is a serious risk that terminating the BP Offer would do further damage to market confidence, both in the UK and internationally. Termination could give the misleading implication that the Treasury considered that the underwriters were in difficulties, or that the Treasury believed that continuation of the sale would of itself lead to more general problems in market conditions.

859/20

C NATIONAL INTEREST ARGUMENTS

There are four main considerations.

First, the Treasury believes that on public accountability grounds the sale should proceed. Large costs have been incurred in preparations for the offer: these will amount to up to £120 million if the offer goes ahead, or about [£50/£60] million if it were terminated (the savings arising mainly on underwriting and sub-underwriting commissions). Both figures exclude tax.

plus profits from a placing

The Offer has been underwritten - indeed the Government has paid "insurance contributions" amounting to over £160 million in underwriting fees on privatisation issues since 1979. The Treasury therefore believes it right to call on the underwriting contract in order to secure for the public the assured price of 330p, rather than to hold out for some unknown future price. The Government's plans assume gross receipts from the BP sale of at least £1 billion in 1987-88 (ie. at 330p) and of £2.2 billion in each of 1988-89 and 1989-90.

Secondly, Government policy is to divest its remaining shareholdings. To retain the BP shares would be counter to commitments given in Parliament and elsewhere. The market reacted very favourably when the decision to sell the BP holding was announced in April this year. It was clearly perceived to be good for the company.

Thirdly, the Treasury believes it would be damaging to London's reputation as a financial centre to terminate the Underwriting Agreement. It would put in question the ability of the UK underwriting community to hear a risk of this size, and to honour its commitments. We received approaches during the preparations for the BP sale from certain overseas-owned brokers and banks to participate in the BP underwriting. These approaches were eventually rejected, after strong representations against extending the underwriting circle had been made to us by UK underwriters. We are in no doubt that, if confidence in the traditional UK underwriting community were undermined, overseas financial institutions would be ready and well able to step in.

Fourthly, the Treasury has had to consider the effects on the future privatisation programme. The general fall in share prices will undoubtedly have undermined the confidence of some investors in privatisation shares, as in equity investments more generally. We believe, however, that cancelling the BP Offer would do nothing to restore confidence. INdeed it could undermine confidence in other UK issues in the next few months.

We believe termination would in fact be harmful to future Government sales. It would indicate that the Government was not resolute in its determination to divest its remaining equity shareholdings. It would suggest that the Government did not hold underwriters to their obligations, and was influenced more by the interests of its City advisers than those of the public. The fact that this Offer had been cancelled would overhang all future privatisations. It would make a further BP sale particularly difficult. In any sale which ran into difficult market conditions (and particularly another secondary sale), the Government's intention to proceed would inevitably be questioned. This would be against the national interest, and is a matter of particular concern for the Treasury.

859/19

SECRET

ANNEX A

Total underwritten proceeds are £7015 million. But in a 100% stick the underwriters will be called on to pay the first instalment only - £2552 million as shown in the following table.

Territory	No of shares	Total	Proceeds £m 1st instalment	Loss (£m) per 10p on 1st instalment
UK	1,250,000,000	4125	1,500	125
US	505,800,000	1670	607	50.5
Canada	105,096,000	345	126	10.5
Japan	160,500,000	530	193	16.1
Europe	105,000,000	345	126	10.5
Total	2,126,396,000	7015	2,552	212.6

NB. 68 million shares (worth £225million at 330p were reserved for loyalty bonuses and were not underwritten).

In looking at the full price of 330p it is arguable that the shares are still worth buying by institutions for 308.5p. In their press release on Impact Day (15 October) N M Rothschilds calculated that a market purchaser might attribute an additional value of 21.5p to the instalment arrangements immediately after the offer. Other things being equal this would increase the market value of the first instalment from 120p to 141.5p. In the present situation, it provides an offset to the fall in the market price of the shares.

Retail investors benefit similarly from the part payment arrangements. In addition, those holding their shares for three years will receive up to 150 bonus shares, on a 1 for 10 basis. The value of these bonus shares will depend on the market price at the time.

The closing price of 289p on Friday 16 October is:-

i) 6.8% down on 310p, the rough break even price allowing for instalments

SECRET

ii) 12.4% down on 330p, the underwritten price

iii) 16.8% down on 347p, the market price when dealings opened on Impact Day, 15 October.

In judging likely movements in the price underwriters know that the BP price was volatile and in particular that the market price had varied between 238p and 417p in 1987; that 347p was 16.8% below the July peak of 417p; and 7.5% below the 375p on 6 October.

Also: stock market volatile

Other privatisation issues left with the underwriters

What are private sector issues left with underwriters?

Share prices occurred:

Focus on Britoil ? 9% down (but work out)

	A Offer Price (p) partly paid	B Market Price at close on 1st Dealing Day (p)	% Fall (A-B)
Britoil 1982	100	81 (196 fully pd)	19
Cable and Wireless 1983	100	98	2
Enterprise Oil 1984	100	100	-

BP were 289p on 23 October (12.4% below 330p). This implies the first instalment of 120p will be quoted at

between 79p - 34% fall.
and 100p - 16% fall.

not the 2 figures

	1st Rgt
Britoil	47%
BP	88%

289
[illegible] -43
[illegible] 77

276
[illegible] -54
[illegible] 66
or 'loss' of 45%

ANNEX B

Wider Shareownership

The underwriters might further argue for termination on the grounds that the Government's objective of encouraging large numbers of retail applicants will not be met, and that it will be damaging to the policy of promoting wider shareownership if [95,000 plus] who have applied are left with a loss.

If they were to put this argument it could be pointed out that

(i) while it is a matter for HMG to consider, it is not a point which the underwriters can reasonably put forward in support of their case for termination;

(ii) HMG's considerations cannot be confined to objectives for wider share ownership: there are other overriding considerations of national interest, as argued in the main note, which point to continuing with the sale;

(iii) HMG has always made clear that share prices can go down as well as up. There are warnings to this effect in the prospectus. Ministers have publicly made clear that in this issue, as in any others, investors must make their own decisions. Flotation advertisements on television and in the press were withdrawn once the market price fell below the offer price.

MR 4/22

UNCLASSIFIED

PWP (BP)

FROM: A P HUDSON

DATE: 27 October 1987

CHANCELLOR

cc: Mr Allan

JOHN SMITH

1. Here are transcripts of Smith on Newsnight yesterday, and Channel 4 Business Daily today, plus "Today", which you have seen, I think.

2. On BP he has four refrains:

   (a) shouldn't have sold in the first place;

   (b) Chancellor in a dilemma: wanted money and wider share ownership, but can't now get both;

   (c) BP shares will be held unwillingly by underwriters;

   (d) Government should not let underwriters off, but should let small investors off.

3. Typically, he refuses to say what he thinks you should do.

4. On the world economy, he calls for coordinated action by Governments to cut the US deficit, and reflate in Europe.

APH

A P HUDSON

Pmp (BP)

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

27 October 1987

E W I Palamountain Esq
Wider Share Ownership Council
Juxon House
94 St Paul's Churchyard
LONDON
EC4M 8EH

Dear Edgar

Thank you for your letter of 28 October. I shall bear in mind the representations you have made.

Yours
Nigel

NIGEL LAWSON

CONFIDENTIAL.

3976/8

pmp

Thanks

FROM: P J CROPPER
DATE: 27 October 1987

CHANCELLOR

BP

If advice is still any help, my own would be to let the issue go ahead. But I do not think great harm would accrue to the Government by pulling. The damage would be to the City.

2. To the City it would be a disaster, and I am astonished that Rothschilds are lending themselves to the proposal. Underwriting would never mean the same again: my dictum woud no longer be my pactum.

3. At least you would be able to grind down the underwriting terms next time, even further.

4. The Opposition could not make criticism stick if you pulled. The 100,000 + small applicants would have been saved from their own ignorance/folly. There would have been no other way of saving them, so Government had to act. This could be made, politically, the central issue. The action of the underwriters would be irrelevant to the popular debate.

5. As to our own interests, one would have to accept that the loss of these proceeds would mean fewer tax cuts or more gilt sales.

6. Console yourself, at least, that if the crash had come 10 days later all the small people would have been in. And 10 days earlier, you would not have been given the chance of scoring a big moral win over the big financial houses.

PS

I rang John Chown, saying "I will say nothing, but would you like to speak".

John's advice was "Don't let the underwriters off the hook. But in some way extend the 10% scrip entitlement to all, and not just the first allottees."

Telephone advice from Fred Ruoff, a very old City friend: "Hold the underwriters to it: reduce the amount of the third call by, say, 80p: re-advertise and invite reapplications."

P J C
27/10/87

Adam has booked a call with me at 11.30

3976/1

CONFIDENTIAL

FROM: P J CROPPER
DATE: 27 October 1987

CHANCELLOR

Thanks

pm

BP etc

Adam Ridley just rang:

1. **Hong Kong**. They are much more confident that they can hold the line now that a second defence has been put in place. Obviously the whole system will have to be reviewed as soon as the dust settles.* See the P.S.

2. **BP**. There is a particular Hong Kong dimension: there are big rights issues overhanging HK and it would be easier to get those pulled if HMG were seen to pull BP.

3. **The Underwriters**. Hopefully nobody thinks the City is pressing for abandonment of the BP issue because of any risk to the UK underwriting houses. The sub-underwriting is very widely spread. Neither are they motivated by concern about the American firms (although there remains the risk of US litigation on the grounds that the London underwriters have not jointly and severally done their best.

Pure altruism for 100000 small investors?!

4. The overriding consideration is the general fragility: the boost to liquidity, and probably a boost to the UK equity market if the issue were pulled.

!!! N

5. On no account, if you do pull, say you are doing it in response to the force majeure clause. That would be bad for us and bad for the City. It would have to be on broadest consideration of the problem. (And the 100,000 small applicants - PJC). Yes, you would have to replace by funding later - but not immediately.

6. Bear in mind the value of collaboration with the US. They did help in sorting out the Hong Kong mess, and they would be relieved if we pulled BP.

7. Adam himself sees "nothing but pluses in aborting the issue".

PJC

P J CROPPER

PS

Since the ~~abrove~~ above was written, Hambros man has been on from HK to say:

> "Rather more worried: 57 out of 120 HK brokers have stopped dealing".

Adam is not quite sure of the sense in which they have stopped.

BP Suugestion. If issue is pulled, underwriters might be called on to contribute towards the wasted costs of the issue. Say 5p a share, or about £100 million.

P J C
27/10/87

11.30 am

TELEPHONE: 01-623 2323

EBBGATE HOUSE
2 SWAN LANE
LONDON, EC4R 3TS

BY HAND URGENT

27th October, 1987

PRIVATE & CONFIDENTIAL

David Walker, Esq.,
Executive Director,
Bank of England,
LONDON EC2

BP ISSUE

Since preparing the paper which was sent to your office this morning, we have developed a little further the concept of convertibility of the stock. A short further paper is therefore enclosed.

Please let me know whether you would like a copy of this further paper to be sent to the Chancellor.

Yours sincerely,

J.M.F. Padovan

ENC.

BP ISSUE

1. **Shares Being Issued**

H M Government shares underwritten	1,667m
Right shares	459m
	2,126m
H M Government shares not underwritten	68m
	2,194m

2. **Objectives of Suggested Solution**

(i) Allowing the current offers to proceed despite suggested operation of force majeure clause;

(ii) H M Government obtaining its funding through the current issue and on the same payment schedule as currently proposed;

(iii) Enabling H M Government to effect the "wider share ownership" of BP shares at a later date when market circumstances will allow this to happen;

(iv) Leaving the larger proportion of the expected loss to fall where it should i.e. with the underwriting/sub-underwriting markets thus "compensating" H M Government and easily covering the costs of the issue etc;

(v) To ensure that BP itself obtains the cash it requires through the rights issue; and

(vi) To prevent a complete lack of liquidity in the market for BP shares which would prevent large portions being distributed for a considerable period, keeping the BP price low in relation to the issue price and thus affecting future privatisations.

3. **Suggested Mechanics**

(i) The issue to proceed as currently scheduled.

(ii) Any original purchaser/underwriter of BP shares under the issue to have the right for a period of 1 month to tender [80 per cent of] his holding of "new" BP shares [i.e. excluding the "rights" shares] in exchange for (per share):-

300p nominal of 8 3/4% Government Stock 2007/12 (with interest payable only on paid-up portion of stock) which would be 30p paid with

35p payable 30th August 1988
35p payable 27th April 1989

An option to convert the new Government Stock when fully paid on 27th April 1989 into BP shares based on a conversion price of 330p would be attached to the stock.

Thus, the value being offered for each partly paid share would be 90p (assuming a par value for the new stock).

(iii) The maximum issue of new H M Government Stock would be

2,126m shares at 300p = £6,378m
[80 per cent of £6,378 = £5,102.4m]

This stock would convert into

£6,378 ÷ £3.30 = 1,932.7m BP Ord

[As an alternative if HMG wished to dispose of all of the BP "new" Ord on conversion; it could issue a gilt with a coupon lower than 8 3/4% but converting at 300p. Since the fixed interest value of such a stock would be well below par this would have the added advantage of making 'conversion' in April 1989 more likely].

(iv) Forms for use by share holders/underwriters for the purpose of the tender would be issued with allotment letters early next week.

(v) Any BP shares "bought back" by HMG together with the 68m "bonus" shares would be available for distribution to UK and overseas institutions and personal shareholders at any time after April 1989 if the conversion right is not exercised in full.

4. In April 1989 either the conversion right will be exercised, in which case HMG will have achieved its objective of selling BP stock at 330p, within the original timescale envisaged, or if the conversion right is not exercised HMG will be left with its holding of BP stock (together with the new shares issued by BP) but in exchange will have raised the intended proceeds of the BP issue on the Gilt Edged Market at a substantially lower yield than would be possible with a conventional issue.

C/

Sir Martin Jacomb's secretary rang.
Sir Martin will be available all day if you want to speak to him about anything.

CR 27/10

Note
Gave to
PEM
AA

Pls let me have a quick appraisal of MJ's proposal: he wants this tomorrow evening (Wed).

CHANCELLOR OF THE EXCHEQUER

<u>Ch</u>

Sir M Jacomb rang to say letter was on its way. He also said he was not alone in believing that for sake of City's reputation underwriters should not get off hook — David Clemente has told him on a personal basis that he feels the same.

AA

With the Compliments of

Sir Martin W. Jacomb

This is what I have sent round to David Walker at the Bank of England. Perhaps we could talk about it if you think it worthwhile.

27th October 1987

EBBGATE HOUSE, 2 SWAN LANE, LONDON EC4R 3TS
TELEPHONE: 01-623 2323

BP ISSUE

1. **Shares Being Issued**

H M Government shares underwritten	1,667m
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	2,194m

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(i) Allowing the current offers to proceed despite suggested operation of force majeure clause;

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(iii) Enabling H M Government to effect the "wider share ownership" of BP shares at a later date when market circumstances will allow this to happen;

(iv) Leaving the larger proportion of the expected loss to fall where it should i.e. with the underwriting/sub-underwriting markets thus "compensating" H M Government and easily covering the costs of the issue etc;

(v) To ensure that BP itself obtains the cash it requires through the rights issue; and

(vi) To prevent a complete lack of liquidity in the market for BP shares which would prevent large portions being distributed for a considerable period, keeping the BP price low in relation to the issue price and thus affecting future privatisations.

3. **Suggested Mechanics**

(i) The issue to proceed as currently scheduled.

(ii) Any original purchaser/underwriter of BP shares under the issue to have the right for a period of 1 month to tender 80 per cent of his holding of "new" BP shares (i.e. excluding the "rights" shares) in exchange for (per share):

280p nominal of 9 per cent. Govt. stock 2007/12 (with interest payable only on paid-up portion of stock)

which would be 30p paid, with
35p payable 30th August 1988;
35p payable 27th April 1989.

Thus the value being offered for each partly paid share would be 84p (assuming a par value for the new stock).

(iii) The maximum issue of the new H M Government stock would be:

80 per cent. of 2,126m shares at 280p = £4,762m.

(iv) Forms for use by shareholders/underwriters for the purpose of the tender would be issued with allotment letters early next week.

(v) Any BP shares "bought back" by H M Government, together with the 68m "bonus" shares would be available for distribution to UK and overseas institutions and personal shareholders at any time in the future.

[(vi) An option to convert the new Government Stock when fully paid on 27th April 1989 into BP shares based on a conversion price of higher than 330p could be attached to the Stock. This would justify a significantly lower coupon. The liquidity of thus stock will have to be considered.]

4. It can be expected that the BP shares reacquired by H M Government under this procedure will immediately increase above the present market price thus giving H M Government an apparent paper profit. This should be taken into account in assessing the terms of acquisition under 3 (ii).

1474T/JMFP/SJS
27/10/87

cc Alex Allan
We discussed.
DCW
27/10.

pmp

[Rex, they may in turn have to consider the possible repercussions of my resignation.]

SECRET

MR NORGROVE

27 October 1987

BP SHARE ISSUE

This morning I was contacted by David Scholey of Warburgs regarding the BP issue and conveyed to you the substance of the conversation.

This afternoon I was telephoned by an old American friend of mine, Doug Holliday, who used to work in the White House until a few months ago and is now with an investment bank.

He said that earlier today Baker had telephoned Lawson and Greenspan had spoken to Leigh Pemberton. Later in the day Mulroney and Reagan might call the Prime Minister.

I hope they do.

unlikely!

They are all extremely concerned about the impact the BP issue may have on Wall Street and other world markets. They point out that because these markets are so fragile they are in no state to handle such a large share issue. The outcome must be greater volatility leading to greater uncertainty.

Later a friend of his, and someone whom I have talked to before on other issues, Garry Bauer, Senior Domestic Adviser to the President called. He said it was not an official but a personal call. In addition to restating the above he wished to inject just one further thought. In this volatile market situation private companies making such issues would typically withdraw them. If the decision regarding continuing with the issue is still finely balanced, he hoped

The cheek of it!

we would at least take notice of this point of view, and would not go ahead.

X After talking the matter over with Sir Percy Cradock, both of us are convinced it is very important that the possible international repercussions of the issue are considered in detail before a final decision is made.

Brian Griffiths

BRIAN GRIFFITHS

To: Nicholas Soames, MP

From: Paul Myners

28th October, 1987

Nigel – this may be of interest [illegible]

Mr Cassell – yet another suggestion for you to consider!

AIDE MEMOIRE

BP

1. My starting premise is:-

(a) the underwriters and sub-underwriters should stand by their agreements,

(b) the Government and BP should receive the agreed proceeds,

(c) the future of the privatization programme should not be jeopardised by antipathy from underwriters, both foreign and domestic, or the view gaining currency that those private investors who submitted early applications for BP were treated unreasonably.

2. I believe there would be merit in the Bank of England offering to subscribe for the issue in full in exchange for a pro rata subscription by the underwriters into a medium coupon government security with a conversion option into BP at the original subscription price. The convertible should be priced so that it trades a discount to par value equivalent to the monetary "loss" to the underwriters had they been obliged to take up BP stock at the time this proposal is announced. I believe such an approach has the following merits:-

(i) underwriters and sub-underwriters who elect to retain their stock will be holding a fixed interest security which should offer less future risk to their balance sheets than straight (and geared) equity; the running yield on the security should not be significantly below the cost of financing the position through the money markets, although those who would prefer to take the higher prospective dividend on the BP partly paid would do so in exchange for staying with the risk of holding pure equity,

(ii) those underwriters who wished to sell would be selling into a gilt market which has been strong (and which may well be facing a shortage of stock as the PSBR moves into balance) rather than a very vulnerable equity market.

3. In exchange for this initiative by the Bank of England, the underwriters would agree to the withdrawal of applications by private investors.

4. The convertible government security should allow immediate and uninterrupted conversion.

5. I believe that a response along these lines from the Government would have a major influence in restoring confidence in equity markets worldwide and would almost certainly lead to an immediate recovery in the BP share price (which should be borne in mind when pricing the convertible).

6. The above summarises our telephone conversation of this morning. If you believe the proposal has any merit I would be very happy if you conveyed it to an appropriate person in Government. I would, of course, be delighted to amplify the details if this would be helpful.

Paul Myners

Paul Myners
Chairman
Gartmore Investment Management Limited

Confidential.

PS | Chancellor

cc Sir P. Middleton.

Quick thoughts on Jacomb's scheme.

1. Too complicated. No use for "small investors" — They would never understand it.

2. If intention is to limit losses of under-writers, this could probably better be done in other ways (e.g. market support) ~~–~~

3. The objectives of the scheme seem to assume that the Government's main aim is "funding". It gives no weight to the divesting of the Government's holding of BP. Indeed, it would leave ~~–~~ the Government holding — directly — a large block of BP shares.

4. I don't think it is worth pursuing.

28/10

Ch
Shall we [illegible] phone call?

AA

Please - Include this in the options for study on a contingency basis.

WIDER SHARE OWNERSHIP COUNCIL

JUXON HOUSE, 94 ST. PAUL'S CHURCHYARD, LONDON, EC4M 8EH TELEPHONE: 01-248 9155 TELEX: 887521

The Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1

Ch/ To see (NB. Lord Lever is Dep. Ch^man of this outfit) 28/10

28 October 1987

Dear Nigel,

This Council, as you will readily appreciate, is much concerned about the effect which the B.P. issue might have both on the morale of the small investors involved and on the future of Wider Share Ownership and the credibility of the Government in promoting it.

I can, of course, understand your reluctance to appear, by postponing the issue, to have yielded to the representations of the underwriting institutions. I would suggest, however, that to adopt a position in which the Government is inevitably going to be accused of encouraging small investors to buy shares at a price far in excess of their market value could be a great deal more dangerous. Unless the market stages a miraculous recovery, the shares which the small investor has bought with his initial payment of 110p will immediately fall to 55p (or indeed less), and many investors will feel that they have lost half their money at a stroke. Surely this is not a prospect which the Government can contemplate with equanimity.

May I therefore strongly recommend you, at this eleventh hour, to take whatever steps are best calculated to save the situation — and the reputation of the Government as the small investor's friend.

* Pse draft a reply – quick – saying I will bear his representations in mind. L

Yours ever,
Edgar

EDGAR PALAMOUNTAIN

PWP

To: Nicholas Soames, MP 28th October, 1987

From: Paul Myners

Nigel - this may be of interest [illegible]

Mr Cassell - yet another suggestion for you to consider!

AIDE MEMOIRE

BP

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Paul Myners

Paul Myners
Chairman
Gartmore Investment Management Limited

SECRET AND PERSONAL

pay

FROM: J M G TAYLOR

DATE: 29 October 1987

PS/FINANCIAL SECRETARY

BP AFTERMARKET

The Chancellor has seen and was most grateful for the Financial Secretary's minute of today's date.

2. He is interested in the Financial Secretary's suggestion (ii), which can be considered if an aftermarkets meeting is held this afternoon.

3. On whether we should seek outside expert advice, the Chancellor thinks we must rely on the advice of the Bank, not least given that there is so little time.

J M G TAYLOR

30/10.

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

bf. with sline

2/11

29 October 1987

pmp

Dear Nigel,

AMERSHAM INTERNATIONAL PLC: SPECIAL SHARE

Under Amersham International's Articles of Association the Secretary of State for Energy retains a Special Share which he may require Amersham to redeem on or after 31 March 1988. I am writing to let you know how I propose to deal with the redemption option.

Since flotation in February 1982 Amersham has done well. Its business is now far removed from the radio-chemical work originally carried out by the UKAEA. The company is developing strongly in a technologically advanced market and has been particularly successful in the fields of biotechnology, radiopharmaceuticals and diagnostics. Amersham's turnover is around £150 million, it has a market capitalisation of over £320 million and in each of the last 5 years profits and dividends have increased considerably. The protection afforded by the Special Share has helped Amersham to get to this position. It has been able to concentrate on developing its business despite the fact that a number of overseas companies registered their interest during the run-up to privatisation.

Amersham's Special Share differs from others in that it is the only one for which a decision is required on whether and when, after a specific date, it should be redeemed. For other privatisations either first redemption dates have been specified - Enterprise Oil, 31 December 1988 and Jaguar, 31 December 1990 - or no time limit has been set.

Although in theory a final decision on the redemption of the Amersham share is not needed, in practice it is likely that there will be pressure on the Government to make clear its intentions as 31 March 1988 draws nearer. Amersham (and Morgan Grenfell, its advisers) believe that a decision to relinquish the Special

SECRETARY OF STATE FOR ENERGY

Share on 31 March 1988 would be taken by the market as a clear indication that the company was in play for takeover. Whilst they accept that indefinite retention of the share could not be justified, they would prefer me to take no action on 31 March and to leave the redemption date open. They hope that this would provide a period of relative stability during which the company could consolidate its position, particularly in the field of medical diagnostics.

X| We therefore need to consider what, if any, date should be specified for the redemption of the Special Share. I believe that this is essentially a matter for political judgement. The arguments are finely balanced. On the one hand it would be consistent with our policy on privatisation to redeem the share on 31 March 1988 and to leave Amersham to take its chances in the market. If there were then to be an overseas takeover bid it would still be open to the DTI to consider a referral to the Monopolies and Mergers Commission on public interest grounds. Moreover, even if the share were to be redeemed, a limited degree of protection from takeover would still remain since the Articles of Association, amendment of which would require a 75% vote, limit individual holdings of shares to 15%. There is no obvious date, apart from 31 March 1988, for releasing the Special Share.

Against this, I think we need to be very careful about taking such a step at a time when the privatisation programme is under close scrutiny and in particular whilst we are steering through the privatisation of the esi. Any announcement in the near future would also be made against the background of uncertainty in the financial markets. I believe Amersham is particularly vulnerable to takeover. It is not so large that a determined corporate buyer from overseas would not seek to overcome the remaining obstacles to takeover provided by the 15% limit on shareholdings. And the company has scientific expertise and resources which would be very attractive to some international competitors. It would be most unfortunate if the first decision to release a special share resulted in the loss or diminution of a unique UK capability.

I have concluded that the best course would be to defer taking any decision on the redemption of the Special Share until after 31 March 1988. This does not imply that the share should be retained indefinitely. It would merely put Amersham on the same basis as most of the other privatised companies where the share can be redeemed at any time. We would have the opportunity to take a more considered longer term view on market and political factors and treat Amersham on a par with the rest of the privatisation programme.

SECRETARY OF STATE FOR ENERGY

I would think it right to tell Amersham themselves of our decision, but could not properly do that without also telling the market at large. If, therefore, there were no questions about the release of the Special Share before next March I would propose to arrange a Parliamentary question, before the end of that month, asking if I intended to ask Amersham to redeem the share. Regardless of the timing of the question my answer would be that I had no present plans to do so.

I am copying this letter to David Young and John Moore.

Yours Ever,

Cecil

CECIL PARKINSON

4372/035

SECRET & PERSONAL

FINANCIAL SECRETARY TO THE TREASURY

FROM: FINANCIAL SECRETARY
DATE: 29 October 1987

Mr Davies. I am attracted to yr suggestion (ii); we can consider ~~it~~ [illegible]. We can discuss [illegible] aftermarkets with this afternoon. Re para 3, I think we must not [illegible] give [illegible] there's too little time on its own [illegible] Bank.

CHANCELLOR

BP AFTERMARKET

I have seen Frank Cassell's paper. Could I suggest the following two-tailed scheme:

(i) The Issue Department of the Bank would offer to buy any partly-paid stock at an announced price (equal to or just below the current market price at 2.30 on Friday). This offer would be available for a period of 4 weeks only: it would amount to underwriting the underwriters. (I note this morning that you have suggested a similar scheme yourself.)

(ii) The Issue Department would give an additional option to those investors holding a loyalty bonus: to sell their shares back to HMG for 120p on the date the second installment falls due. Thus small investors would have the choice between cutting their losses within 4 weeks or retaining a capital certain, high-yielding asset for 10 months. The advantage of this option is that it encourages people to hang on without risk.

2. The result of (i) would be that a floor would be set under the price. Some underwriters would doubtless sell immediately to ease their liquidity positions. But I believe most of the stock would be retained for at least 3 weeks unless the generalised perception was that the market price was not going to recover. In the circumstances, we might have to consider further action.

3. Do we need any outside expert advice at short notice on this?

M

NORMAN LAMONT

H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-270 3000
Direct Dialling 01-270 4360

Sir Peter Middleton KCB
Permanent Secretary

cc PPS
PS/Financial Secretary
Mr Cassell
Mr Monck
Mr Moore
Mrs M Brown

Miss Wheldon - Tsy Sol
Mr Henderson - S&M
Mr J Chadwick QC

STRICTLY PRIVATE AND CONFIDENTIAL

R Leigh Pemberton Esq
Governor
Bank of England
Threadneedle Street
LONDON
EC2R 8AH

29 October 1987

Dear Robin,

BP: CONSULTATION UNDER CLAUSE 8 OF THE UNDERWRITING AGREEMENT

I refer to the letter from Sir Peter Walters of BP to me dated 29 October, which was copied to you.

I would like to reaffirm that paragraphs 34-36 of our paper of 28 October were expressly agreed between the Treasury and BP as part of the consultation process under Clause 8.

Today's letter from BP has not formed part of the consultation process. Neither the Treasury nor Rothschilds has had an opportunity to comment on it. The Treasury has not consulted with BP in relation to it and has not been able to discuss with Rothschilds the implications of it.

In deciding whether to give any and, if so, what weight to the BP letter of 29 October the Bank will wish to have these facts in mind.

I am sending a copy of this letter to Evelyn de Rothschild.

Yours ever,

Peter

P E MIDDLETON

SIR PETER WALTERS
CHAIRMAN

TELEPHONE
01-920 6091

BP

BRITANNIC HOUSE,
MOOR LANE,
LONDON, EC2Y 9BU

cc PPS —
PS/FST
Mr Cassell
Mr Monck
Mr Moore
Mrs Brown
Miss Wheldon – TSol
Mr Henderson – S&M
Mr J Chadwick QC

[illegible]

29th October, 1987.

Dear Peter,

Further to my letter to the Chancellor which I handed to you at our meeting yesterday, I have given further thought to our position in the light of evolving events and discussions with my Board.

I believe it is important that you know our current position which is as follows:

1. Notwithstanding the prospect of BP receiving £1.5bn. from the combined offer, if this matter were in our hands I have no doubt that we would withdraw the issue of new shares in current market conditions.

2. As this is not within our power we would not be content for the combined offer to proceed unless there were in place before dealings commence very substantial contingency arrangements to absorb the selling pressure which is almost certain to develop in its wake. By "very substantial" I mean an arrangement which at the minimum is capable of buying and holding for a period of months up to 75% of the shares on offer.

   I understand that the financial advisers see no likelihood of such an arrangement being established within an appropriate time scale with the domestic or international investment community. There would therefore seem to me to be no alternative to UK official sponsorship of such an arrangement.

3. In the event of such an arrangement not being put in place in the interests of the Company and all our shareholders, we would be opposed to the offer proceeding.

.../

5 –

4. My Company needs to be fully involved in all major discussions with yourselves and others on this matter of vital significance to us and we trust that suitable arrangements will be made for this to happen.

I am sending a copy of this letter to Rothschilds and the Bank of England.

Yours ever,

Peter

Sir Peter Middleton, KCB,
Permanent Secretary to The Treasury,
HM Treasury,
Parliament Street,
London, SW1P 3AG.

BANK SCHEME: PROBLEMS

- The Bank scheme involves supporting the BP share price at a level substantially above its present level in the market. The market value of partly paid shares equivalent to today's fully paid price of 259p is only 49p. Put another way the Bank's formula implies a support price for partly paid shares of 89p, which is equivalent to a fully paid price of 298p. The attached table shows the relationship between the market price of fully paid and partly paid stock.

- The Bank's formula has no logic. And the size of the suggested premium over today's price 40p (ie 89p less 49p) is arbitrary. Nor do the Bank offer any justification for it in their paper.

- A likely consequence of standing ready to buy BP shares at the proposed price would be major sales by the underwriters to the issue department.

- If, as is quite possible, the entire issue were returned, the cost of buying the shares at 40p premium to the market price would be £850m.

- Purchase of BP shares on these terms would need to be justified as a proper investment by the issue department, consistent with Section 3 of the 1928 Currency and Bank Notes Act, and Section 9 of the National Loans Act. Any explicit subsidy, or Treasury guarantee, would require Parliamentary approval.

- In the Treasury's view this is not a necessary and proper use of public funds, which the Chancellor could recommend to the House of Commons and the NLF Accounting Officer could justify to the Public Accounts Committee, for the following reasons:

- The amount of support is far more than needed to maintain -the support price implies that the taxpayer would carry more than half the underwriter's losses [Taking estimated underwriting losses at today's prices £1.5billion; cost of taxpayer of buying back offer at suggested price £850m];

- it therefore implies that the risks assumed by the underwriters were not proper, which the Treasury does not accept;

- a scheme that provides such a significant incentive for the resale of underwritten stock cuts across the Government's objective of divesting itself of the shares.

RELATIONSHIP BETWEEN FULLY PAID AND PARTLY PAID PRICES; AND BANK OF ENGLAND FORMULA

Fully Paid Price	Partly Paid Price	Support price on BoE Formula*
330	120	112.8
320	110	109.4
310	100	106.0
300	90	102.6
290	80	99.1
280	70	95.7
270	60	92.3
260	50	88.9
259	**49**	**88.55**
250	40	85.5
240	30	82.1
230	20	78.6
220	10	75.2
210	0	71.8

*Bank of England Support price for fully paid shares = Current Market Price x $\frac{120}{351}$

= Current Market Price x .342

Value to underwriters of 40p premium is £850m

If 'true' current price for part-pd
were 70p (real price 5 [illegible] points)
then loss to underwriters is approx
£1.1 billion & Bank of Eng buyers formula
would relieve them of 40% of this loss –
ie approx £400m – £450m.

RELATIONSHIP BETWEEN FULLY PAID AND PARTLY PAID PRICES; AND BANK OF ENGLAND FORMULA

Fully Paid Price	Partly Paid Price	Support price on BoE Formula*
330	120	112.8
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259	**49**	**88.55**
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220	10	75.2
210	0	71.8

*Bank of England Support price = Current Market Price for fully paid shares x $\frac{120}{351}$

= Current Market Price x .342

Value to underwriters of 40p premium is £850m

SECRET

AA

This will need - ASAP - to be very quickly scrutinised by both PM & the lawyers. Para 4, in particular, is rather a muddle (see my comments in the margin).

NOTE OF A MEETING HELD IN HM TREASURY AT 8.30PM ON THURSDAY, 29 OCTOBER 1987

Present:
Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Sir P Middleton
Mr Cassell
Mrs Lomax
Mr D J L Moore
Mr Peretz
Mr Cropper
Mr R I G Allen
Mrs M E Brown
Mr Ilett
Mr J Chadwick QC - Counsel
Mr Mummery - Counsel
Mr Henderson (Slaughter & May)
Miss Wheldon (Treasury Solicitor's Department)

Governor - Bank of England
Deputy Governor - Bank
Mr George - Bank
Mr Loehnis - Bank

Ch
NB This is v rough draft by Jonathan.
Not approved version
AA

BP SHARE ISSUE

The Chancellor said that, having considered the matter very carefully, he had decided that the issue should go ahead. It would be immensely damaging to the reputation of the City if it did not. He attached great importance to this. Not to proceed would also damage the standing of the Government. He was informing N M Rothschild and Co of his decision.

2. The Chancellor said his ~~discussion~~ decision marked the end of the consultation process under clause 8 of the Underwriting Agreement. He welcomed the resumption of normal working relations with the Bank. The Governor agreed.

3. The Chancellor agreed with the Bank's conclusion that arrangements should be made to ensure an orderly after-market in BP shares. The scheme proposed by the Bank went well beyond what was

necessary to deal with the problem of BP shares going into free fall. It implied support at a level substantially higher than the market price. It was not in his judgement a proper use of public money. It could not be defended in the House of Commons. He agreed that the Issue Department was the right vehicle for a support operation. A practicable operation was required, which would put a floor beneath the current price. A time limit for the offer, and rules governing the length of time that shares must be held by the Issue Department, had also to be settled. Legal and supervisory questions also needed to be resolved. He invited the Bank to provide advice on these matters.

4. Mr George said the market price for partly paid shares could be derived in several ways. The Bank's method took account of changes in the market price for fully paid shares since the offer was announced, and discounted for the value of part payment. This produced a price of around 76p for partly paid shares if the price for fully paid shares were 164p. An alternative method, adopted by Rothschilds, was to discount the future value of dividend payments to the holders of partly paid shares. This gave a lower figure.

The Bank's formula produced 90p

5. The Chancellor noted that the current market price (260p) was 70p below the offer price. This implied a cash price of 50p for the partly paid shares, ignoring the value of part payment. If a figure of 20p were added in to take account of the value of part payment, the equivalent figure (on a rounded basis) would be 70p. He asked Sir Peter Middleton in his capacity as Accounting Officer, whether this would be an acceptable price at which to settle.

6. Sir Peter Middleton said there was no unique solution to the question. He considered 70p to be about right, and defensible. It was agreed that the floor should be set at 70p.

7. The meeting considered the length of time for which the offer should be open. The Deputy Governor noted that it would not be necessary actually to begin the offer from 2.30pm on 30 October

1987. An announcement of intention should suffice to shore up the market until the arrangements could be put in place. It was agreed that the Chancellor should announce that the arrangements would be put in place "as soon as practicable, and certainly by the end of next week". It was also agreed that the offer should last for at least one month and not more than two months.

8. Discussion then turned to the length of time for which the Issue Department should hold any shares purchased. It was agreed that the shares would not be resold within the next six months unless the price rose above 120p.

9. It was noted that the Bank's assessment might become public, and that its recommendations would be compared with these proposals. The Governor said that the Bank had fulfilled its function as an independent assessor. The Chancellor had taken due regard of the Bank's view, and had decided to support the after market in a different way. ~~This was how to deal with any comparisons.~~ The Chancellor agreed.

10. The Takeover Panel were then consulted. It was reported that the Takeover Panel were content with the arrangements, subject to assurance that the Bank would not use its voting rights should it acquire more than 29.9 per cent of the issued share capital. This assurance was given.

11. It was confirmed that no legal difficulties in the UK were foreseen.

12. The meeting then considered the detailed drafting of the Chancellor's statement to the House. A number of amendments were made to a draft text, and a final version agreed.

12. The meeting ended at 9.45pm.

J M G TAYLOR

30 October 1987

Note of a meeting in the Chancellor's room,
HM Treasury at 6.30pm on Thursday 29 October

Present

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Sir Peter Middleton
Mr Cassell
Mrs Lomax
Mr D Moore
Mrs M Brown
Mr Cropper

BP OFFER FOR SALE

Sir Peter Middleton said that, as the Chancellor was aware, the Treasury had been through a long process of consultation, concluding with the note from the Bank of England. In his view, there were no new arguments in that note beyond those in the various papers and submissions which the Chancellor had already seen. The Bank had raised the question of market support, but that was for separate decision. At this meeting, the decision to be taken was whether or not the issue should proceed.

2. The Chancellor said he had considered carefully all the papers produced by all the parties since the Clause 8 procedures had been invoked. He had had a number of lengthy discussions with Sir Peter Middleton and others. He had also considered very carefully the assessment by the Bank of England.

3. The only point in that assessment which was new to him was the quotation from Mr Corrigan, the President of the Federal Reserve Bank of New York, which suggested that if the issue were to proceed, consideration should be given to dealing with the consequences. The Bank of England had echoed that view in saying that they were concerned about the after-market. That was, as Sir Peter Middleton had said, an issue which should be considered separately.

4. On the basic issue of whether or not to proceed, he had seen nothing in all the evidence to suggest that the underwriters were not being asked to bear a proper underwriting risk. Nor did he see anything else that persuaded him that we should take the very unusual step of not proceeding with the offer.

5. Sir Peter Middleton said that those in the Treasury who had been involved in the detailed negotiations concurred with that view. He thought it was regrettable that the Bank of England paper was not helpful in deciding whether the offer should or not proceed under the terms of Clause 8.01. Mr Cassell said he agreed entirely with Sir Peter Middleton. The arguments had not advanced very far from those set out at the beginning of the discussions; and he too regretted that the Bank paper did not address the central issue. Mr Moore, and Mrs Lomax also agreed.

6. The Chancellor noted that the particular scheme of support suggested in the Bank's paper presented very great difficulties indeed. He was satisfied:

(a) that the scheme proposed was not necessary to deal with the problem we were concerned about - ie that of BP shares going into free fall;

(b) equally, it was not in his judgement a proper use of public money or one he could defend in the House of Commons.

7. Sir Peter Middleton concurred as did Mrs Lomax. It was perfectly reasonable for the Bank of England to suggest that there should be an operation to deal with the after-market. And we ourselves had acknowledged all along that that was a proper role for the authorities. But the particular scheme recommended did not seem to him to be a proper use of public money and he could not, as Accounting Officer, recommend it.

8. Summing up, the Chancellor said that having considered all the papers and all the arguments he had concluded that the issue should go ahead. He thought that it would be very damaging indeed to the City if it did not, and that point had weighed heavily with him, and as had the reputation of the Government. Weighing these and other points together, he had concluded that the offer should go ahead, subject to further consideration of any points that Rothschild might raise.

9. The Chief Secretary, the Financial Secretary and the Economic Secretary all agreed, as did the officials present.

10. The Chancellor said that having reached that decision, it was necessary to discuss as soon as possible the nature of the support operations we did think appropriate, so that the decision could be announced as soon as possible, to meet both the concerns of the market and the obligations to Parliament.

A C S ALLAN
Principal Private Secretary

29 October 1987

PP

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1975A 29.10.87

ASSESSMENT OF THE BANK OF ENGLAND UNDER CLAUSE 8.01 OF THE BP FIXED PRICE OFFER UNDERWRITING AGREEMENT DATED 15 OCTOBER 1987

1 The Treasury and Rothschilds have (after consulting with BP) consulted the Bank under clause 8.01 of the BP Fixed Price Offer Underwriting Agreement.

2 In addition, the Bank has received communications from BP; non-UK underwriters; the Federal Reserve Bank of New York; the Bank of Canada; the Ontario Securities Commission; and the Bank has received the views of other relevant institutions.

3 In forming its assessment the Bank has, had regard to the points made by the two parties, and in particular to:

the direct consequences on the underwriters;

the indirect consequences on the underwriters and other financial institutions in the countries where they operate;

the instability of equity markets;

the economic effects of unstable equity markets;

the effect on BP;

the effect on London as a capital market;

the effect on future privatisation issues in the UK;

the effect on wider share ownership policies in the UK;

the effect on HM Government;

both in the context of proceeding with the issue and of terminating the issue. In relation to all these considerations the Bank has noted that the combined offers constitute one of the largest public offerings and probably the largest offering involving more than one national market. It is being launched during a period when equity markets in most financial centres, including those in which the main underwriting institutions operate, have simultaneously suffered unprecedentedly severe and sharp falls.

4 The Bank has identified arguments in favour of proceeding with the issue and in favour of terminating the issue.

5 The principal arguments it has identified in favour of proceeding with the issue are:-

(a) the presumption that contracts freely entered into are honoured; the very purpose of an underwriting agreement is to provide insurance against market fluctuations, not excluding those of the scale and intensity of the recent falls;

(b) when the underwriting agreement was signed, some general reduction in equity price levels might have been anticipated, albeit not of the magnitude which has occurred;

(c) on the evidence available to the Bank the direct consequences of proceeding with the issue would not, although costly to the underwriters, of itself jeopardise their solvency (except possibly in one country).

(d) the reputation of London as a capital market would be maintained by the perception that underwriting agreements could be relied upon even in extreme circumstances, and that the sub-underwriting commitments existing in London contributed to that robustness;

(e) HM Government would attain its borrowing target in the way it had planned and would not risk any adverse market reactions to alternative approaches to the market which might become necessary.

6 The principal contrary considerations are:-

(a) even in its partly paid form the issue will represent a significant overhang on equity markets in the UK and elsewhere - even allowing for the flow-back restrictions, the effect will be disproportionately severe on the UK equity market. This overhang will signficantly and adversely affect:

(i) the BP share price; and

(ii) equity prices generally in the UK and elsewhere.

The equity markets in all major financial centres are currently depressed and nervous. Proceeding with this issue would give a further downward impetus to a spiral of price decline and there is no way of calculating how much further prices would fall.

(b) But the consequences of a large further fall could be very serious. Even though there is no immediate threat to the solvency of the underwriters, except possibly in one country, it will be known that their capital resources have been impaired by the underwriting commitment they have absorbed and that they are thus less able to absorb losses in other aspects of their business. Given their importance individually in the centres where they operate, there is a significant risk in a loss of confidence in them and, in turn, in the other counterparties with whom they are known to deal. This could lead to a spiral of diminishing confidence seriously affecting entire markets.

The Bank has received representations from the President of the Federal Reserve Bank of New York, which included the following:

"In these circumstances, it is extremely difficult to confidently gauge the risks, especially the risks of self-reinforcing price declines, associated with proceeding as planned with the BP issue. However, even if that likelihood were not judged to be very high, the adverse consequences could be grave indeed if such conditions materialised. For that reason due and careful consideration should be given to ways in which the dangers of severe adverse market consequences associated with the transaction could be avoided. In saying that, I am obviously sensitive to the dilemmas associated with the current situation, but I am also sensitive to the need to do all we reasonably can to help restore orderly conditions in world equity markets."

(c) Falls in equity markets have a wider economic effect than merely on the financial institutions which operate in them. Consumer spending is likely to be adversely affected, thus depressing demand, and capital becomes both harder to raise and more expensive for businesses of all kinds.

(d) BP's share price would be significantly affected and would fall further than equity prices generally. This would affect its ability to raise further capital, would risk impairing the group's further development and would make the company more vulnerable to predators;

(e) multinational capital-raising issues might become difficult to arrange if it were perceived that the concerns of non-UK participators were being unreasonably disregarded. This would diminish London's reputation as a capital market centre; and

(f) HM Government's reputation abroad might be impaired, if international market participants and the governments which represent them felt that their representations had been unreasonably disregarded.

Conclusion

Having considered all the above arguments and, in particular, the risks to the international financial and economic system, the Bank's assessment is that, if the choice were simply between allowing the issue to proceed or stopping it, the issue should not now proceed.

However, in making this assessment, the Bank has found particularly important the likely effects of the offer proceeding on the aftermarket throughout the world, rather than the direct effects on underwriters at the primary stage.

This being so, we have considered whether there is available an alternative course that would adequately address these aftermarket concerns, and thereby limit the risks to the system. In the Bank's view, there is such an alternative, which would comprise arrangements to support the secondary market in the partly-paid shares. If such support could be provided, at a price no lower than 120p reduced in proportion to the decline in the price of existing BP shares between the date the issue price was set and the present date, then the risks in the Bank's view would be sufficiently mitigated for the offer to proceed.

The Bank concludes that this would be the right course, and would be willing if called upon by HM Treasury to make available the resources of the Issue Department for this purpose.

BANK OF ENGLAND
29 OCTOBER 1987

Ch/ Content with draft below?

AC 30/10

FROM: F CASSELL
30 October 1987

PRINCIPAL PRIVATE SECRETARY

No reply reqd. I have spoken to Mr S.

BP - BRIGHT IDEAS

The Chancellor sent me the attached note he had received (presumably from Nicholas Soames). There is little point now in considering such schemes in detail. This one suffers from the disadvantage that the role it gives the Bank of England looks unworkable; and in any case it would not achieve all the Government's stated objectives for the sale (though it may not be alone in that!).

If a response is called for, it could simply run along these lines:

> "Thank you for sending me the Aide Memoire on BP by Paul Myners. As you will have seen I have agreed arrangements with the Bank of England for supporting the after-market in BP partly-paid shares. These should achieve the objectives sought by Mr Myners, and others who have made suggestions on this subject, by what I think is a more practical route."

F CASSELL

RJ4.44

UNCLASSIFIED

FROM: J M G TAYLOR

DATE: 2 November 1987

MR CASSELL

BP - BRIGHT IDEAS

Thank you for your minute of 30 October to the Chancellor. The Chancellor has spoken to Mr Soames, and no written reply is required.

J M G TAYLOR

4367/59

CONFIDENTIAL

FROM: A F HURST
DATE: 2 November 1987

CHIEF SECRETARY

cc: Chancellor
Financial Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Monck
Mr Moore
Mrs Brown
Mr Pratt
Mr R I G Allen
Mr Dyer

** Rt X. I wd far rather have a debate on BP (after 10pm on 11 Nov) than be accused of running away from one! JM

WINTER SUPPLEMENTARY ESTIMATE FOR BP: PARLIAMENTARY HANDLING

I understand that you have heard from the Chief Whip's Office about a last minute hitch with the proposed Parliamentary handling of the BP Estimate. The Clerk of Supply, contrary to earlier soundings, ruled this morning that the protection of Standing Orders cannot be afforded to the consideration of the BP Estimate, as it is being taken out of turn and not with the main batch of winter Supplementaries. This news is late and unwelcome, especially as the handling of the Estimate had been cleared informally with both the Whip's Office and the Clerk of Supply.

2. Nevertheless, we need to consider urgently how we might approach the Parliamentary handling of the BP Estimate in the light of this new advice. There seem to us to be three main options. First, we could bring forward the date of presentation for the main batch of winter Supplementary Estimates and take them, along with the special Supplementary for BP, through the House within Standing Orders on an accelerated timetable. Second, we could seek to challenge the ruling of the Clerk of Supply by a direct approach from you or the Chancellor to Mr Speaker. Third, we can table a motion seeking to have the Estimate considered as if Standing Orders applied, which if objected to would force a debate on the Estimate.

3. We are not enthusiastic about attempting to avoid Parliamentary activity over the BP Estimate by taking all other

winter Supplementary Estimates and the Vote-on-Account through on the sort of timetable necessary to protect the Contingencies Fund from carrying the BP advance for too long, ie by mid to end November. There is little doubt that such a course would be misconstrued; potentially succeeding in protecting the Government from a debate on BP but being seen as attempting to avoid proper and due Parliamentary consideration (in advance of the appointment of Select Committee members) of the bulk of winter Supply.

4. Although we are concerned about, and disagree with, this late ruling we have already put the Clerk of Supply under considerable pressure to review his decision. He has been sufficiently concerned to take advice from Clerk of the House who has supported his ruling. We are not confident, therefore, that an approach to Mr Speaker would be successful.

5. We believe the best choice, therefore, rests in tabling a Notwithstanding Motion, probably tomorrow, seeking to apply the Standing Orders to the consideration of the BP Estimate. The motion would be taken on Wednesday and, if not objected to, we should revert to the timetable previously planned, ie the Estimate being considered and the c.f. Bill introduced on Tuesday 10 November with the remaining Stages taken on Wednesday or Thursday, 11 or 12 November - all without debate. If, however, there is an objection when the motion is considered it would be necessary to table the Estimate for consideration and debate. The Chief Whip's Office advice is that this should be for Wednesday 11 November at 10.00 pm. After the debate the Consolidated Fund Bill would proceed within a day or two as a procedural matter.

6. This course is not without disadvantage. If the motion were to slip through without objection but were noted subsequently there could still be accusations of foul play and arguments about the lack of an opportunity for debate. Also, it raises the prospect again of a debate on BP.

X|

7. I have discussed the possibilities at some length with the Chief Whip's Office. The chance of the motion going through

smoothly may well be influenced by the outcome of the Financial Secretary's discussion with Terence Higgins today and the prospect of an understanding (through the normal channels) which would allow the motion to go through on the nod. For the moment, therefore, we must await the outcome of these developments but I thought you should be aware of the difficulties and the possible ways through. I should of course be happy to take into account any comments you may have in my further discussion with the Chief Whip's Office.

Alan Hurst

A F HURST

The Daily Telegraph

PETERBOROUGH COURT AT SOUTH QUAY 181 MARSH WALL LONDON E14 9SR

TELEPHONE: 01-538 5000 TELEX: 22874 TELLDN G

DIRECT LINE: FAX:

From Hastings etc.

(Also: 'Thank you for your ~~[illegible]~~ note, which [illegible] illuminating!')

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FROM THE EDITOR

The Rt Hon Nigel Lawson, MP
The Treasury
Parliament Street
London SW1P 3AG

2nd November, 1987

Dear Nigel,

I was initially a little puzzled by your telephone call this afternoon, since The Daily Telegraph has given you an even more adulatory press than our rivals for your handling of the BP issue. However, careful reading of our stories on Saturday and our leader this morning gives me some inkling of your concerns.

I can say, although I rely upon you not to quote this in quarters where it will embarrass us, that 'Bank sources' clearly conveyed to journalists, including ours, that Eddie George provided the inspiration for the BP plan. It seems not unreasonable that we accepted this lead from such sources. Our City office does not listen to the BBC News at 6pm, and was not aware of the Treasury denial on Friday, or so they tell me.

Not having been in the office yesterday, I did not see our leader before it went in Monday's paper, although I was aware of its thrust. You can probably surmise its authorship. I rather agree that it was intemperate. It pursues the line that we have adopted in the past, that the Bank would be better off for a change of Governor. But on balance it was probably wrong to seize upon the events of the past week to reinforce this case, when on any reading of events, the Bank has done rather well.

I think your presentational difficulties in the past few days stem from the war of leak and counter-leak between various parties, for which we are scarcely responsible. I'm sure you wouldn't expect us invariably to accept The Treasury version of history in preference to that of other supposedly responsible

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institutions and departments. Neil Collins says that he told The Treasury yesterday, as they murmured their off-the-record thought for the day, that if they would simply say something for the record, he would be delighted to print it, but he was growing a little dismayed by all the mumbling.

You will find my comments unsatisfactory. But I can't help remarking that if any of my books achieved the sort of approval rating The Daily Telegraph and most other newspapers have given you in the past week, I should not be much bothered by carping in the tenth paragraph. I think there are more suitable candidates than ourselves for blame for any suggestions of disharmony between Downing and Threadneedle Streets.

Thank you anyway for ringing, because I was entirely sincere in asking for guidance when you can give it. Next time we find ourselves in doubt about a serious issue concerning The Treasury, I hope that you will not take it amiss if I call you before we burst into print - budgets excepted, of course.

Best wishes.

Yours sincerely,

Max.

MAX HASTINGS
Editor

1318/11

CONFIDENTIAL

FROM: MRS R LOMAX
DATE: 3 November 1987

not seen.

1. SIR P ~~MIDDLETON~~
2. CHANCELLOR

cc: Financial Secretary
Economic Secretary
Mr Cassell
Mr Monck
Mr D Moore
Mr Ilett
Mrs Brown
Mr Neilson

Thanks. I am content with 21(ii) & 21(iv). Re 21(iii), a press conference by Mr George [illegible] would be wholly inappropriate @ the Bank (the [illegible] 17). However [illegible] a press [illegible] FST. Finally, I do not agree with 21(i). The whole point of the formula "no later than 2 months" was to [illegible] a month or more [illegible] & secure a degree of flexibility, & I do not propose to give this up. There should be no further clarification now @ all. Then, on [illegible] the month is up, I will announce that the offer will close on [illegible] and that I will give 7 days notice before closure. Finally, no [illegible]

BP: SUPPORT SCHEME AND SMALL SHAREHOLDERS

This submission asks for decisions on the details of the Bank's support scheme in the light of discussions with the Bank of England and our lawyers. An important underlying issue is how far we should strive to make the Bank's offer accessible, at little or no cost to the small investor. I also attach a note by Mrs Brown on the separate but related question of whether additional arrangements should be put in place just for individual applicants. The options and recommendations in both notes reflect discussion at Sir Peter Middleton's meeting this morning.

Flag A

(Mrs Brown's note concludes, in effect, that it is not worth making any additional arrangements)

I The Bank of England offer

2. The bare bones of the Bank's offer were confirmed in the press notice issued last Friday (copy attached). This makes it clear that the offer is open to all holders of partly paid shares; that the Bank will buy at a price of 70p per share; that the offer will be open for at least one month, and not more than two months; that it will be made in London, but available to non-residents, subject to overseas regulatory consents. Formal terms and conditions were promised before 7 November at the latest (next Saturday).

Flag B

3. The main outstanding issues concern:-

(i) the length of the offer period (or the date on which decisions will be taken);

She's here for an extension beyond the 2 month max, I have already [illegible] down.

(ii) the arrangements needed to make the offer available to **small investors**;

(iii) the **overseas** offer.

These are discussed in more detail below.

4. On <u>timing</u>, we are aiming to settle the details of the offer before Thursday's debate, and to publish <u>formal</u> terms and conditions in Friday's press, supported by appropriate press briefing. Any particularly newsworthy decisions could then be announced during the debate (and possibly made the subject of a separate press notice).

<u>Length of the offer period</u>

5. The undertaking is that the offer will be open for "at least one month and no more than two". There is no absolute need to firm this up now, but there is a clear market advantage in minimising uncertainty. Key dates are:- !!

There is a v. minor advantage to the market, a v. major disadvantage to HMG.

Nov 11:	renounceable letters of acceptance (RLAs) posted;
Dec 31:	last date for trading in renounceable form;
Jan 6:	latest time for splitting of letters of acceptance
Jan 8:	latest time for registration of renunciation of letter of acceptance.

6. It seems essential to allow a decent interval <u>after</u> RLAs are sent out (which points to going beyond the end of November as a minimum). Beyond Jan 6 we are clearly outside the two-month period, even on an elastic interpretation. Moreover, different administrative arrangements would be needed, to handle registered securities.

7. The main options are:-

(i) announce a **firm closure** date now. Taking account of Christmas (and the Bank's preference for closing the offer on a Friday) the choice is probably between 18 December and 8 January.

(ii) announce now that **a decision** on the closing date will be made **one week** before the end of the first month (November 27);

(iii) announce that the closing date will be announced **7 days in advance**.

8. The Bank and Rothschilds strongly recommend (i) with some (mild) preference for the latest possible date. We accept the market argument, but would rather close the offer on December 18, before the Christmas break (and at the beginning of the Recess). If the Bank's offer is taken up at all, applications will come in a rush, at the end of the period. We may want to consider extending the offer period - which might in practice mean making a new offer (eg to forestall a flood of applications, if we take the view that the market is likely to recover). Either way, the administrative, policy and presentational questions can be handled much better just before Christmas (when offices are manned) than over the Christmas and New Year break.

9. We therefore recommend announcing now a closing date of December 18 (and continuing to say nothing to suggest the possibility of any further extension).

(ii) **Arrangements for small investors**

10. We have already said that the offer is open to all holders of partly paid shares, however acquired, without restriction as to size. The key question is how much effort is put into making the Bank's offer accessible to small investors.

11. The point is that while the Bank's offer will put a floor price of 70p under the market price, hefty commission charges on small transactions will mean that small investors will not

get the full 70p per share, unless special arrangements are made for them to deal directly with the Bank. It is for consideration whether - and how much - the Bank should charge; but even if it aimed to cover its costs, the Bank's rates for small deals would be very much less than typical minimum commission rates (say £1.50, compared with an average minimum charge of £17.25).

12. The structure of dealing costs in the market means that direct access to the Bank, at low or zero cost, is of substantial benefit to the small investor. Put another way, the Bank's offer is equivalent to a higher market price for the smallest investors (the great majority of the 250,000 individual applicants) as illustrated by the following table:-

IMPACT OF COMMISSION COSTS ON ATTRACTION OF BANK OFFER

Number of shares	Average Commission charge (£)*	Implied market price equivalent to Bank offer	Number of BP allotments
80	17.25	92p	19,000
100	17.25	87p	110,000
200	17.25	79p	51,000
300	17.25	76p	23,000
500	17.25	73p	19,000
1,000	23	72p	9,000
10,000	88.90	70.9p	51
100,000	140	70.15p	2

* Stock Exchange figures

Note: This calculation assumes that no charges are made for Bank service. The Bank estimate their costs will be around £1.50 per application, which would reduce implied market price to around 90p for 80 shares, and proportionately less for higher bargain sizes.

13. Personal finance correspondents can be expected to pick up this point quite quickly. Dewe Rogerson report considerable

interest in the practical arrangements, with just this sort of question in mind. (As a matter of interest, while there is no exact equivalent on the gilts side: the Bank do not make charges eg for new issues.)

14. We recommend that the Bank do not charge for buying shares, and that, in line with market practice, the Bank, as purchaser, pays SDRT.

15. This removes the risk that small investors will feel cheated, if they do not receive the full 70p. And we can make a positive virtue of the fact that the offer is - as it happens - worth significantly more to small investors than to large.

16. If the offer is available to small investors, on these attractive terms, appropriate arrangements need to be made for publicising it, and taking and processing applications. The following questions arise:-

(i) Application arrangements: the proposal is that the Bank should accept postal applications, or direct delivery to Threadneedle Street (or Bank regional offices). The snag is postal delays, especially around Christmas; but, as with gilts, the Bank would accept evidence of posting by the due date (and encourage registered delivery). Application forms would be available through the press (at the beginning and end of the offer period) and (subject to negotiation) through the clearers. But the Bank see no need to enlist the clearers to forward applications, and would resist using them to process cash (since that would require new legal agreements).

(ii) Evidence of title: the simplest option is for the Bank to accept RLAs only: and the Bank strongly prefer this. The problem is that those buying in the secondary market may not receive RLAs in time to submit them. The Stock Exchange are also worried that this will create additional pressure on back offices to process RLAs quickly: they claim that more than 50% of those buying in the secondary market could fail to receive RLAs in time to take up the Bank's offer. The balance of opinion at this morning's meeting favoured a robust line, on the grounds that the most politically sensitive group are the original applicants, not those buying in the secondary market. As for the Stock Exchange, they have been spared the problems of coping with a successful offer. If you feel differently, however, the Bank could if necessary accept other evidence of title to establish eligibility eg contract notes, brokers' endorsement, and only pay up on receipt of RLAs.

(iii) Publicity: there is a minimum legal requirement to make the terms and conditions of the Bank's offer public, which (according to the Takeover Panel) means inserting a tombstone in two national newspapers. Beyond that, the specialist press need clear briefing on what is planned, in plain English. As far as the small investor is concerned, there are two obvious pitfalls:

- failing to explain the scheme clearly, so those who want to take advantage of the offer can, and

- appearing to lure small investors into the Bank's offer, when it is not to their advantage.

17. We recommend doing the minimum formal advertising at this end of the offer period - in the FT, Telegraph and one or two of the popular papers - and readvertising at the end of the offer period (depending on market developments). We recommend against inserting literature in the RLA envelopes, partly on administrative grounds (it would probably mean a delay in sending them out); and partly because some people might be confused. As for press guidance, Mr George shows some desire to hold a press conference at the Bank. We could also work up a press hand-out for personal finance correspondents, with help from Dewe Rogerson.

No

18. I attach a proof of the tombstone, which has been discussed

Flag C

with the Bank and the lawyers. Dewe Rogerson - who agree that we must produce something like this - are working overnight on the layout, especially the acceptance form. We can let you see a further proof copy before lunchtime. Thereafter it will be increasingly difficult to make significant changes, if we are to meet the Friday's papers.

Overseas offer

19. Slaughter and May are in touch with the SEC and other overseas regulators about the publicity and logistical arrangements needed to meet their requirements. We recommend that we do no more than the bare minimum to satisfy them.

20. The only (minor) point worth drawing to your attention now concerns ADRs. The Bank do not propose to accept ADRs (though, as you know, the US offer was only made in ADR form). So far it does not look as if this will cause problems, since Morgan Guaranty will "deconvert" ADRs into underlying shares, for sale to the Bank.

Points for decision

21. We would be grateful for your comments on these proposals as soon as possible: in particular do you agree:-

(i) that we should announce now that the **offer** will **close on 18 December**?

(ii) that the Bank should **not charge** for buying back BP shares?

(iii) that the offer must be made **accessible to the small investor** (for whom it will be relatively attractive, if there are no dealing costs)? Do you have any comments on the **application, processing** and **publicity** arrangements summarised in **paras** 16+17.

(iv) Are you happy with the **tombstone** (subject to further titivation by Dewe Rogerson)?

pp MADobson

RACHEL LOMAX

4373/10

CONFIDENTIAL

FINANCIAL SECRETARY TO THE TREASURY

FROM: FINANCIAL SECRETARY
DATE: 4 November 1987

CHANCELLOR

Discussed with FST - No fixed date; 7 days' notice. N.

BP SCHEMES: LENGTH OF OFFER PERIOD

You will see from my private secretary's minute, behind that I have discussed this with officials and indicated a preference for a combination of options (ii) and (iii) as you suggested. I do, however, have some reservations and think that there is some force in offficials' arguments.

2. If one wanted to close the offer before 18 December because the market were strong and we were expecting a down turn, that might be thought to be an argument for flexibility. However, I find it difficult to believe we would have knowledge the market did not. And if we did should we use it?

3. Finally, if one of the advantages of a more flexible scheme were thought to be that we could close the offer down quickly to prevent a sudden surge of selling, this is surely misguided. We would have to give 7 days' notice, and this would be quite long enough for a selling wave.

4. I am not convinced [we] could put "early-closing flexibility" to much use, [and] would incline to recommend accepting official advice. However, your judgement is much better than mine on this and I will be quite content to defend (ii) and (iii).

N.

NORMAN LAMONT

4373/09

CONFIDENTIAL

FINANCIAL SECRETARY TO THE TREASURY

FROM: J J HEYWOOD
DATE: 4 November 1987

PRINCIPAL PRIVATE SECRETARY

cc PS/Economic Secretary
Sir P Middleton
Mr Cassell
Mr Monck
Mr D J L Moore
Mr Ilett
Mrs M E Brown
Mr Neilson

BP: SUPPORT SCHEME AND SMALL SHAREHOLDERS

The Chancellor asked for the Financial Secretary's comments on Mrs Lomax's submission of 3 November. He has now discussed this paper with the Economic Secretary and with Treasury and Bank officials.

Bank of England Offer

2. The Financial Secretary thinks that:

(i) The Bank should not charge for buying shares (we will have to consider the public spending implications separately).

(ii) The Bank should only accept RLAs as evidence of title (though we can expect some criticism from the Stock Exchange on this).

(iii) We should do the minimum formal advertising at this end of the offer period and re-advertising at the end of the offer period.

(iv) Literature should not be inserted in the RLA envelopes.

(v) There should not be a press conference, but there should be a press handout for personal finance correspondents.

(vi) The revised "tombstone" is acceptable (copy attached).

(vii) We should do no more than the bare minimum to satisfy the lawyers on the overseas arrangements (and not, for instance, accept ADRs).

3. The Financial Secretary was also happy with the application arrangements (paragraph 16(i)).

4. The one outstanding issue is the length of the offer period. Officials' strong recommendation is that we should announce a firm closure date now, of 18 December. This is thought important for the markets since they will not be able to put a value on the "option" represented by the Bank offer without knowing when the option will expire. In addition, there would of course be no problem in extending the offer period subsequently if we decided that this were desirable: announcing a firm closing date now does not mean that we have to stick to it. Thus we gain the market advantage without loss of flexibility.

5. The Financial Secretary is not entirely persuaded of this. He thinks that we would be committing ourselves to keeping the offer open for longer than a month and that this would be a loss of flexibility which might in certain circumstances be useful (for instance, if the market were strong in early December, we might want to announce that the offer would close within 7 days, if we thought a further downturn were just around the corner).

6. One other possibility to preserve more flexibility would be to announce now that the offer will close on 11 December. This has difficulties too, however, since:

(i) The US trade figures are released in the second week of December, and an 11 December close would not give the market time to settle down in the event of adverse figures.

(ii) Small investors would have only one month between receipt of their RLAs and the end of the Bank offer.

Separate Scheme for Small Investors

7. Given that the Financial Secretary has perceived little pressure from any source for a separate, more generous, scheme for small investors, he thinks this idea should be shelved. The Financial Secretary is most grateful to officials, however, for working up several options at short notice.

Stopped Cheques

8. The Financial Secretary has also read Mr Moore's note of behind
4 November. He thinks the line in paragraph 2 is sensible. He will think further about the NatWest letter.

JEREMY HEYWOOD
Private Secretary

3976/23

FROM: P J CROPPER
DATE: 5 November 1987

FINANCIAL SECRETARY

cc Chancellor
Mr D Moore

BP

Adam Ridley puts up an idea for supporting the after-market in BP beyond the present arrangements.

2. I think he is specifically talking of purchases by individuals. The proviso that the shares are held until New Year's Day '89 might be difficult to monitor, but something probably could be set up by the company.

P J CROPPER

Re X, it won't, so scheme falls.

BP

The Bank of England is quite likely to acquire significant numbers of partly-paid shares under the current offer on top of the (presumably) significant number of shares held in reserve for the loyalty bonus, of which most will not now be needed. The Government will presumably be looking at ways of continuing to ensure some sort of underpinning for the price of BP shares, both old and part-paid, beyond the 1-2 month period of the Bank of England offer. An initiative on the following broad lines <u>might</u> therefore be worth considering.

Any individual who purchases up to a certain number of partly-paid shares over a stipulated period (e.g. Mid Nov. to New Year's Day) will <u>also</u> be eligible for a one-in-ten loyalty bonus provided he/she holds those shares until (e.g.) New Year's Day 1989.

If the unused part of the original holding of shares earmarked for the bonus is large, as one supposes it must be, there is little likelihood that such an offer could lead to the authorities being embarrassed by a shortage of shares to distribute under the new offer.

ANR/CF
4th November, 1987.

ps3/3T

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FROM: J M G TAYLOR

DATE: 6 November 1987

PS/FINANCIAL SECRETARY

cc Mr D J L Moore
Mr P J Cropper

BP

The Chancellor has seen Mr Cropper's minute of 5 November, enclosing a suggestion from Sir Adam Ridley. The Chancellor has commented that we shall not be looking for some sort of underpinning beyond the 1-2 month period, so the scheme falls.

J M G TAYLOR

BF with advice.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

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17 November 1987

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1P 4QJ

CH/EXCHEQUER
REC. 17 NOV 1987 | 11
ACTION FST
COPIES TO

Dear Cecil,

AMERSHAM INTERNATIONAL PLC : SPECIAL SHARE

Thank you for sending me a copy of your letter of 29 October to Nigel Lawson about the Amersham International Special Share.

The retention of a special share in some privatised companies, as a safeguard against a transfer of control of the company, has always sat rather uneasily alongside our readiness to rely on our powers under the merger provisions of the competition legislation to protect the public interests where a merger involves a company that has never left the private sector. Insofar as the effect of the special share is to block an acquisition by an overseas company, it could be seen as protectionist, and contrary to our normal welcoming stance towards inward investment. It could also be argued to prevent the ordinary shareholders from realising the true value of their company.

There are situations where, for example, our strategic interests are such that recourse to general legislation might not provide adequate protection and specific measures are needed, as in the cases of Rolls-Royce and British Aerospace, both major defence contractors. But I doubt if Amersham falls into that category. Indeed, I have some difficulty distinguishing your arguments in favour of protecting Amersham from the threat of takeover from those which might be put forward by any fast-growing medium-sized company in a high-technology industry. Certainly I accept that a decision to relinquish the Special Share could be sensitive

DW1DOX

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politically. But I believe that this option needs to be considered very seriously in the interests of the overall consistency of our policies. If we do relinquish the Special Share, and Amersham is subsequently the target of a takeover bid, that would automatically be considered for possible reference to the Monopolies and Mergers Commission. In my recent statement on mergers policy, I made it clear that, while the potential effect on competition would continue to be the main criterion for the reference of mergers to the MMC, it would not be the exclusive consideration.

I strongly support what you say about imparting the decision - whatever it is - to Amersham and the market. The face of the Special Share must be regarded as price-sensitive information within the meaning of the insider dealing legislation and failure to disclose could lead to Government being accused of creating a false market in Amersham Shares. The "Guinness" prosecutions oblige us to be particularly scrupulous in this regard.

I am copying this letter to Nigel Lawson and John Moore.

Yours

David

LORD YOUNG OF GRAFFHAM

DW1DOX

999-49

CHANCELLOR OF THE EXCHEQUER

Ch/

You may like to discuss this with FST in the margins of prayers.

JS

SA5.056.SS

TRATERS [illegible]

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COMMERCIAL IN CONFIDENCE

FROM: R M BENT
DATE: 18 November 1987

I agree
MB
19/11

1. MRS M E BROWN

2. FINANCIAL SECRETARY

cc Chancellor
Chief Secretary
Sir P Middleton
Mr Monck
Mrs Lomax
Mr Moore
Mr M Williams
Mrs Diggle
Mr Call

* * I disagree with this advice, & the FST must not [illegible] until he has discussed with me first ... P.S. Do the [illegible] note [illegible] @ X?

AMERSHAM INTERNATIONAL PLC: SPECIAL SHARE

In preparation for the privatisation of Amersham International in February 1982, a £1 Special Share was created to entrench provisions in the Articles of Association that prevent one person controlling more than 15 per cent of the company's equity. This Special Share was redeemable, at the request of the Secretary of State for Energy, on or after 31 March 1988.

2. Amersham International, and its advisers (Morgan Grenfell), have asked for an advance indication of the Government's intentions. The Secretary of State for Energy, in his letter to the Chancellor of 29 October, argues that the judgement is essentially political, that it is finely balanced, but that on balance no action should be taken on 31 March 1988.

Policy issues

3. We see four sets of policy issues as follows:

(i) **General policy on redeeming Special Shares**

There have been two main thrusts behind the creation of Special Shares, either to impose permanent UK control over a strategic or defence industry, or to protect fledgling companies from the full rigours of competition for a transition period. Amersham International falls in the latter category, rather than the former. In particular, the company is already vulnerable to foreign ownership in that 7 foreigners, acting independently, could purchase the entire share capital of the company. With regard to the temporary protection against takeover, the Government has provided for the automatic expiry of such protections in more recent privatisations, witness the 1 January 1989 expiry of the 15 per cent limitation on individual shareholdings in Rolls-Royce. This suggests a presumption that the Special Share ought to be redeemed on 31 March 1988;

In his comments of 17 November, Lord Young likewise distinguishes between the need to retain a Special Share permanently for strategic reasons, and the case for reverting to a Monopolies and Mergers Commission reference as the only defence where a takeover is doubtfully in the national interest.

(ii) <u>Special considerations on Amersham</u>

We need to consider whether there are any special circumstances related to Amersham which point against redeeming the Special Share on the first available date. Mr Parkinson refers generally to the special scientific expertise and resources of the company, but also implies that an indefinite retention of the Special Share could not be justified. More particularly, the results announced on 10 November (see FT Article attached) suggest that, while profits were exposed to foreign currency movements, sales were at record levels and overall margins were maintained on turnover ahead by 15 per cent. Operating profits rose 15 per cent as well, by £1.68 million to £13.11 million.

Against this, the radio-chemicals industry has become increasingly competitive since 1982 and, as Amersham itself is aware, some analysts now consider the company too small to survive over the longer term. Rather than see a contested, and possibly foreign, takeover - which the Government might find embarrassing given the regular access Amersham needs to UKAEA reactors - the City betting is that the company will be conducting a quiet search for a friendly UK parent that could offer Amersham both better marketing support overseas and substantial funding for a major R&D programme to develop new products.

(iii) **Market propriety**

Under this head, the concern is that the market should have full knowledge of the Government's intentions. An advance indication of an intention to redeem the Special Share on 31 March 1988 would put the whole market - hostile bidders, white knights and defending management - on notice, and allow the market to determine an acceptable outcome. It should be noted that, even when the Special Share is redeemed, the 15 per cent limit in the Articles of Association will continue to bite until amended by a Special Resolution supported by 75 per cent or more of Amersham shareholders.

Alternatively, a decision not to redeem the Special Share on 31 March 1988 could leave the Government particularly exposed either to pressure for a change to its stance in the context of particular bids, or even to the need to refuse consent to a change in the Articles of Association approved by shareholders at EGM. Political embarrassment could arise when action taken in the context of one bid was not repeated in the context of another.

Whatever the decision, Lord Young warns that the Government should be scrupulous in disclosing its intentions: failure to do so could lead to accusations of creating a false market in Amersham shares.

(iv) **Stock market fall**

It may be felt that, while market prices are weak, a company such as Amersham is under heightened threat of take-over, and that redemption of the Special Share at this stage would be seen as a particularly unhelpful action by the Government. You will want to consider the political implications of this. But, since the redemption date is not until 31 March 1988, and since the limit on individual shareholdings will continue to bite thereafter until changed by a 75 per cent vote at EGM, there is still considerable time for the markets to readjust.

Conclusion

4. By 31 March 1988, Amersham International will have had six years of temporary protection from take-over. In principle, the longer this protection continues the more chance there must be that feather-bedding will emerge, and that management will fail to act sufficiently quickly or radically to keep up with the competition. It is surely no part of the privatisation programme to create a special category of UK industry which is indefinitely safeguarded from the commercial consequences of poor performance.

5. I attach a draft reply pressing the case for an early announcement that the Special Share will be redeemed on 31 March 1988. This submission has been agreed with PE1 Division.

RMBent.

R M BENT

FINANCIAL TIMES
10 NOVEMBER 1987

Amersham disappoints market with £11.7m

BY DAVID WALLER

Amersham International, the manufacturer of radioactive materials which came to the market in 1982 in one of the Government's first privatisation issues, yesterday disappointed the City with a 12 per cent increase in interim pre-tax profits.

At £11.7m, taxable profits for the six months to the end of September were below analysts' forecasts of between £12 and £12.5m. Although earnings per share were more in line with expectations, at 14.4p against 12.4p, the shares fell sharply, ending the day 62p down at 308p.

The fall was exacerbated by fears of the group's exposure to currency fluctuations. Approximately 90 per cent of its turnover derives from overseas and Sir John Hill, chairman, conceded that the declining US dollar made Amersham increasingly vulnerable to competition from US companies in its principal markets.

"As always, Amersham's results will be subject to the effects of exchange rate movements," Sir John warned analysts. Although the currency effect had been broadly neutral in the first half, he said that it would be impossible to avoid an impact in the second half.

Sales across the company's three divisions were at record levels, and overall margins were maintained on turnover ahead by 15 per cent to £79.4m. Operating profits rose by 15 per cent as well, by £1.68m to £13.11m.

No divisional breakdown was given, but the company said that margins had improved in medical and industrial products. Research products continued to experience selective price competition, predominantly in Japan, where Amersham had cut its prices in order to retain market share.

Sales of the Amerlite non-radioactive diagnostic system were running according to plan, the company said, and made a contribution to profits before research and development expenditure. Overall, this amounted to 10 per cent of group sales.

The interest charge rose by £395,000 to £1.41m, but tax fell from 35 to 34 per cent of taxable profits. Minority profits were £429,000 (£536,000), and the interim dividend was raised from 2.8p to 3.2p.

•comment

The 17 per cent fall in Amersham's share price yesterday seems unjustified on the basis of the figures alone, which at the pre-tax level were only marginally short of consensus forecasts, and in line with expectations after tax, interest and minorities. But under present conditions, investors need very little excuse to sell, and sell they did after the company conceded that currencies were bound to have an adverse effect on profits in the second half. The more sober analysts had worked this out for themselves earlier this year when Amersham detailed the price-cutting tactics of a US competitor in Japanese research markets, and their estimates for the full year were little changed at £24-£25m. That puts the shares on a prospective p/e of around 10 - low for a company which has generated 19 per cent compound growth in sales and profits in its 5 year stock-market career. But the derating is understandable: practically all of its costs are incurred in sterling, and 90 per cent of its revenue is earned in other currencies. And if the government does not redeem its golden share next March, there will be no prospect of a bid.

SA6.003.SS

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DRAFT LETTER TO:

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

Copies to:

Secretary of State for Trade and Industry

Secretary of State for Health and Social Security

AMERSHAM INTERNATIONAL PLC: SPECIAL SHARE

Nigel Lawson has asked me to reply to your letter of 29 October. I have also seen David Young's letter of 17 November.

2. Special Shares created on privatisation tend to fall into two categories. Some entrench permanent provisions for UK control for wider UK strategic or defence reasons, while others entrench temporary limits on individual shareholdings to protect fledging industries against takeover while they adjust to the competitive pressures of the private sector.

3. The Amersham Special Share falls in the latter category, rather than the former. Indeed, there is nothing to stop foreign ownership of the company as it stands, albeit that the ownership would be vested in a minimum of 7 foreign shareholders, acting independently, rather than one.

4. Starting from first principles, I would argue that, since the Amersham management has already had the benefit of temporary protection from takeover for six years, they are (or should be) well able to survive the full rigors of the private sector. Unless there are strong arguments to the contrary, therefore, I believe that the presumption should be that the Special Share will be redeemed at the earliest available date (31 March 1988). In this regard, I share David Young's views that we should thereafter rely on the Monopolies and Mergers Commission as the prime defence against takeovers doubtfully in the national interest.

5. In looking more closely at the circumstances of the company, I have to say that I do not see strong arguments against this proposition. I recognise, of course, the political sensitivity of whatever action may result from the redemption of the Special Share, but an early announcement of our intention will help to distance the Governmment from what may develop on or after 31 March 1988 in a way which will not be possible at some later date. Indeed, if we did not so act, I would expect the Government to become more, not less, exposed as time went by, as it came under pressure from hostile bidders, white knights or Amersham management to revise its stance in the context of particular bids or other market developments. In summary, therefore, I believe that, in line with the temporary protections against takeover in more recent privatisations, the Amersham Special Share should be redeemed at the first possible opportunity.

6. Once the Special Share is redeemed, of course, the 15 per cent limit on individual shareholdings will remain in the Articles of Association until such time as 75 per cent or more of the Amersham shareholders are persuaded to vote in favour of a Special Resolution to amend the Articles. This, and the Monopolies and Mergers Commission, seems to me to provide adequate safeguards, consistent with the full exposure of Amersham management to the necessary commercial discipline of takeover in the event of their poor performance.

7. A copy of this letter goes to David Young and John Moore.

NORMAN LAMONT

CONFIDENTIAL

FROM: M L WILLIAMS
DATE: 18 NOVEMBER 1987

1. MR CASSELL
2. CHANCELLOR

I would not advise pursuing this at the moment. [initials] 18/11

Ch/ Content to leave this for a further 6 months? [initials] 18/11

cc Chief Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Bottrill
Mr Mowl
Mr Fox
Ms Leahy
PS/IR
Mr Johns IR

ROYALTY OIL

You noted last July that you would like to review the postion on royalty oil after the Autumn Statement.

2. If the oil companies were informed of our intention to take royalty in cash, rather than kind, before 31 December this year, the change would take effect from 1 July 1988. The adverse impact on the PSBR in 1988-89 would be about £110 million with an implied continuing PSBR cost of about £15 million a year.

3. The main arguments for and against the switch are broadly unchanged but there are some nuances. The main argument in favour remains the need to cut back public sector involvement in activities, ie oil trading, which can equally well be undertaken by the private sector. Apart from the PSBR cost, the main disadvantages are;

i. information from OPA has a continuing usefulness to Inland Revenue. As well as acting as an independent and unbiased source of advice and information about what is actually happening in the market, OPA provides (informally) price information which feeds into Revenue's valuation base.

ii. OPA have in the past consistently disposed of their oil at a price greater than that at which it would have been valued had it been taken in cash (figures for the most recent chargeable period suggest an annual benefit to the Exchequer of £22 million). A large part of this discrepancy, however, will probably have reflected the weakness in the tax rules, which we hope has been corrected by the Revenue's nomination scheme. It is too early to decide whether that scheme has been successful (it came into operation only last March) but Revenue are monitoring it carefully. To the extent the discrepancy also reflects OPA's success as oil traders, it is difficult to judge whether they are performing more or less efficiently than would a private sector equivalent.

iii. the receipts flow would be more lumpy than at present, but royalties are falling over time and this problem should diminish.

4. I know that DEn Ministers have, within the Department, queried the continuing role of OPA. However, you will recall that at the moment DEn are negotiating with MOD for MOD to take over responsibility for the GPSS. Although we hope that this change will take effect from 1 April 1988 there is a good chance that it will be delayed a year. Subsequently, it will be up to MOD to decide whether to continue to use OPA as their agents to manage the GPSS; it is likely that they would do so so long as OPA's costs were competitive. DEn would want this transfer of responsibility out of the way before turning to royalty in kind; in particular there is a risk that the transfer would be jeopardized if MOD learnt of the possibility that OPA's royalty oil functions were shortly to be wound up, leaving them with the administrative inconvenience of having to be sponsor department.

5. Last July, you indicated that you would probably prefer to wait until next June before making the change. The points made in paragraph 3 above tend to argue that way, although none

is overriding. It may also be that Mr Parkinson would be more receptive in June, both for the reason in paragraph 4 above, and because the change is then divorced from consideration of possible oil tax changes. This year's report of the inter-departmental group of officials on the North Sea Fiscal Regime is not yet complete. But there is at least a possibility that Revenue and Treasury officials on the one hand, and DEn officials on the other, may disagree about the advisability of certain changes, some of which carry Exchequer costs. Tactically, it may be more difficult to resist such changes on cost grounds if you are showing yourself willing to make this switch.

6. My advice, therefore, would be for pursuing this change in 6 months time rather than now. If you agree, I will resubmit next May. If not, I will let you have a draft for Mr Parkinson.

M L WILLIAMS

3741/015

CONFIDENTIAL

B.J. 27/11

ECONOMIC SECRETARY TO THE TREASURY

FROM: P D P BARNES
DATE: 19 November 1987

PS/CHANCELLOR

cc PS/Chief Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Scholar
Mr M Williams
Mr Bottrill
Mr Mowl
Mr Fox
Ms Leahy

Mr Johns - IR
PS/IR

PB/EST
Will prepare both
of these pts.

ROYALTY OIL

The Economic Secretary has seen Mr Williams' submission to the Chancellor of 18 November.

2. The Economic Secretary thinks that since the main fiscal affect is on cash flow, this year is the obvious year to make a change.

I am not clear what the EST is ~~[illegible]~~ recommending. 2. What wd be the PSBR effect in 1988-89 of the impact on the companies of a change to take effect on 1/1/89? I had understood this was distinct from X.

PB

P D P BARNES
Private Secretary

3698/4/sh

SECRET

FROM: D J L MOORE

DATE: 20 NOVEMBER 1987

CHANCELLOR

Thanks. It would be useful for the FCO to ask the Kuwaitis what their intentions are. Re para 3, KIO will certainly not dump the shares on the market - they are not fools - but they may well sell them to a potential predator: that is the real threat to BP. The threats in para 5 are ludicrous. N.

cc PS/ Financial Secretary
Sir Peter Middleton
Sir Geoffrey Littler
Mr Cassell
Mr Monck
Mrs Lomax
Mrs Brown

BP: KIO

I discussed last night with David Simon of BP the company's attitude to the 10% holding taken by the Kuwait Investment Office. While he knew that Sir Peter Walters was considering the possibility, neither of us knew that Walters was speaking to the FCO that evening.

2. Through Warburgs, BP had signalled to potential Middle Eastern investors that they would be comfortable with purchases of holdings of up to 2½% or possibly 5% as a fall back. KIO knew of that, but declined to discuss and bought their 10%. If KIO stick at that, and are indeed long term investors, BP can live with it. Simon's own judgement is to take the KIO's statement at its face value and to assume that they will not go higher.

3. But BP would be worried if KIO were to buy more and move up to, say, 15%. First, there is the risk of an over-hang on the share price from any significant holding which could be put back on the market at any time. 10% could already be a worry and BP would be alarmed by anything higher. Second, BP's strategy is to continue to make acquisitions as good opportunities arise. They could be inhibited in the USA if the Kuwaitis had any higher stake. They have apparently been given the cold-shoulder before in the USA eg on Gulf where BP beat them to it.

4. The BP Board have agreed that the next step is for

David Simon to talk to KIO and to seek clarification of their intentions. His tactics will be to indicate that KIO are welcome as a long term investor but to point to the difficulties for the company if the stake were to be higher than 10%. In the mean time, as you know, Sir Peter Walters has asked the FCO what they can do to help and they are now considering how best to approach the Kuwaitis.

5. The Board are also thinking on a contingency basis what they would do if KIO did go higher and BP wished to dilute their voting power. Subject to approval by an EGM, one possibility would be to issue more shares and then use them to finance acquisitions which in turn could help the share price. This would, however, have to be a substantial exercise if it were to bring about a significant dilution in voting rights. (NB they are limited under the instalment agreement on any action they might take to put new shares on the market and thereby weaken the share price while we are still due to collect the second and third instalments.) Alternatively, or additionally, they could amend the Articles of Association and thereby affect voting rights. But they recognise to do so prematurely would seem like a panic measure.

6. The KIO has taken up approximately 600 million of the 2126 million partly paid shares which were issued. If they are indeed long term holders that obviously significantly reduces the amount which could come back into the Bank under the support arrangements. David Simon's own view - from soundings by BP and by Warburgs - is that, of the remaining partly paid shares, something over 300 million are still running loose; these include around 200 million held by UK institutions who could be currently overweight in BP. If this assessment is sound, and there are no further market falls to upset it, we are in a much better position than we might have feared.

7. I will continue to keep in touch with David Simon.

D J L MOORE

CONFIDENTIAL

1319/3

FROM: M J NEILSON
DATE: 24 November 1987

PS/CHANCELLOR

cc: PS/FST
Mr Cassell
Mrs Lomax
Mr Peretz
Mrs Brown
Mr Ilett
Ms Noble
Mr Gregory - T/Sol

Thanks. I do not accept the argument for giving the Bank more than 5 days' notice. Pse fix a mtg soon for 2/12 to consider whether to terminate on 11/12. Meanwhile, I shd be grateful for a note estimating the likely take-up of the offer in present circs. NL

BP: SHARE PURCHASE ARRANGEMENT

You asked for a table setting out the available dates for closing the Bank's scheme, and the critical path for decision making in each case. This note represents very much a first shot at this - we are meeting with the Bank tomorrow to talk about these issues, and will subsequently be providing considered advice.

2. Even at this stage, it is clear that the number of possible dates for closing the scheme are limited. The Bank prefer Fridays because they have the weekend to clear the paperwork. (Though, exceptionally, the last date for the offer - 6 January - is a Wednesday, because Friday 8 January is the last day for registering the purchases of RLAs. If the Bank scheme closed on 8 January they would not have time to register purchases made on that day.) The scheme really has to close either well in advance of Christmas or well after, because of the combined effect of postal delays and the disruption caused by the holidays. **This leaves three options - 11 December, 18 December and 6 January.** If necessary it would no doubt be possible to move one or two working days either way from those dates.

The second column of the table attached indicates the date an announcement would have to be made to comply with the commitment to announce closure of the scheme five working days in advance. There are some arguments for announcing the end of the scheme rather more than five days in advance. The Stock Exchange think that an announcement 10 days in advance is the

CONFIDENTIAL

minimum needed for the market to be able to handle closure of the scheme. A longer period would also make it possible to advertise the ending of the scheme without publishing a further application form (because there would be time for applicants to acquire forms from the Bank and submit them - not possible in five days.)

Apart from the argument that the closure of the scheme should be announced more than five days in advance, neither the Bank nor our lawyers have identified any other reasons for a gap between decision and announcement. An advertisement announcing closure will have to appear in the newspapers, but this can be drafted in advance. We will also have to book advertising space in advance, but Dewe Rogerson advise that we can do this anonymously in advance of final decisions, and so long as we cancel at least a couple of days in advance we should not incur additional costs. On this basis the final point for making decisions would be two days in advance of announcement - any later would begin to impose additional costs.

M J NEILSON

BP SHARE PURCHASE SCHEME: CRITICAL PATH

Decision deadline	Announcement date	Closure date
2 December	4 December	11 December
9 December	11 December	18 December
22 December	29 December	6 January

CONFIDENTIAL

From: SIR PETER MIDDLETON
Date: 24 November 1987

MR MOORE

cc Chancellor
Financial Secretary
Mr Cassell
Mr Monck
Mrs Lomax
Mrs M Brown

Miss Wheldon - Tsy Sol

There are the main two points. But I would add ~~others~~. So far we have included foreign underwriters abroad, but excluded them (or their UK subsidiaries) at home. We should look at reversing this position — we learnt because the underwriting systems abroad (esp US) are v. diff from the UK.

BP

... We spoke about the post mortem which you will be conducting on the BP share sale. I attach a draft list of questions which I think should be covered. I should be grateful for any comments from the Chancellor and the Financial Secretary - and indeed any of those to whom I have copied this minute.

~~Foreign underwriters (v. UK subsidiaries of them)~~

P E MIDDLETON

~~Could~~, but might ~~also~~ also look at the Japanese system (viz the Jap Telecom privatisation) as a possible model for the future here. NL

& what price is a suitable system for fixing a date on offer close on system in UK & is a more appropriate system.

38

DRAFT **CONFIDENTIAL**

From: SIR PETER MIDDLETON

Date: 24 November 1987

MR MOORE

BP: POST MORTEM

I should be grateful if you would conduct a review of the BP sale and the lessons to be learned for future privatisations.

2. There are two main issues:

(a) **Financial Advisers and Lead Underwriters**

How do we avoid the conflicts of interest which arose from having Rothschilds as both our financial adviser and lead underwriter?

Do we wish to continue to underwrite these issues at all? Are new privatisations different from the sale of minority holdings from the Treasury portfolio?

(b) **Clause 8**

If we underwrite, what termination provisions should there be?

How can we avoid putting our normal relationship with the Bank of England in baulk?

Is the arrangement for dealing with overseas underwriters satisfactory?

3. In addition there are a number of subsidiary issues:

(c) **Prospectus and brokers circulars**

Is the relationship between the circulars produced by the brokers and the prospectus satisfactory - are we liable for anything other than the prospectus?

(d) **Advertising**

Have we drawn the line on advertising and the prospectus in the right place? Was the criticism after the event of the "BP: Be Part Of It" slogan misguided?

(e) **Contingencies Fund**

The BP arrangements involved an unusual use of the Contingencies Fund: are there lessons to be learned?

(f) **Issue Department**

Are there any lessons to be learned from our need to use the Issue Department at the last moment?

4. I should also welcome your views on the separate issue of whether the resources committed by the various parties were:

(i) adequate;

(ii) properly organised and co-ordinated.

P E MIDDLETON

3741/061

PPS - PL ? (I think on b.f.)

CONFIDENTIAL

FROM: P D P BARNES
DATE: 24 November 1987

PS/CHANCELLOR 2

cc Mr Williams

Ch.
Here is the further advice.
[illegible] months?
24/11

ROYALTY OIL

You asked for a clarification of the Economic Secretary's comment recorded in my minute of 19 November.

2. The Economic Secretary meant that since the main effect of the change is the once-off cost to the PSBR, he thinks it logical to make the change this year (taking effect next year) given that the outlook for the PSBR is so healthy.

3. You also asked whether it would make any difference to the 1988-89 PSBR if, instead of the change being announced now to take effect next July, it were announced next June to take effect from 1 January 1989. Mr Williams tells me this would have no effect.

[illegible]: that [illegible] we would take the decision in June, as envisaged in PS minute of 24/7.

PB

P D P BARNES
Private Secretary

4368/17

CONFIDENTIAL

FINANCIAL SECRETARY TO THE TREASURY

FROM: J J HEYWOOD
DATE: 25 November 1987

SIR P MIDDLETON

cc PS/Chancellor
Mr Cassell
Mr Monck
Mr Moore
Mrs Lomax
Mrs Brown
Miss Wheldon - T Sol

BP

The Financial Secretary has seen your draft list of questions for the BP post mortem. He thinks this covers all the important points.

2. One subsidiary question did occur to him however: if we do decide to continue to underwrite privatisation issues, are we content with the arrangements for underwriting the overseas tranches, or would we prefer to see the overseas underwriters passing on the risk to a wider range of institutions early in the offer period?

J J HEYWOOD
PRIVATE SECRETARY

MR 1/6

CONFIDENTIAL

pup

FROM: A C S ALLAN
DATE: 26 November 1987

SIR P MIDDLETON

cc: PS/FST
Mr Cassell
Mr Monck
Mr Moore
Mrs Lomax
Mrs M Brown
Mrs Wheldon - Tsy Sol

BP

The Chancellor has seen your minute to Mr Moore of 24 November. He agrees with the points you set out, but he would add two others.

2. So far, we have included foreign underwriters abroad, but excluded them (or their UK subsidiaries) at home. He thinks we should look hard at reversing this process - not least because the underwriting systems abroad (especially in the US) are very different from the UK, and what is a suitable period between price fixing and the date on which an offer closes under our system is inappropriate under another system.

3. He thinks we might also look at the Japanese system (vide the NTT privatisation) as a possible model to be tried here.

ACSA

A C S ALLAN

APS. M

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

1. MRS ~~BROWN~~ 27/11

2. FINANCIAL SECRETARY

From: R M BENT
Date: 26 Nov 1987
cc Chancellor
Chief Secretary
Sir P Middleton
Mr Monck
Mrs Lomax
Mr Moore
Mr M Williams
Mrs Diggle
Mr Call

Ch/ content?
25
27/11

OK

AMERSHAM INTERNATIONAL PLC: SPECIAL SHARE

Having considered the political implications of the Stock Market fall (para 3(iv) of my submission of 18 November), I understand that you are content to accept the Energy Secretary's proposal of 29 October.

2. I have revised your draft reply accordingly.

3. While it is open to you to suggest that the decision not to redeem the Special Share should be reviewed again within a specified time, I have not drafted in this sense. It is at least arguable that a firm intention to review would itself be disclosable to the market, and I assume that you will want to preserve flexibility on timing and handling. The danger in this approach, of course, is that the Special Share may prove to be more permanent than originally intended.

R M Bent

R M BENT
PE2 Division

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

Draft letter to:

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

Copies to:

Secretary of State for Trade and Industry

Secretary of State for Health and Social Security

AMERSHAM INTERNATIONAL PLC: SPECIAL SHARE

Nigel Lawson has asked me to reply to your letter of 29 October. I have also seen David Young's letter of 17 November.

2. As David Young has reminded us, we must communicate our decision, whatever it is, to both Amersham and the market. This suggests an arranged Parliamentary question somewhat earlier than you may have had in mind.

3. I also agree with David's distinction between situations in which the Special Share helps to ensure permanent UK control for defence or strategic reasons, and those where the Share helps to provide a fledgling industry temporary protection against take-over while it adjusts to life in the private sector.

4. Plainly, Amersham falls in the latter category, rather than the former. Accordingly, our presumption must be that the Special Share will be redeemed sooner rather than later.

5. But as you rightly point out the issue of whether to redeem the Special Share as early as 31 March 1988 is essentially a political one. Given the wider concerns that you mention, and the delicate state of world stock markets following the price collapse, I would not dissent from your recommendation that we announce, by arranged Parliamentary question, that we have no present plans to redeem the Special Share.

6. I am copying this letter to David Young and John Moore.

NORMAN LAMONT

mjd 2/8Jn

CONFIDENTIAL

PWP.

FROM: J M G TAYLOR

DATE: 26 November 1987

PS/ECONOMIC SECRETARY

cc PS/Chief Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Scholar
Mr M L Williams
Mr Bottrill
Mr Mowl
Mr Fox
Ms Leahy

Mr Johns - IR
PS/IR

~~HIS~~ ROYALTY OIL

The Chancellor was grateful for Mr M L Williams' submission of 18 November. He has also seen the Economic Secretary's comments.

2. The Chancellor will reconsider this next May/June.

J M G TAYLOR