

PO-CH/NL/0648

PART C.

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PART. C

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PART. C

CHANCELLORS 1987
BRITISH PETROLEUM
AND OIL PAPERS

31-12-87

DD's 25 JKS

NAG
22-11-95

THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM

CONFIDENTIAL

Oh I told PE earlier that you were against legal action. Are you content with the threat of it, as suggested here? (I have asked BT's office to hold until you have had a chance to consider)

I would like to see the proposed letter. I think I would like to see it. I think I would like to see it. I think I would like to see it.

FROM: MS P M LEAHY
DATE: 27 NOVEMBER 1987

- 1. MR D J L MOORE
- 2. FINANCIAL SECRETARY

- cc Chancellor
- Chief Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Mr Anson
- Mr Cassell
- Mr Monck
- Mr Scholar
- Mrs Lomax
- Mr Beastall
- Mr R I G Allen
- Mrs M E Brown
- Mr Bent
- Mr Lyne
- Mr J D R Shore
- Mr S B Johnson
- Mr Call

We need to send another letter to those 3300+ who are continuing to default. In our view it should warn they could be liable to legal action if they do not pay up. This is the most effective way of reducing the numbers, whether legal action was taken against particular defaulters could be left for later consideration.

But you will see from para. 9 that T&L advise that we should not threaten legal action if it were decided now that it would definitely not be taken against anyone.

Miss Wheldon T. Sol
The letter would!
JM 27/11

BP SALE: STOPPED CHEQUES

This minute updates you on the current position and recommends further action.

Background

2. The original problem was a little bit better than we first thought. After some double-counting was eliminated it turned out that 4843 cheques for a total of about £2.6 million in respect of 2.16 million shares were returned unpaid. A letter was sent out on 9 November pointing out that applicants had agreed to honour their cheques on first presentation and asking them to honour the cheque when represented. We deliberately did not threaten legal action.

3. About 30 per cent of the 4843 applicants whom we wrote have now paid up. By the beginning of this week 3,369 cheques remained unpaid for a value of about £1.8 million. This number is reducing all the time although not very significantly.

Next Steps

4. The logical next step is to send a further firmer letter to those who have still not paid up and to present the cheques for a third time. To be effective the letter should threaten legal action. We would not, however, constrain our ability to take such action if we did not refer to it in the letter.

5. When we know what the result of a second letter is we will have to decide whether to take legal action. If we do not there could be criticism from those who honoured their cheques and from the PAC.

6. The precedent for this is the 1982 Britoil sale where the Exchequer faced a loss from stopped cheques amounting to about £45,000 in total. Energy Ministers decided to take legal action against defaulters where the loss was over £200. A number of defaulters are still being pursued. (The first case took a long time to settle but since then action has been quicker). About 10% of the £45,000 was written off because of hardship considerations.

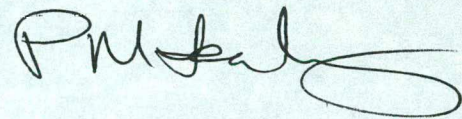
7. This is an area where the Accounting Officer has a particular interest as he is ultimately responsible for the safeguard and good management of public funds. Losses that are eventually written off will have to be noted in the Appropriation Accounts.

8. Treasury Solicitor's Department advise that in general the loss that we would be able to pursue applicants for would be the difference between the contract price and the market price on 1 December. (This is the earliest date which we could sell the shares on the market and the date when it would be judged reasonable for the Treasury to repudiate the contract with the applicant). If the price on 1 December is 81p (yesterday's closing price) and we followed the Britoil precedent we would pursue all those who bought more than 500 shares. Six hundred and sixty two applicants (about 20 per cent) who still have not paid up bought more than 500 shares. If we threatened legal action this number would undoubtedly reduce significantly.

A schedule showing the break down of the stopped cheques by size is attached. If a decision is made that legal action should definitely not be taken then Treasury Solicitor's Department advise that it would, however, be inappropriate to threaten it.

Recommendation

9. We recommend that a further firmer letter should be sent to those who did not honour their cheques threatening legal action and unpaid cheques should be represented for a third time. Until we know the result of this it would be premature to take a decision on what action to take next. But unless we took legal action against the bigger defaulters we could be criticised on public accountability grounds.



P M LEAHY

SUMMARY OF UNPAID CHEQUES

Shares	Items unpaid on first presentation	Items unpaid on second presentation	% reduction
80	377	230	39
100	1456	937	37
200	907	653	28
300	504	358	29
400	210	172	18
500	461	348	24
600	92	65	29
700	31	23	26
800	72	56	22
900	53	43	19
1,000	311	230	26
1,500	75	55	27
2,000	74	65	12
2,500	31	26	16
3,000	34	24	29
3,500	0	0	-
4,000	8	5	37
4,500	3	3	0
5,000	33	9	73
6,000	3	2	33
8,000	1	1	0
10,000	13	11	15
25,000	<u>1</u>	<u>0</u>	100
	4750 and <u>93</u> rights	3316 and <u>53</u> (rights)	
	<u>4783</u>	<u>3369</u>	

30% reduction in cheques unpaid



MP

FROM: J M G TAYLOR

DATE: 30 November 1987

PS/FINANCIAL SECRETARY

cc: PS/CST
Sir P Middleton
Mr Monck
Mrs Lomax
Mr Moore
Mrs Brown
Mr M Williams
Mr Bent
Mrs Diggle
Mr Call

AMERSHAM INTERNATIONAL PLC: SPECIAL SHARE

The Chancellor has seen Mr Bent's minute of 26 November. He is content with the revised draft reply.

JTG

J M G TAYLOR



FROM: J M G TAYLOR

DATE: 30 November 1987

PS/FINANCIAL SECRETARY

cc: PS/CST
PS/PMG
PS/EST
Sir P Middleton
Mr Anson
Mr Cassell
Mr Monck
Mr Scholar
Mrs Lomax
Mr D J L Moore
Mr Beastall
Mr R I G Allen
Mrs M E Brown
Mr Bent
Mr Lyne
Mr J D R Shore
Mr S B Johnson
Mr Call
Miss Wheldon - T.Sol

BP SALE: STOPPED CHEQUES

The Chancellor has seen Ms Leahy's submission of 27 November.

2. He would like to see the proposed text of the letter. The precise wording is of critical importance.

A handwritten signature in dark ink, appearing to be 'J M G Taylor'.

J M G TAYLOR

CONFIDENTIAL
Commercial in Confidence

CC Ps/Chancellor
 Ps/Chief Sec
 Sir P. Middleton
 MR Monck
 MRS Lomax
 MR Mave
 MRS Brown
 MR M. Williams
 MR Bent
 MRS Diggle
 MR Call

Treasury Chambers, Parliament Street, SW1P 3AG

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

1 December 1987

Dear Cecil

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.

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.

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.

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.

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.

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

Norman Lamont

NORMAN LAMONT

FROM: R N G BLOWER
DATE: 2 December 1987

*This was not
what it seems:
R N G BLOWER*

NOTE FOR THE RECORD

cc. PPS
RS/FST

*(@ 69) & off
(@ 72). They
were*

Mr Moore

Mr RIG Allen

cc: Mrs Lomax
Mr Ilett
Mrs Brown

below 70P

*stock -
of course
John
Mr.*

BZW : BP PARTLY PAID SHARES

BZW remained open until 7.00pm last night bidding for partly paid BP shares at 69 pence. They were the only firm open so they were on the SEAQ yellow strip (which denotes the best firm price).

2. It is not clear to the Stock Exchange, myself or the Bank why BZW was doing this, but it might be that they were attempting to clear up dregs around the market to present to the Bank in one big bundle and thus make a lp turn. It may also be significant that the postal talks broke down shortly before market close last night so they were hoping to gain from those who thought their RLAs might not arrive if posted (but this is a weaker theory).

3. Administratively this is very convenient for the Bank but may mean the Bank will get more shares than they had thought (or then again they may not).

Bob Blower

R N G BLOWER

*Ch
(might raise with Su M Jacob ?)*

AT

38/12/87

*laquer; dodging the
question with answers*

FROM: M J NEILSON
DATE: 4 December 1987

- 1. MRS LOMAX *interest, in the*
- 2. FINANCIAL SECRETARY *circumstances*

- cc: PPS
 PS/Sir P Middleton
 Sir G Littler
 Mr Cassell
 Mr Moore
 Mr Peretz
 Mrs Brown
 Mr Neilson
 Mr Plenderleith BoE
 Miss Wheldon T.Sol

*There is, of course,
a further answer
should justify for 18/12.
No answer to Mr Smith:
current share values, wh.
may well not prevail on 18/12.*

BP OFFER : PQs

I attach draft answers to 3 written PQs on the BP share purchase arrangements which raise a couple of policy issues.

2. Two are from Mr Malcolm Bruce (Liberal), asking how many partly-paid BP shares the Bank has bought and how many investors have sold. Our view, shared by the Bank, is that it will be increasingly difficult to avoid giving facts and figures about take-up of the Bank scheme and that, though we should not volunteer the information, we should be willing to provide it on request. Accordingly the draft answers give the facts requested. This is also a question that may come up at the TCSC hearing on the Autumn Statement at 4.30pm on Monday 7 December, so a decision on whether we should provide this information is needed by then.

3. The third, a Priority question is from Mr Chris Smith (Labour).

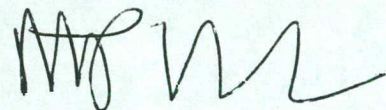
"To ask Mr Chancellor of the Exchequer, whether in the light of current share values he has any intention of extending the final possible date for the Bank of England's offer to repurchase partly-paid BP shares beyond 6 January."

4. Technically, even if Ministers did wish to extend the offer, it would be necessary to make a new Offer. So the answer "No" would not, strictly speaking, limit the Chancellor's discretion. And if circumstances were sufficiently extreme to justify making a new Offer on the same terms, the fact that the Chancellor had answered "No" to this question might not add materially to the controversy of that decision. Anything other than a direct "No" would fuel speculation that the scheme might be extended beyond 6 January, and increase pressure to do so. We therefore recommend the answer "No".

5. If you think that the answer "No", though technically correct, would, in practice, make an extension of the offer beyond 6 January more difficult, the following answer could be used:

"As my Rt Hon^{tr} the Chancellor told the House on 6 November, the Share Purchase Arrangements to which the Hon. Member refers will close on 6 January 1988 unless notice is given that the Offer will close earlier in the manner prescribed in the Bank's notice of 6 November 1987. [It is not my practice to speculate about hypothetical possibilities.]

6. On balance, however, we think the speculation created by such a carefully worded response (particularly if the square bracketed sentence were included) outweighs the marginally increased room for manoeuvre that, arguably, it provides.



M J NEILSON

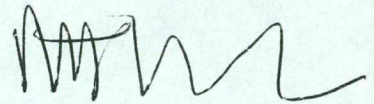
MONDAY 7 DECEMBER 1987TREASURY

La - Islington South and Finsbury .


No. **MR CHRIS SMITH :** To ask
Mr Chancellor of the Exchequer, whether in the light of current
share values he has any intention of extending the final
possible date for the Bank of England's offer to repurchase
partly paid BP shares beyond 6th January.

DRAFT REPLY

No.



M J NEILSON
FIM2
4 DECEMBER 1987



J R LOMAX

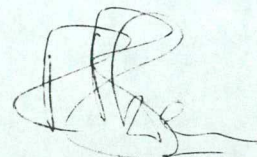
THURSDAY 3 DECEMBER 1987TREASURY

L - Gordon

No. **MR MALCOLM BRUCE** : To ask
Mr Chancellor of the Exchequer, how many partly paid BF shares
have been bought by the Bank of England from investors selling
to the Bank at the guaranteed price.

DRAFT REPLY

As of close of business on 3 December, I understand the Bank
of England has received acceptances in respect of 72,233 shares.



R N G BLOWER
FIM 2 DIVISION
4 December 1987



N J ILETT
FIM 2 DIVISION
4 December 1987

THURSDAY 3 DECEMBER 1987

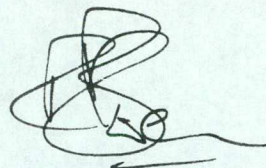
TREASURY

L - Gordon

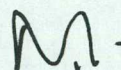
No. **MR MALCOLM BRUCE** : To ask
Mr Chancellor of the Exchequer, how many investors have taken
up the Bank of England's offer to buy partly paid BP shares
at a guaranteed price.

DRAFT REPLY

As of close of business on 3 December, I understand the Bank
of England had made disbursements in respect of 253 acceptances.



R N G BLOWER
FIM2 Division
4 December 1987



N J ILETT
FIM2 Division
4 December 1987

Ch
Which wording
(if either) do you prefer?

FROM: MS P M LEAHY

DATE: 4 DECEMBER 1987

Work with words in
sq brackets, & either to go
for what work.

- 1. MR D J L MOORE
- 2. CHANCELLOR

4 cc
1/12

- Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Mr Anson
- Mr Cassell
- Mr Monck
- Mrs Lomax
- Mr Beastall
- Mr R I G Allen
- Mrs M E. Brown
- Mr Bent
- Mr Lyne
- Mr J D R Shore
- Mr S B Johnson
- Mr Call

Miss Wheldon TSOL
Mr Gregory TSOL

If we sued successfully on the cheque the defaulter would pay 120p + expenses and have his share. If we took no action & he had failed to pay both the 1st & 2nd instalments we would then sell the share anytime after August 88. In practice it would be added to the 68 million shares we held back for bonuses.

In present circumstances we would not be rushing to sell these shares anyway.

The letter is drafted on the assumption that it will be sent by the Treasury or Treasury Solicitor's Dept. The latter would be the most impact. But if you prefer to tread lightly I think

BP: STOPPED CHEQUES

The letter should go from Nat West. - as did the first letter

JW/12

Mr Taylor's minute of 30 November, in response to my submission of 27 November to the Financial Secretary, commented that the wording of the proposed letter to defaulters was crucial.

2. The precise wording of the letter depends on whether we sue on the cheque or whether we repudiate the contract. We prefer the former route because it is simpler (in general there is no defence and summary judgement is available). If we repudiated the contract we would be entitled to sell the shares and sue for damages. But there could be some scope for dispute over the size of the damages and this is more complicated legally. The advantage of this route is that the Exchequer could get some money from the shares in earlier than by suing on the cheque. On balance we believe the disadvantages outweigh the advantages of this course of action.

3. A draft letter is attached. If you decide not to threaten legal action at the moment the words in square brackets would come out, leaving implicit the possibility of legal action.

S B Johnson

PP P M LEAHY

DRAFT LETTER

TO: [Applicants whose cheques have been stopped]

[] December, 1987

Dear Sir/Madam

Offer for Sale of Ordinary Shares

in []

We refer to your application for [] Ordinary Shares in [] which was accepted in full in accordance with the terms of the offer. On [], 1987 National Westminster Bank PLC wrote to you concerning this application and the fact that your cheque had been dishonoured on first presentation. In that letter you were advised that your cheque would be re-presented for payment and you were requested to arrange for it to be honoured. We have been advised that, upon re-presentation, your cheque was not honoured.

~~[In the light of this further dishonouring of your cheque the Treasury will consider whether to sue you for the money due. Action may be taken against you without any further notice. However,]~~ In order to give you the opportunity of paying the amount due before the Treasury exercises any of its legal rights the cheque is being re-presented one further time. We request that you arrange for it to be honoured on this occasion.

Yours faithfully,



psp

FROM: A C S ALLAN
DATE: 7 December 1987

MR BLOWER

cc PS/Financial Secretary
Mrs Lomax
Mr D J L Moore
Mr R I G Allen
Mrs M E Brown
Mr Ilett

BZW: BP PARTLY PAID SHARES

The Chancellor has seen your note for the record of 2 December.

2. His enquiries reveal that this was not what it seems: BZW were both bidding (at 69) and offering (at 72). They were bidding below 70p because they did not want any stock - and did not get any.

A handwritten signature in black ink, appearing to read 'ACSA' with a long horizontal stroke underneath.

A C S ALLAN



FROM: MOIRA WALLACE

DATE: 7 December 1987

MS P M LEAHY

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Cassell
Mr Monck
Mrs Lomax
Mr Beastall
Mr D J L Moore
Mr R I G Allen
Mrs M E Brown
Mr Bent
Mr Lyne
Mr J D R Shore
Mr S B Johnson
Mr Call

BP: STOPPED CHEQUES

The Chancellor has seen your minute of 4 December. He prefers the wording without the passage in square brackets, and he thinks the latter should go from Nat West.

Mpw.

MOIRA WALLACE



FROM: MISS M P WALLACE
DATE: 7 December 1987

PS/FINANCIAL SECRETARY

cc PS/Sir P Middleton
Sir G Littler
Mr Cassell
Mr Moore
Mrs Lomax
Mr Peretz
Mrs Brown
Mr Neilson

Mr Plenderleith BoE
Miss Wheldon T.Sol

BP OFFER: PQs

The Chancellor has seen Mr Neilson's minute of 4 December. He has commented that there is, of course, a further "weasel word" justification for the short answer to Mr Smith: the question strictly relates to current share values which may well not prevail on - say - 18 December.

mpw.

MOIRA WALLACE



*Be put in folder
for BRITON meeting tomorrow.*

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

**CONFIDENTIAL
COMMERCIAL IN CONFIDENCE**

14 December 1987

PP

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

PS/CDL
PS/Mr Maude
PS/Mr Butcher
PS/Sir Brian Hayes
Mr Mountfield
Mr Liesner
Dr Coleman

*Relink to Briton
with*

Cecil

Enclosures:
~~xxxxxx~~
Mr Willott FS
Mr Murray ATP
Mr Williams LGC
Mr Treadgold GP
Mr Rogers MM
Mr Richardson Air
Mr Healey GP
Mr Lowry FS
Mr Spivey (on file)

AMERSHAM INTERNATIONAL PLC: SPECIAL SHARE

I have seen a copy of Norman Lamont's letter to you of 1 December.

I think we are all agreed that Amersham is the sort of company in which the Special Share should be given up sooner than later. The question is therefore not whether we should redeem it but whether we should announce our intention to do so at the first opportunity on 31 March.

Given your and Norman's assessment of the short term political arguments, I am not inclined to press the case for going ahead in March. But I regard the arguments as finely balanced, particularly in the light of BP's tender offer for Britoil and the current press speculation about our intentions as regards the special share in Britoil. It seems to me that a decision to redeem the Britoil share would make it difficult to justify retaining the share in Amersham whilst conversely an early announcement about Amersham would inevitably lead to speculation about Britoil. This is a point on which I would welcome your and Norman's views.

There are always likely to be political difficulties in the way of giving up a special share and we must guard against the danger of drifting into a situation where, quite illogically, such shares acquire a protected status. If we do not redeem the Amersham share on 31 March, I think it important therefore that we should review the position at the end of next year, with a strong presumption it

MP1ADN



will then be relinquished. In announcing the decision not to redeem in March, you would need to make it clear that the position would be kept under review but it would not be necessary to go any further than that in terms of meeting our moral obligation not to allow a false market in Amersham shares to develop.

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

A handwritten signature in black ink, appearing to read 'Lord Young', written in a cursive style.

LORD YOUNG OF GRAFFHAM

CONFIDENTIAL

Handwritten notes in red ink:
Harris's idea (runs thru)
(a) push low
(b) push low
Ch/ See also Miss Wheldon's + Ms Leahy's notes on this string.
OR what is done (has been done by counter) (has been done by counter) (has been done by counter) (has been done by counter) (has been done by counter)

FROM: D J L MOORE
DATE: 16 DECEMBER 1987

CHANCELLOR

cc Financial Secretary
Economic Secretary
Sir Peter Middleton
Mr Anson
Mr Monck
Mr Williams
Mrs Brown
Ms Leahy
Mr Call

Miss Wheldon

BRITOIIL SPECIAL SHARE

We do not know what the next move will be or when it will be made. If there is a bid, once the offer is formally made 71c automatically allows the Special Shareholder to outvote all other shareholders at a General Meeting on any resolution. In theory the Government could refuse to reveal its hand on the Special Share until a successful bidder had emerged. In practice if there is a bid, and counter bids, I think you would have to state your position forthwith. In your discussion with colleagues I suggest you might look at the following options.

I Rule out redemption of Special Share irrespective of source of bid and make clear it will be used to frustrate any bids

- But Britoil has had 5 years to establish itself. In principle should now be fully open to market forces. Indefinite protection justified only if there are national interest arguments for it. Some sectoral argument for independent UK operators in North Sea; but not overriding.

II Announce intention to redeem Special Share after [2] years.

- gives Britoil more time to find a White Knight
- but in meantime potential bidders could sit on large stakes (up to 29%) biding their time
- potential bidders already on the alert and so not obviously necessary to play for time
- no guarantee successful bidder would be British (and BP could have backed off in the meantime).

III Announce intention to review Special Share after [2] years

- could then see if there was likely British interest before moving further
- otherwise same objections as II.

IV Redeem forthwith

- let the market decide
- risks foreign buyer but reasonable chance of BP (or other UK bidders such as Shell) winning.

V Announce will consider bids on merits and if acceptable let through

- would not spell out in detail what was acceptable but it should be possible to

to indicate you would bear in mind Scottish interests and those of Britoil itself

this seems a more workable way of recognising Scottish interests than making stipulations on Headquarters (see Miss Wheldon's note of today); it would be up to the bidder to show that he would do something for Scotland

) behind

it leaves bidders uncertain as to the Government's response but if IV were unacceptable that would be a risk they would have to take if they wanted to go ahead

it could be difficult to explain turning down a foreign bidder acceptable to Britoil and sensitive to Scottish interests.

Parliament

I attach a copy (which you have already seen) of what you said to the House as Energy Secretary on 31 March 1982. Note that you undertook that the House would be informed before redemption of the Special Share took place (this would of course pose a problem if the House were not sitting at the critical time). But redemption was not ruled out since it was made clear that the safeguard was against "unacceptable changes in control".

Any announcement to redeem ought to make clear that this did not mean there was an open hunting season for other Special Share companies. The situation of these companies, and the reasons for Special Shares, vary, and each case would have to be considered on its merits.

DJL
D J L MOORE

(Mr Lawson)

A number of questions were asked about the special share. Attention was drawn to the power under the articles for the Government's special share to be redeemed. The hon. Member for Dunfermline (Mr Douglas) asked at what price the share would be redeemed. The articles clearly show that the share will be redeemed at par—at the nominal price. If the shares are £1 each, they will be redeemed at £1. However, we have no intention of having the share redeemed. The power is included because it is customary for articles of association to cover a range of contingencies. Those who are acquainted with articles of association will be aware of that. I give an undertaking to the House that not only do the Government have no intention of having the share redeemed, but that they have every intention of retaining it. If circumstances arise—I cannot envisage any—in which the Government feel that it is right that the share should be redeemed, we shall come to the House first. I give that undertaking freely, because it is the Government's intention to retain the special share.

Dr. J. Dickson Mabon: Is it not true that under the Bill in its present form the Secretary of State, whoever it may be—probably not the right hon. Gentleman—can dispose of the share without parliamentary consent? The undertaking is, therefore, nonsense. It does not mean a damned thing.

Mr. Lawson: That is an unwise and improper suggestion. I hope that the right hon. Gentleman, who was a former Minister, will withdraw it. When a Minister of State gives an undertaking at the Dispatch Box, it means something. To say that it means nothing is wrong. There are many occasions where Ministers make such statements.

It is true that redemption will not require parliamentary consent. I do not suggest otherwise. However, if the Government of the day at any time feel that circumstances have changed and that the share should be redeemed, the House will be informed before redemption takes place. More importantly, we have no intention of having the share redeemed. The whole point of the share is that it is held, and retained.

Mr. Merlyn Rees: I accept the Minister's word. There may be other arguments to deploy, but I want to be clear that he is giving the undertaking on behalf of the Government.

Mr. Lawson: I give that undertaking on behalf of the Government.

The hon. Member for Dunfermline asked whether the articles had been approved by the Stock Exchange council. The answer is "Yes, they have". I should not put before the House articles of association, and an important proposition, which had not been cleared by the Stock Exchange council. This is not the first time that the hon. Gentleman has suggested that this is a terrible proposal. He will recall that although the power is slightly different, in Amersham International Ltd. there is a special share which has special powers. I was not aware that that put off investors. [Interruption.] It is not on all fours—[Interruption.]

Mr. Douglas rose—

Mr. Lawson: I shall now reply to the main point of the right hon. Member for Leeds, South on how the system is meant to work, the share and the rights attached to it, and why articles 70 and 71 have been included.

We have three key considerations and objectives in mind. We wanted to create effective safeguards which would enable the Government to prevent any unacceptable change in the future control of the company, whatever the nationality of the parties involved. That deals also with the issue raised by the hon. Member for Dundee, East. It is important to protect the character of Britoil as an independent company, responsible for its own management and business strategy.

The second point that lies behind the Government's thinking in devising this form is that it is essential, in the Government's opinion, that the special rights should not provide an opportunity for backdoor interference in the affairs of the company. I think that I made it clear on Second reading—I certainly did so in Committee—that the Government do not intend to use their rights as a shareholder to intervene in Britoil's commercial decisions, except in the specific safeguard circumstances.

The Government do not expect to vote with their shareholding—that is the whole of their shareholding, leaving aside the special share—in opposition to resolutions supported by a majority of the board, although they will retain the right to do so. We have tried to construct safeguards that will operate as reserve powers. They will come into force only in the event of an attempt to take over voting control of the company, control of the board or of its compositions, or to alter the safeguards or any other key articles of the company.

5.30 pm

The powers are passive. They will need to be triggered by outside events beyond the Government's control before they can be brought into play. In practice, it is highly unlikely that they will ever need to be brought into play. The very existence of these powers will act as the most formidable deterrent to anyone who tries to take over control of the board, of the company or of the majority of its shares, and who the Government consider to be unacceptable.

It is possible that at some future date the Government will seek to reduce their shareholding below 49 per cent. It is important to make it clear that the powers will remain however much the ordinary shareholding is reduced. That is why the safeguards are attached entirely to the single special share with a nominal value of £1 fully paid, which is held by the Government and which is separate from the rest of the shareholding.

Mr. Douglas: Is that right?

Mr. Lawson: The hon. Gentleman is not fully acquainted with Stock Exchange terminology.

The safeguards will remain fully active even if the Government have no other shareholding. It is right that there should be safeguards. There is concern on both sides of the House about the ownership of Britoil and its future ownership. The provisions that we are discussing meet that anxiety. They meet the will of the House on Britoil's crucial independence. We have given, as has BNOC and its advisers, considerable thought to the articles to ensure that they are an effective means of protecting Britoil's independence against unacceptable changes in control. Therefore, I commend the articles to the House.

MINUTE SHEET:

No.....

File No.....

CONFIDENTIAL

PS/Chancellor

Ch
Miss Wheldon tells me that the point at 'X' reflects not only her view but also that of Counsel.

JF
16/12

cc PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Mr Monck
Mr Moore
Ms Leahy

BRITOIL SPECIAL SHARE

One of the options considered by the Chancellor at his meeting of 14th December was to indicate that any bid for Britoil would be acceptable provided the bidder agreed to move its headquarters to Scotland.

As I mentioned at the meeting, I think this option would be vulnerable under EC law. An English bidder would be better placed to satisfy the condition than eg a German company, would have to grapple with the tax implications of moving its effective management. It could therefore be argued that the UK was in breach of Article 221 of the EC Treaty (duty to afford equal treatment as regards participation in capital of companies).

X

Quite apart from any EC problem there is a risk that Britoil shareholders (including BP and Arco) could complain of such a condition, not by way of judicial review but under section 459 of the Companies Act 1985. This gives shareholders a remedy where the affairs of a company are being conducted unfairly. I do not believe this section can be relied on if HMG simply frustrates both Arco and BP's bids or lets through one and frustrates the other. Investors in Britoil expect, or should expect, that HMG will vote the Special Share for its own reasons and that these may be national interest reasons. A condition that any bidder should move its headquarters on the other hand would be unexpected and I think a court would take a claim under

OVER

MINUTE SHEET:

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section 459 seriously.

If HMG gives reasons when announcing any intention to vote the Special Share it would incidentally be prudent to emphasise HMG's concern for the interests of Britoil.

J L Wheldon

Miss J L Wheldon

16th December 1987

OVER

CONFIDENTIAL

FROM: D J L MOORE

DATE: 9 DECEMBER 1987

- 1. SIR PETER MIDDLETON
- 2. CHANCELLOR

copies attached for: PS/Chief Secretary
 PS/Financial Secretary
 PS/Paymaster-General
 PS/Economic Secretary

- cc: Mr Anson
 Mr Cassell
 Mr Monck
 Mrs Lomax
 Mr R I G Allen
 Mr M L Williams
 Mrs Brown
 Ms P Leahy
 Mr Lyne
 Mr Bent
 Mr Call

Ms Wheldon TSOL

Jagu
Em

100% (am...)
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50% of the...
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BRITOIL AND BP

Michael Richardson, in his role of adviser to Britoil, called on you briefly this morning.

2. His assessment was that BP have made a preemptive strike preparatory to an eventual bid. If they are successful in moving to 29.9% that could keep other predators at bay and BP could sit tight, possibly until after the second call next August on the partly paid shares. By then their shares might have settled down and they could use them, rather than further cash, to buy control of Britoil. Otherwise they would use far too much cash at the expense of their gearing which their £1½ billion rights issue was intended to restore. We did not comment on this assessment.

3. He went on to explained that the Britoil Board would wish to post on Friday morning a circular to its shareholders advising them on the BP tender offer which closes at 10 am on

Wednesday 16 December. He did not say what that advice would be. But he did say that it would be necessary to refer to the Government's special share and asked whether we had any points to make on it. You undertook to speak to him again tomorrow morning (Thursday) - the notice goes to the printer later that day.

4. I recommend that we should tell him that while we fully recognise that Britoil must refer to the special share we have no further comment to make. Ministers have not decided how the special share would be used if a takeover bid were made. On the advice of Miss Wheldon, we should not ask to be consulted on the terms of Britoil's description of the special share. It should be straight forward but we do not want to assume any liability for what they say in their circular.

5. Article 71 of the Britoil Articles

This leaves open the question of whether, and when, in accordance with Article 71 the Treasury Solicitor (as special shareholder) should serve notice on Britoil that he believes there are "reasonable grounds for believing that any person has obtained or is attempting to obtain directly or indirectly, control over the Board or its composition" and specify those grounds.

6. I attach a note by Miss Wheldon which advises on our obligations under Article 71, and attaches a first draft of a letter which might be sent to Britoil.

7. Miss Wheldon and I agree that it would be premature to write yet. We have Rothschilds' views, as noted in paragraph 2 above. But we now need to discuss with Britoil themselves and, separately, with BP, the questions in paragraph 6 of Miss Wheldon's note and to find out from them the distribution of the other shareholdings and the two companies' views of the relevance of 71B. Until then, while we might think it likely that BP will move further, we do not have sufficiently firm and agreed grounds for writing and to do so prematurely could run us into difficulties.

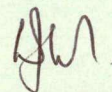
8. We recommend, therefore, that the next and urgent step is to ask Britoil and BP for their views on the Article 71 questions. Following that, our judgement is that we very probably will need to send a letter. This action would of course still leave entirely open the question of whether the special share would be voted so as to permit or block a takeover bid if one were made.

Conclusions

8. I recommend that we should:

i. advise Rothschilds tomorrow morning as in paragraph 4 on the reference in the Britoil circular to the special share

ii. see Britoil, and separately BP, before deciding whether, and on what terms, to write to Britoil under Article 71.



D J L MOORE

No.....

File No.....

Sir Peter Middleton

cc Mr D Moore

BRITOIL SPECIAL SHARE

I attach a copy of Article 71 of the Britoil Articles.

2. Paragraph (B) of this Article provides that the Special Shareholder shall serve a notice on Britoil if there are, in his opinion, "reasonable grounds for believing that any person ... has obtained or is attempting to obtain, directly or indirectly, control over the Board or its composition." The grounds must be specified in the notice. For so long as such a notice is in force (and it must be withdrawn if the grounds disappear) a Special Shareholder can out-vote all other shareholders on any resolution to appoint, re-elect or remove a director. In addition, all directors must retire at the AGM.

3. If a person bids for or controls more than 50 per cent of the shares paragraph (B) no longer applies but paragraph (C) automatically allows the Special Shareholder to out-vote all other shareholders at a general meeting on any resolution.

4. The issue of how, and whether, the Special Share should be voted if Article 71 is triggered is, of course, quite separate and not determined by the Articles.

5. Paragraph (B) is mandatory on a Special Shareholder in the sense that he must serve a notice within a reasonable time if he has formed the relevant opinion. Given the indivisibility of the Crown,

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information in the hands of the Treasury should for this purpose be treated as information in the hands of the Treasury Solicitor.

"Control" in paragraph (B) means, in my opinion, de facto control and would be achieved if the relevant person were in practice able to obtain a simple majority of votes cast at a general meeting, because this is sufficient to appoint or remove a director. (Any shareholder holding not less than 10 per cent of the shares may require an extraordinary general meeting.)

6. In its letters of 8th December BP has informed the Government and Britoil that it has acquired 14.7 per cent of Britoil's ordinary shares and is seeking to acquire 29.7 per cent. Whether 29.7 per cent would give de facto control of Britoil presumably depends on the distribution of other shareholdings. I suggest that the next step should be to ask Britoil about this and whether they believe that the tender offer is, in the circumstances, an attempt to obtain control within the meaning of Article 71(B). It would also be right to hear BP's views and you may feel it would also be sensible to seek expert advice from eg a merchant bank.

7. Even if 29.7 per cent would not involve de facto control, the Government might still conclude that it had reasonable grounds for believing that BP were attempting to obtain control over the Board or its composition on the basis that the tender offer appeared to be part of a wider strategy. The terms of BP's letter of 8th December to Britoil are relevant here. Again, it would be right to hear what Britoil and BP have to say but BP should appreciate that the Special Shareholder will be under an obligation to inform Britoil of the grounds for its belief if it concludes that a notice should be served.

8. There is no fixed period within which a notice must be served but any notice should be served as soon as reasonably practicable. It should not wait for Britoil to go through the procedure of serving a notice under Article 71(A) and nor should it wait until the end of the tender period if the Government can reasonably form an opinion under

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paragraph (B) earlier. I attach a first draft of what a notice under Article 71(B) might look like, leaving aside the considerations in paragraph 7 above. I would propose to show any notice to the company in draft before it is served, so that they can their solicitors cancomment on it.

Miss J L Wheldon
9th December 1987

OVER

the meeting directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The Chairman may appoint scrutineers (who need not be Members) and may fix some place and time for deciding the result of the poll.

68. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or in respect of which the poll is demanded, shall be entitled to a second or casting vote.

69. A poll demanded on the election of a Chairman or on the question of an adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days after the date of the meeting or adjourned meeting in respect of which the poll is demanded) and place as the Chairman of the meeting may direct. No notice need be given of a poll if taken on the same day as the meeting or adjourned meeting in respect of which such poll is demanded. Any business other than that upon which a poll has been demanded may be proceeded with pending the taking of the poll. The demand for a poll may be withdrawn.

VOTES OF MEMBERS

70. Subject to any rights or restrictions for the time being attached to any class or classes of shares and to the provisions of these Articles, on a show of hands every Member present in person shall have one vote, and on a poll every Member shall have one vote for each share of which he is the holder.

71. (A) In the event of any Director becoming aware of any facts which might lead to the Board taking the view that a person (being interested in shares in the Company) either alone or jointly with other persons (such joint parties being referred to in this Article as "relevant persons") who are, or would pursuant to the provisions of section 66 and/or section 67 of the Companies Act 1981 be taken to be, interested in any shares in the Company in which that person is interested, has obtained or is attempting to obtain, directly or indirectly, control over the Board or its composition, he shall forthwith give written notice thereof to the Board setting out the relevant facts and the Board shall forthwith transmit a copy of such notice to the Special Shareholder. The Board shall as soon as possible thereafter consider the contents of such notice and shall forthwith inform the Special Shareholder in writing of the Board's views thereon.

(B) (a) If there are, in the opinion of the Special Shareholder, reasonable grounds for believing that any person or relevant persons has obtained or is attempting to obtain, directly or indirectly, control over the Board or its composition, the Special Shareholder, whether or not he has received any notice pursuant to paragraph (A) of this Article 71, shall give written notice to the Board that he believes that there are such grounds, specifying them.

(b) From and after delivery of such notice:—

(i) the Special Share shall, if voted against the resolution on a poll, on any resolution to appoint, re-elect or

remove any Director, have a total number of votes which (when added to the total number of votes which may be cast on such poll in respect of all the voting shares registered in the name of the Secretary of State) is one more than the total number of votes which may be cast on such poll in respect of all the voting shares which are not registered in the name of the Secretary of State; and

- (ii) the provisions contained in Article 105 as to Directors retiring by rotation shall be deemed to be amended so that all of the Directors for the time being other than the Government Directors shall retire from office at each Annual General Meeting.

(c) The Special Shareholder shall upon the cessation of the grounds giving rise to such notice inform the Board in writing of the withdrawal of such notice whereupon the provisions of (i) and (ii) of paragraph (B)(b) of this Article 71 shall cease to apply provided that the Special Shareholder shall be entitled to give any further such notice at any time or times thereafter in accordance with paragraph (B)(a) of this Article 71, whereupon the provisions in paragraph (B)(b) of this Article 71 and in this paragraph (B)(c) shall again apply.

(d) The provisions of this paragraph (B) shall not apply during any period when the Special Share has the special votes attaching to it pursuant to paragraph (C) of this Article 71.

(C) If any person or relevant persons:--

- (i) makes an offer (whether or not conditional) for shares of the Company with a view to any person or relevant persons becoming beneficially interested in shares carrying more than 50 per cent. of those voting rights which are exercisable in all circumstances at General Meetings and ignoring for this purpose the voting rights attaching to the Special Share pursuant to paragraphs (B) or (C) of this Article 71; or
- (ii) is entitled to exercise, or is entitled to control the exercise of, more than 50 per cent. of those voting rights exercisable in all circumstances at General Meetings and ignoring for this purpose the voting rights attaching to the Special Share pursuant to paragraphs (B) or (C) of this Article 71: (Provided that for the purpose of this provision no person shall be taken to be entitled as aforesaid by reason only that he has been appointed a proxy to vote at a particular

General Meeting or at any adjournment of that meeting or has been appointed by a corporation to act as its representative at any such meeting or at any adjournment of that meeting)

the Special Share shall, from the date on which either of such events first occurs until any such offer has lapsed or closed or the person or relevant persons ceases to be entitled as aforesaid, as the case may be, have in respect of any resolution of the Company in General Meeting on a poll, a total number of votes which (when added to the total number of votes which may be cast on such poll in respect of all the voting shares registered in the name of the Secretary of State) is one more than the total number of votes which may be cast on such poll in respect of all the voting shares which are not registered in the name of the Secretary of State. In addition the Special Shareholder shall have the right to require the Directors forthwith to proceed to convene an Extraordinary General Meeting and provisions in the same terms as section 132 of the Companies Act 1948 and Article 56 of these Articles shall apply to such right.

72. In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the Register in respect of the share.

73. A Member incapable of managing and administering his property and affairs may vote, whether on a show of hands or on a poll, by his curator bonis, receiver, or other person authorised by any Court of competent jurisdiction to act on his behalf, and such person may on a poll vote by proxy. Provided that such evidence as the Directors may require of the authority of the person claiming to exercise the right to vote shall have been deposited at the Office, or at such other place as is specified for the deposit of instruments of proxy in accordance with these Articles, not less than forty-eight hours before the time appointed for holding the meeting or adjourned meeting at which the right to vote is to be exercised.

74. No Member (other than the Special Shareholder) shall, unless the Directors otherwise determine, be entitled to be present or to vote on any question, either in person or by proxy, at any General Meeting, or upon any poll, or to be reckoned in a quorum, or to exercise any other right conferred by membership in relation to meetings of the Company in respect of any shares in the capital of the Company held by him if:—

- (a) any call or other sum presently payable by him in respect of those shares remains unpaid; or
- (b) he or any person whom the Company knows, or has reasonable cause to believe, to be or to have been, directly or indirectly, interested in those shares has been duly served with a notice under section 74 of the Companies Act 1981 (or a notice requesting other information which the Directors consider necessary or desirable to enable them to discover the effective control of those shares) and he or any such person is in default in supplying to the Company the information thereby requested within the time specified in such notice for compliance therewith, being not less than twenty-eight days from the date of the notice.

Draft (1) 9.12.87

The Board of Directors
Britoil plc
150 St Vincent Street
Glasgow G2 5LJ

Dear Sirs

In accordance with Article 71(B)(a) of the Articles of Association of Britoil Public Limited Company (the "Company") I hereby give you notice on behalf of the Solicitor for the affairs of Her Majesty's Treasury (the "Treasury Solicitor"), being the registered holder of the Special Rights Preference Share of £1 in the capital of the Company, that the Treasury Solicitor believes that there are reasonable grounds for believing that a person or relevant persons (as defined by Article 71) is attempting to obtain, directly or indirectly, control over the Board of Directors of the Company (the "Board") or its composition.

The grounds for such belief are as follows:-

[1. The Treasury Solicitor has received a letter from The British Petroleum Company plc ("BP"), a copy of which is attached, stating that on 8th December 1987 BP's wholly owned subsidiary, BP Petroleum Development Limited (the "BP subsidiary") acquired approximately 14.7 per cent of the Ordinary Shares in the capital of the Company ("Ordinary Shares") and that the BP subsidiary intends to acquire up to a further 15 per cent bringing its total holding of Ordinary Shares to 29.7 per cent.

2. The Treasury Solicitor has been informed by Her Majesty's Treasury that if the BP subsidiary acquires 29.7 per cent of the Ordinary Shares it can reasonably be expected to be in a position to exercise control over the Board or its composition, having regard to the way in which the Ordinary Shares are currently distributed among other shareholders and the rights which the BP subsidiary would enjoy under the Memorandum and Articles of Association of the Company and under the Companies Acts. The Treasury Solicitor has also been informed by Her Majesty's Treasury that the Company is of a similar opinion.]

Yours faithfully

Miss J L Wheldon
Principal Assistant Solicitor

S E C R E T



FROM: P D P BARNES
DATE: 10 December 1987

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Sir P Middleton
Mr Cassell
Mr Monck
Mrs Lomax
Mr Moore
Mr Cropper
Mr Tyrie
Mr Call

BRITTOIL/BP

The Economic Secretary would like to spell out his views on the Britoil/BP issue more fully, following the discussion at prayers. The Economic Secretary's view is that the Government should use its special share to block a takeover.

2. When the special shares were invented, the main rationale was that it would only be possible to overcome one set of popular prejudices at a time. That is, it would be possible to overcome prejudices against free enterprise and competition. But it would be foolish to confront popular prejudices about foreign ownership and to a lesser extent, takeovers as well. The Economic Secretary thinks that this rationale of expediency still holds good and is reinforced by the Scottish dimensions.

3. The Economic Secretary thinks that the Chancellor may like to consider the following points:-

(i) Allowing BP to take over Britoil would make employees and managers in businesses coming up for privatisation more concerned about takeovers;

(ii) Although BP is not foreign, we cannot publicly state that we would block foreign and not British predators. So the fear of foreign takeover would

S E C R E T

S E C R E T

be inflamed;

- (iii) To the Scots, BP will be presented as a "foreign" firm who will deprive Scotland of yet another major Head Office, and one which we created;
- (iv) The takeover would eliminate an important medium-sized North Sea player. The Economic Secretary presumes that Enterprise will soon disappear into LASMO/RTZ. In this case, there would be almost no indigenous middle rank operators left in the North Sea;
- (v) The main reason why these medium sized producers are falling prey to the majors is not industrial logic. It is that the majors have a great deal of cash, cannot find much oil except in penny packets, and are reluctant to give their surplus cash to shareholders. As equity prices (per barrel of reserves), are below finding and development costs, the majors prefer to buy up other companies.

RB

P D P BARNES
Private Secretary

S E C R E T

CC: PS/FST PS/EST
 Sir Peter Middleham
 Mr D.L. Moore
 Mr Norgrove (No 10)

(This is a Press release
 issued by Britoil at 11th December 1987.
 4-30 p.m. today ^{1/2})

**AGREEMENT BETWEEN ATLANTIC RICHFIELD COMPANY ("ARCO")
 AND BRITOIIL plc**

38m
 7.7%

The Board of Britoil plc ("Britoil") has today been informed by Arco that it has acquired through market purchases 38m ordinary shares in Britoil, representing 7.7 per cent. of its issued ordinary share capital and that it intends to make further purchases at 350p per share, whether through the market, pursuant to a tender offer or otherwise with a view to taking its total holding to 29.9 per cent. of Britoil's ordinary share capital.

Britoil and Arco have also reached agreement in principle whereby Britoil will acquire all or most of the oil and gas exploration and production assets of Arco outside North America in consideration for the issue of further ordinary shares in Britoil. It is the intention that upon completion of the assets for shares transaction, Arco will own no more than 49.9 per cent. of the enlarged ordinary share capital of Britoil. It has been agreed as a general principle that the transaction will be struck by reference to relative asset values. When the detailed terms of the transaction have been negotiated it will be submitted to an EGM of Britoil's shareholders for approval.

Britoil and Arco have had a successful partnership for several years, with jointly owned oil and gas properties in Dubai and Indonesia as well as in the North Sea. Following completion of the transaction Britoil will remain a U.K. quoted public company with its corporate headquarters based in Glasgow. In addition, it will have acquired an extensive spread of international oil and gas acreage complementary to its already significant interests on the United Kingdom Continental Shelf and overseas.

As part of the transaction, Britoil and Arco will conclude a shareholders' agreement which will govern their future relationship. H.M. Government retains a special share in Britoil which gives it extraordinary voting rights in the event that any person or company seeks to gain control of Britoil.

The Board of Britoil sees no merit whatsoever in the tender offer by B.P. Petroleum Development Limited ("B.P.") and forcefully and unanimously recommends its shareholders to ignore it.

The Board of Britoil welcomes the association with Arco. The Board believes that Britoil's continuing independence is more attractive to shareholders than the consequences of acceptance of the inadequate tender offer being made by BP. The long term prospects of Britoil will be considerably enhanced by the proposed acquisition from Arco, providing as it will a significantly increased international asset base. Moreover, Arco's offer at 350p is, of course, significantly higher than that of BP.

The Board of Britoil together with its financial advisers, N M Rothschild & Sons Limited and Shearson Lehman Brothers, recommend shareholders who are minded to dispose of some of their shares in the currently uncertain market conditions to accept the Arco offer, rather than that of B.P.

Press enquiries

Britoil plc

David Walker
Chief Executive
until 7.00 p.m.

01-409 2525

Arco

Lodwick M. Cook
Chairman and Chief Executive
until 7.00 p.m.

01-409 2525

CONFIDENTIAL

FROM: D J L MOORE

DATE: 14 DECEMBER 1987

CHANCELLOR

cc Financial Secretary
 Economic Secretary
 Sir Peter Middleton
 Mr Anson
 Mr Monck
 R I G Allen
 M Williams
 Mrs Brown
 Ms Leahy
 Mr Lyne
 Mr Bent
 Mr Call

Miss Wheldon - TSOL

BRITTOIL

You are meeting some of us at 3.00 pm today. The immediate question is whether the Arco proposals, set out in the press release of 11 December give reasonable grounds for us, as Special Shareholder, to believe that a person "has obtained, or is attempting to obtain, directly or indirectly, control over the Board or its composition". We have to specify our grounds in the notice to Britoil and, if we have formed such a view, it is mandatory on us to serve the notice. The position is set out in more detail in Miss Wheldon's minute of 9 December, attached to my minute to you of the same date.

2. There is an important distinction between the effect of action under Article 71B and 71C. Under 71B the Special Shareholder can outvote all other shareholders on resolutions to appoint, re-elect or remove a Director. But this right of veto does not apply to any other resolutions. But under 71C, where someone has bid for or controls more than 50%, the Special Shareholder can outvote all other shareholders on any resolution. (Not - in my view - a position which could be sustained for long: either the predator would have to retreat or the Special Share would have to be redeemed.)

3. Article 71B

On the face of it, 71B ought to be triggered now. From the terms of the press statement, and of remarks quoted in the press over

the weekend, Britoil are clearly aiming to avoid confrontation over the exercise of the Special Share. 49.9% is not legal control. Britoil are quoted in the Financial Times as looking for arrangements which guarantee their independence. Nevertheless, the fact is that a shareholder with 49% would undoubtedly be in a position to obtain a simple majority of votes passed at a General Meeting and so be able to appoint or remove Directors. Indeed, the same is arguably true of a 29% shareholder, with the rest of the shareholding widely dispersed - as it was in Britoil before the present events.

4. We recommend, therefore, that officials should meet Britoil either tonight or tomorrow morning to hear their views on why we should not write to them under 71B. In particular we would need to probe them on the proposed shareholders' agreement which will govern the future relationship between Britoil and Arco. We will need to take their comments with a pinch of salt because the effect of triggering 71B is that until further notice all the Britoil Directors must retire at the AGM (next April) and they are not likely to be enthusiastic over that prospect. While the primary purpose of the meeting would be to discuss 71B we could also give them the opportunity to say anything further on the present situation if they so wished.

5. Whether or not we hold a meeting with them, I think we also need to ask BP whether they wish to say anything further to us on the exercise of 71B or more generally.

6. If it is necessary to write under 71B you would want to inform the other Ministers most closely interested. But, since it would be mandatory to act once the opinion was formed, it would not be appropriate to seek their agreement.

7. If the notice was served this week while Parliament were still sitting I think it would be necessary to inform the House through a Written Answer, even though this would provoke further questions on Ministers' intentions.

Exercise of the Special Share

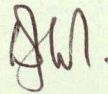
8. A 71B notice has the advantage of signalling that we are in action. But it leaves open, as a quite separate matter and

not determined by the Articles, how the Special Share would be voted if we got to that stage. This is not a live issue and it is not clear when it might become live. Once their present tender offer expires on Wednesday, BP will presumably come into the open on their counter-attack but that will not necessarily amount to a full bid yet.

9. In the meantime, Ministers' position is that these opening moves are a matter for the commercial judgement of the companies concerned. It is a hypothetical question what would be the Government's action if one of them were to make a bid.

10. But when that point comes you will presumably need the agreement of - at the least - the Prime Minister and the Secretaries of State for Energy, Scotland, and Trade and Industry. Do you want to give some oral state of play report to Cabinet this Thursday?

11. In the meantime, Department of Energy officials have prepared an assessment of the sectoral position and they will be send it to us.



D J L MOORE

CONFIDENTIAL

FROM: MS P M LEAHY

DATE: 16 December 1987

1. MR D J L MOORE
2. CHANCELLOR

cc Financial Secretary
Economic Secretary
Sir P Middleton
Mr Anson
Mr Scholar
Mr Monck
Mr M L Williams
Mrs M E Brown
Mr Bent
Mr Call

*You should be aware of this in
case Mr Robinson refers to it,*

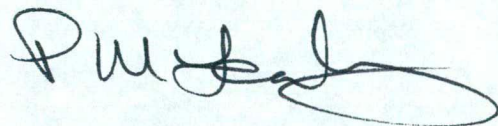
JML/12

BRITTOIL: THE INDEPENDENT OIL SECTOR

I attach a paper, prepared by Department of Energy, outlining the arguments in favour of the existence of an independent British sector on the UKCS. The paper suggests that a reduction in the independent sector would adversely affect development on the UKCS.

2. The Department see the paper as useful background to the current considerations being given to the use of the Britoil Special Share. They have emphasised that their Secretary of State does not necessarily support the conclusions to the paper.

3. It should be recognised that the paper has been prepared from a very one-sided perspective - as indeed the Department admit. Some of the examples given to demonstrate the worth to the independent sector are not particularly impressive. More to the point the evidence is all anecdotal. No doubt if we tried we could find just as much anecdotal evidence to suggest that the independent sector has been a drag on UKCS development.



P M LEAHY

THE FUTURE OF THE INDEPENDENT SECTOR IN THE NORTH SEA**INTRODUCTION**

1. This paper considers the importance of the independent oil companies for the development of the the UK's North Sea interests.

2. There are currently about 50 independent British-based companies operating in the North Sea, including subsidiaries of companies with their main interests outside oil and gas exploration. Between them, they operate 4 oil fields and 2 gas fields.

3. Britoil is by far the largest of the independents. It holds about 7.5% of the licensed area of the UKCS; the next largest, British Gas, holds 3.5%; very few other independents hold more than 1%. Britoil owns more North Sea production licences than any other British independent company and is in a unique position in that it is the only independent with a Government Special Share carrying no expiry date. By contrast, Enterprise's Special Share expires at the end of 1988.

GOVERNMENT APPROACH TO DATE

4. The Government has consistently fostered the independent sector via licensing policy on the UKCS and supported the independent companies in public statements. For example, the Press Release for the Minister of State's recent speech to Brindex, the independent operators' association, contained the following passage:

"Mr Morrison stressed the importance he attached to a thriving British independent company presence on the UKCS. "Nine Brindex members are offshore operators; Brindex members also operate 116 of the 238 onshore licences. The independents, whose hallmark has always been ingenuity, will in my view continue to play an important and complementary role to the major companies for years to come".

CURRENT MARKET SITUATION

5. The position of the independent sector is particularly exposed at present in light of the depressed state of the equity market. Most of the independents are currently underpriced relative to their asset base, as the Chase Manhattan valuation of Britoil (300 - 350p) clearly shows. The acquisition of small independent oil companies, whose cash flow has been badly hit by last year's oil price collapse, is an attractive and cheap means for larger foreign companies to pick up useful acreage and expertise.

ROLE OF THE INDEPENDENT SECTOR

6. The strategic interests of the UK in the North Sea have always meant that the existence of a significant number of independent, British, largely upstream oil companies with licences in the North Sea, is an important counterweight to

the major integrated companies, such as Shell/Esso and BP who have access to alternative profit centres. The independents are an important source of British investment, tax revenue, employment and export opportunities.

7. The smaller independents have always been seen as potentially more imaginative and flexible than the majors. Their record shows that this has been the case. Small companies have often been keen to drill and develop promising but slightly risky acreage more quickly, partly because of their limited range of revenue-producing projects. Indeed, to maintain shareholder interest, such companies must inevitably behave in a more entrepreneurial way than the more cautious and widely-extended majors.

8. The Government's discretionary licensing policy has been successful in creating a large number of companies of varying sizes, based in the UK and operating on the UKCS. The widespread view that the size of investments in the North Sea and the long lead-times of projects must always favour the bigger companies misses the UK's strategic interest in the maintenance of the momentum of exploration and development, even in more adverse economic circumstances. The larger companies are cautious by nature, have world-wide interests and so tend to acquire and then "bank" acreage, which may then lie fallow for many years.

9. By contrast, the independents have shown themselves to be amongst the keenest to "farm-in" to such fallow acreage, as was shown in a recent James Capel survey. As many as 5 independents figured in the top ten "farmers-in" on the UKCS in the period 1980-1986. Top of the league by far, with eighteen major deals in that period, was Enterprise.

10. It is important to bear in mind that oil and gas fields in the North Sea are not, in general, owned by single companies. The presence of one or more independent companies in the consortia developing UKCS fields can materially affect the speed and enthusiasm with which such projects are tackled, with important financial and employment consequences for the UK economy.

EXAMPLES OF INNOVATION BY THE INDEPENDENTS

11. There are several recent cases demonstrating this. For example, Enterprise Oil has a 19% stake in Amethyst, a medium sized Southern Basin gas field. Britoil is operator. Enterprise, by far the smaller company, has nonetheless taken the lead in negotiating for the most favourable gas processing options.

12. Enterprise are also keen to drill on block 30/11b, where their partners are Mobil and Amoco, which operates the field. Amoco are not keen to proceed quickly, having other corporate priorities. However, Enterprise are pressing hard for the project to proceed. Without the presence of an

independent as a "ginger group" in consortia headed by the major companies, it is doubtful whether a large number of such projects would go ahead in current market circumstances.

13. Enterprise intend to acquire a 100% interest in block 22/16a from Conoco, Chevron and Britoil, and intend to start drilling this year. Similarly, they also intend to start drilling on block 211/1a, which has lain unused for several years under the control of Phillips and Ultramar, and which Enterprise have now farmed into. Similarly, Britoil have farmed into Block 211/17 and intend to drill acreage untouched for several years by Total, Elf and Mobil.

14. Sovereign are operators for the marginal Emerald field, in which they hold a 30% interest. Sovereign have maintained their interest in the project while others, including Chevron and even Britoil, have dropped out; Sovereign are pioneering novel approaches to the financing of such projects which may point the way for the development of a whole category of smaller, more expensive fields in the future.

15. Lasmo is another independent which have shown its keenness to press ahead with a development in the 48/18 and 19b Southern Basin block by increasing its stake twice in the last year through acquisitions. Lasmo has indicated a high level of interest in becoming a development operator in order to keep together their team of technical experts. The independent sector is a repository of considerable technical expertise, much of which would be quickly dispersed amongst more conservatively-minded larger companies if the sector were to disappear.

16. During the 10th offshore licensing round, Trafalgar House formed part of a consortium (including British Gas) bidding for the very popular 44/24 block. Trafalgar House were notable for their willingness, in contrast to all their partners, to accept linking the block with neighbouring more risky acreage. This willingness to take more risks is a characteristic of the independent sector which we risk losing if they are subject to a spate of takeover bids.

17. More recently, the Department has received approaches from Lasmo, Trafalgar House and Ranger (Canadian based) who are all anxious to farm-in on acreage held by major companies and which has not been drilled for some time.

18. The smaller companies have also shown themselves to be technically innovative, for example BP's 44/23 gas discovery, which had been abandoned, was taken over by CSX gas who found a significant deposit in the deeper, more difficult, carboniferous stratum.

THE ROLE OF THE MAJOR OIL COMPANIES

19. In contrast to the independents, who are largely locked-in to the North Sea, the large international oil companies draw their corporate strength from involvement in a diversity of oil provinces such as the Gulf of Mexico, Indonesia and the Middle East. In many cases, the major companies also have a diversity of business interests, such as BP's animal feeds venture, Shell's South African coal interests and the very widespread involvement in petrochemicals.

20. They are therefore readily able to transfer investment elsewhere if the North Sea becomes less attractive, for whatever reason; whereas the independents are more likely to be locked in to the North Sea as they have less diverse interests. This is particularly relevant now that the estimated average cost of a barrel of oil from fields currently under development has risen as high as \$16. The role of the independents in developing novel methods of financing may thus become increasingly important, as the Sovereign example shows.

MARKET PERCEPTIONS

21. There is little doubt that the market will see the Government's attitude to the Britoil Special Share as an indicator of its attitude to the independent sector as a whole. The industry has always expected that the Government's commitment to the independent sector would be expressed not only through its informal attitude to the role of the independents but also in a formal way via the use of the Britoil Special Share to prevent a takeover by a major company such as BP. A decision not to use the Special Share would be seen as a clear signal of a lessened commitment to the independent sector on the part of Government.

22. Today's news tends to support the view that the BP 29.9% bid for Britoil has already been seen as a signal by the industry, and that a major shake-out of the smaller companies is now in prospect.

CONCLUSIONS

23. As the examples quoted above show, the independent sector is playing a vital role on the UKCS in:

- (a) accelerating developments,
- (b) pioneering financial arrangements more suitable for the smaller, more expensive fields now being discovered,
- (c) maintaining a reserve of tightly-focussed expertise and
- (d) ensuring, to some extent at least, that acreage "banked" by the majors does not lie fallow for ever.
- (e) evaluating acreage in a technically innovative way

24. The reduction of the independent sector in a series of takeovers following Britoil would represent a serious blow to the maintenance of activity on the UKCS and the

flexibility of approach that entails. The sector would take some considerable time to regenerate. In addition, a North Sea with far fewer independents, would open up the prospect of a more effective dominance by the majors, largely based overseas, than has existed for many years, with all that would imply for activity on the UKCS.

OIL AND GAS DIVISION
11 DECEMBER 1987

Ch. You might like to see this.

FROM: MICHAEL GUNTON
DATE: 23 DECEMBER 1987

MR BUSH

AN EXERCISE IN EFFICIENCY

*Intentional. At 4/1/88
If I receive any complaints our only option is*

M Monch
Topic was telephoned at the same time as the others. In view of the performance recorded by the gunton it is a miracle they ever manage to get any news on their screens promptly. *Harry Bush 23/12/87*

In view of the effort we made today to ensure that the Treasury statement on BP/Britoil reached the Stock Exchange's TOPIC screen in good time, I thought you might be interested in the exercise as it took place.

Copy this response to be released in 2 weeks

On receipt of the statement, at 11.07 am, the Stock Exchange was immediately dialled.

The telephone rang 27 times before it was answered.

A request was made for the call to be put through to Company Announcements. "Who?" The request was repeated. When the call was answered I was told that the responsible person, Christine Damm, was out of the office. I explained what I wanted and was told to "wait a minute". Nearly a minute later a young woman came on and said she would take my message but she didnt do shorthand and would have to write it out. At the beginning of the second sentence at least a minute later, she said: "Is it possible for you to fax this to us?" When I said it was she took a further 30 seconds to find the fax number.

Meanwhile the statement had been passed to both Reuters and PA and the calls were complete.

[Signature]
MICHAEL GUNTON
12/12/87

CONFIDENTIAL



cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Monck
 Mr Burgner
 Mr D J L Moore
 Mr Cropper
 Mr Call

Mrs ME Brown

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

17 December 1987

Jeremy Godfrey Esq
 PS/Secretary of State for Trade and Industry
 1-19 Victoria Street
 LONDON SW1

BRITTOIL AND SPECIAL SHARES

The Chancellor held a meeting today with your Secretary of State, the Secretary of State for Energy, the Secretary of State for Scotland, the Minister of State (Energy) and the Financial Secretary to the Treasury.

The meeting considered:

- (i) how to make use of the Government's Special Share in Britoil, should ARCO or BP launch a full bid;
- (ii) policy towards the use of Special Shares generally.

Britoil

In discussion, the following points were made:

- (i) this was the first privatised company in which the Government held a Special Share where a possible takeover bid might be launched. The Government's use of the Special Share would, therefore, set an important precedent;
- (ii) it would be extremely difficult, politically, to allow Britoil to be acquired by a foreign company;
- (iii) the BP and ARCO bids should be treated even-handedly;
- (iv) the Britoil Board would prefer the Company to remain entirely independent. Its preference for ARCO was second best to this and was driven by their wish to resist BP.



It was agreed that, if full bids were launched by ARCO and/or BP they should be resisted. There was a choice between simply opposing the bids, and opposing them but indicating that the Government would review its position at some point in the future. It was agreed that the latter option should be followed, but that a precise deadline for withdrawal of the Special Share should not be given. Instead, if (and only if) a full bid were launched, the Government should let it be known that at the present time, it would use its Special Share to prevent any change in the ownership and control of Britoil.

Special Shares - General

It was agreed that it would be appropriate for the Government's position in relation to all its Special Shares to be the subject of a confidential internal review. This should be undertaken with a view to reporting to E(A) at the end of January. The review would be led by the Treasury, with the participation of interested Departments. The review should consider, in particular, whether all Special Shares other than those in strategically sensitive companies should be made subject to time limits.

I am copying this letter to Stephen Haddrill (Energy), Robert Gordon (Scotland), Steve Whiting (Energy) and Jeremy Heywood here.

Yours sincerely
J M G Taylor

J M G TAYLOR
Private Secretary

CONFIDENTIAL



SIR PETER WALTERS
CHAIRMAN



BRITANNIC HOUSE,
MOOR LANE,
LONDON, EC2Y 9BU

TELEPHONE
01-920 6091

CH/EXCHEQUER	
REC.	17 DEC 1987 17/12
ACTION	DJL MOORE
COPIES TO	FST, Sir P Middleton
	Mr Monck
	Mrs Brown
	Ms Leahy

17th December 1987

(Steph)
18/12/87

Dear Nigel,

As you are no doubt aware from briefings from your officials, since the initial discussions with both the Treasury and the Foreign Office on the Kuwait Investment Office's purchase of BP shares, we have taken a jointly well rehearsed public stance on this subject. This was originally to welcome the Kuwait Investment Office as a long term shareholder and to note BP's stated interest in widening its share ownership on an international basis. We have, however, pointed out privately to your officials that any accumulation of stock above the 10% level does raise certain questions of both a commercial and political nature that may have potential negative aspects on the Company.

The Company has of course contacted the Kuwait Investment Office at working level and has offered to discuss the general issue of their shareholding and its strategic implications. To date, the response has been that there are no commercial or financial grounds for dialogue, merely, to use their words, political ones which can only be held at Chairman level. As we have watched the shareholding grow, and indeed now exceed the 15% level, you should be aware that our advisors, Warburgs, were instructed earlier this week to contact the Kuwait Investment Office once again to ensure an understanding of our attitude. This relates particularly to the political and financial implications which follow from a concentration of stock in their hands. These are judgmental issues, but they may well impact on our capacity to compete freely, particularly in the U.S. market. Furthermore, the implications of this shareholding increasing, for instance, to the 20-25% level are not ones which we think are in the best interests of all the shareholders.

I think it would be helpful if we could review briefly your own reaction to the current and potential situation in order to avoid any conflicting messages. I feel it is in the shareholders' interests that I should speak to the Chairman of the Kuwait Investment Office along the lines of the attached briefing note. I look forward to hearing from you your own reactions to this proposal.

I have copied this letter and attachment to Geoffrey Howe and Cecil Parkinson.

Yours ever,
Peter

The Rt. Hon. Nigel Lawson, M.P.,
Chancellor of the Exchequer,
H.M. Treasury,
Parliament Street,
London SW1 3AG.

BRIEFING NOTE AGREED WITH WARBURGS

IMPLICATIONS OF MAJOR SHAREHOLDINGS IN BP

Until the recent purchases by the Kuwait Investment Office (KIO), the largest holder of BP (other than HMG) had around 2% of the Company's issued share capital. The KIO now owns partly paid shares representing over 15% of BP.

BP is concerned that the prospect of any single shareholder acquiring a holding greater than 10% could have adverse implications for the Company's ability to increase value for all shareholders. KIO, which is associated with a major oil producing country, may represent a particularly sensitive shareholder.

COMMERCIAL

BP is an international company with operations in over seventy countries. It is essential for BP's development that it can compete with the major oil companies on an equal basis.

Any single large shareholder owning 10% or more of stock will be associated, in the minds of important decision makers in many countries of the world, with significant influence in the direction of the Company's affairs.

The existence of a large shareholding with this potential influence will affect the attitudes of the company's customers and suppliers, irrespective of any assurances given by the shareholder or the company.

POLITICAL

Equally, if not more importantly, BP's relationships with foreign governments are fundamental to the continuing success of the Group. The implications of a large shareholder with major political connections could be particularly detrimental to BP's ability to trade freely in all areas where it wishes to do business. This point is particularly relevant in the USA where more than half of BP's assets are located. There are potential complications for such issues as the Special Security Agreement for our structured materials company and also for our resource based operating companies under the conditions of the State Leasing Statutes.

FINANCIAL

Speculation and uncertainty are accentuated when a large block of the Company's shares is held by one investor. This can cause volatility and destabilise the shareholder base. It can create particular difficulties in the acceptability of the company's securities in new issues.

CONCLUSION

While the Company has indicated it believes that shareholders interests are best served if no shareholder owns more than 5% of its shares, the Company has not been unduly worried by the KIO accumulating a 10% stake. However, BP has become more concerned as the KIO interest has increased to the 15% level. As far as the company is aware the KIO may well continue to purchase more stock if they see it as financially advantageous. The Company do not consider a greater holding to be in the interests of all shareholders.

17th December 1987

A/1

(Chancellor P Leahy 17/12) *Bf 6/1* *pp*



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

CH/EXCHEQUER	
REC.	17 DEC 1987 17/12
ACTION	D J L MOORE.
COPIES TO	FST, Sir P Middleton
	Mr Monck,
	Mrs BROWN
	MS LEAHY.

Jonathan Taylor Esq
Private Secretary to
The Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

*Ch / As promised! See also letter from
J Smith, behind.*
17/12
17 December 1987

*Spoke
12/11*

*Replies
can now
be sent.
main
drawn
attaches to
to-12/11
amended.*

Dear Jonathan

I attach a letter the Secretary of State has received from John Prescott MP, Opposition Energy Spokesman.

As the letter concerns the operation of the Britoil Special Share, the Secretary of State has replied to Mr Prescott informing him that the letter has been passed to the Chancellor for consideration.

Yours ever,

Stephen

S HADDRILL
Principal Private Secretary



MINUTES OF A MEETING HELD IN THE CHANCELLOR'S ROOM
HM TREASURY, AT 2.30PM ON FRIDAY, 18 DECEMBER 1987

Present:

Chancellor	Governor)
Financial Secretary	Mr George) B/England
Sir P Middleton	Mr Plenderleith)
Mr Monck		
Mr D J L Moore		
Mrs Lomax		
Mr Peretz		
Mr R I G Allen		
Mr Ilett		
Mr Neilson		
Mr Call		

BP SUPPORT SCHEME

Papers: Sir P Middleton's minute of 17 December enclosing an annotated agenda; Mr Neilson's submission of 17 December to the Financial Secretary.

The Chancellor said that his firm view was that the offer should close on 6 January, and that no new offer should be made. Mr Moore reported that the BP Board would favour this course of action. It was agreed to proceed on this basis.

2. In further discussion, it was agreed that:

- (i) the formal announcement should be made on 21 December at 8.00am. This should be in a low key: the Stock Exchange would be told, so that they could put this on the tapes, together with a Bank market notice, but no Treasury press notice would be issued;
- (ii) advertisements should be placed in the press on both 22 and 23 December and on 29 December;



(iii) a Written Question should be tabled as soon as possible after the announcement. This should be answered on 11 January. The Answer should contain full information on the numbers of shares sold to the Bank under the scheme, together with all other relevant information. (Mr Plenderleith confirmed that the requirements to inform the Takeover Panel, the Stock Exchange and the DTI under the Companies Act could be co-ordinated so as to ensure that they were fulfilled immediately following this Written Answer).

JF

J M G TAYLOR

18 December 1987

Distribution

Those present
Economic Secretary
Mrs M E Brown

Mr Norgrove (No.10) - for information

CONFIDENTIAL

*PS. For W...
over full &
...
developing a plan*

FROM: D J L MOORE
DATE: 18 DECEMBER 1987

CHANCELLOR

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

*I think it is worth
initial reference to
the Panel (P...)
for... of...
Now, in order to provide
a complete...
& control...
...
up to 49.9% of
...
50%.*

BRITTOIL: TAKEOVER PANEL

Miss Wheldon TSOL

The Takeover Panel will meet at 2.30 pm on Tuesday 22 December to discuss BP's bid for Britoil. Their Director General, Mr Beaver spoke to me this afternoon after discussion with their Chairman, Robert Alexander.

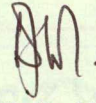
2. They have to decide whether the bid can go ahead unconditionally. One criteria is whether control would pass to a successful bidder and they need to consider the relevance of the Special Share to that.

3. He invited a Treasury representative to attend the meeting and to help the Panel explore today's statement. What was meant by "present circumstances" and in what circumstances might we reconsider? I said that there would be no point in our attending. The Government's position was clearly stated. It applied to BP's current bid and to any counter bids which might be made. We would not wish to offer any gloss or elaboration.

4. He went on to ask whether, if the Panel were disposed to let the bid become unconditional, the Treasury would first wish to express a view, and to comment on the terms on which the bid might proceed. I said that the Panel should reach its own

decision in the light of the Government's statement, Article 71, and BP's proposals. I confirmed that the Special Share did not stop anyone bidding for shares and that its scope was as set out in the Articles.

5. If the Panel were to stop the bid going ahead it would be convenient in that a potential conflict between ownership and control would be headed off. But, unless you wish otherwise, I think it right for us not to go any further and to stick to the line set out above. It may be that the Panel will wish to state publicly that we chose not to discuss the matter before them and they may well be in touch with us again before the meeting.



D J L MOORE



FROM: D J L MOORE
DATE: 18 DECEMBER 1987

CHANCELLOR

I have telephoned Sir Peter.

cc Financial Secretary
Sir Peter Middleton
Sir Geoffrey Littler
Mr Monck
Mrs Brown
Ms Leahy

BP: KIO

Sir Peter Walters wrote to you on 17 December, with copies to the Foreign Secretary and to the Energy Secretary, about BP's concerns over the increasing investment by the KIO. He asked you whether you have any worries about his speaking to the Chairman of the KIO on the lines of the briefing note he has attached.

2. I see no difficulties in this, nor do Energy and the FCO. Peter Cazalet of BP briefed Mr David Mellor yesterday who is now on a trip to the Middle East. BP are not formally asking the Government for help. Mr Mellor will mention the issue to the Kuwaiti Deputy Foreign Minister. But he will not make a great deal of it.

3. I attach a draft letter to Sir Peter Walters which simply says that you are content with the line he proposes to take.

*Ch
P. in same note
Littler
Sir Peter's office*

D J L MOORE



**DRAFT LETTER FROM THE CHANCELLOR OF THE EXCHEQUER TO
SIR PETER WALTERS**

Sir Peter Walters
Chairman
British Petroleum
Britannic House
Moor Lane
LONDON
EC2Y 9BU

KIO

Thank you for your letter of 17 December. It was helpful to be brought up to date on the KIO's investment in BP. I see no problems in your speaking to the Chairman of the KIO on the lines of your briefing note.

I am sending copies of this letter to Geoffrey Howe and Cecil Parkinson.

[Nigel Lawson]

Repeat
SIR PETER WALTERS
CHAIRMAN

TELEPHONE
01-920 6091



CONFIDENTIAL

BRITANNIC HOUSE,
MOOR LANE,
LONDON, EC2Y 9BU

CH/EXCHEQUER	
REC.	17 DEC 1987 17/12
	DJL Moore
	FST, Sir P. Middleton
	Mr Monck
	Mrs Brown
	Ms Leahy

17th December 1987

Dear Nigel,

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.../2

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I have copied this letter and attachment to Geoffrey Howe and Cecil Parkinson.

Yours ever,
John

Braithwaite 270 2155.

The Rt. Hon. Nigel Lawson, M.P.,
Chancellor of the Exchequer,
H.M. Treasury,
Parliament Street,
London SW1 3AG.

BRIEFING NOTE AGREED WITH WARBURGS

IMPLICATIONS OF MAJOR SHAREHOLDINGS IN BP

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COMMERCIAL

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The existence of a large shareholding with this potential influence will affect the attitudes of the company's customers and suppliers, irrespective of any assurances given by the shareholder or the company.

POLITICAL

Equally, if not more importantly, BP's relationships with foreign governments are fundamental to the continuing success of the Group. The implications of a large shareholder with major political connections could be particularly detrimental to BP's ability to trade freely in all areas where it wishes to do business. This point is particularly relevant in the USA where more than half of BP's assets are located. There are potential complications for such issues as the Special Security Agreement for our structured materials company and also for our resource based operating companies under the conditions of the State Leasing Statutes.

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17th December 1987
A/1

CONFIDENTIAL AND PERSONAL



FROM: J M G TAYLOR
DATE: 18 DECEMBER 1987

cc Sir P Middleton
Mr Monck
Mr D J L Moore

NOTE FOR THE RECORD

Conversation with Sir Peter Walters (BP): KIO

The Chancellor spoke to Sir Peter Walters on the telephone this evening.

2. The Chancellor thanked Sir Peter for his letter of 17 December about BP and the KIO. He thought that the suggestion that Sir Peter should speak direct to the Chairman of the KIO was very sensible. But he thought that the briefing note was rather tentative, and in part said things which BP would not want to say. For example, the briefing note implied that the KIO might have some potential influence. Sir Peter said that this point was well taken, and he would review the briefing note.

3. The Chancellor said he would be inclined to concentrate on the political dimension. Any increase in the KIO holding would be damaging to BP in many countries, and indeed damaging to the KIO. Sir Peter agreed.

4. The Chancellor suggested that Sir Peter Walters might like to press Sir Geoffrey Howe. He was aware that Mr Cazalet had spoken to Mr Mellor yesterday, but he thought that Mr Mellor would only touch lightly on the matter during his tour. Sir Peter said he would speak to Sir Geoffrey Howe as advised.

A handwritten signature in dark ink, appearing to be 'J M G TAYLOR'.

J M G TAYLOR

*1 on in a whole panel
or the takeover panel
as per.*

BP TO PROCEED WITH OFFER FOR BRITTOIL
LONDON, DEC 18 - BRITISH PETROLEUM CO PLC (BP.L) SAID IT INTENDS, SUBJECT TO THE REQUIREMENTS OF THE U.K. PANEL ON TAKEOVERS AND MERGERS TO PROCEED WITH ITS OFFER FOR THE ENTIRE ISSUED SHARE CAPITAL OF BRITTOIL PLC (BTOL.L) ON THE TERMS ANNOUNCED EARLIER TODAY.
MANAGING DIRECTOR FOR FINANCE DAVID SIMON SAID AT A NEWS CONFERENCE THAT BP NOTED TODAY'S ANNOUNCEMENT BY THE TREASURY THAT IN PRESENT CIRCUMSTANCES THE U.K. GOVERNMENT INTENDS TO USE ITS SPECIAL SHARE IN BRITTOIL TO PREVENT ANY BIDDER FROM GAINING CONTROL OF BRITTOIL. SIMON SAID BP WAS FULLY AWARE OF THE RIGHTS OF THE SPECIAL SHARE BEFORE ANNOUNCING ITS OFFER THIS MORNING.
18-DEC-1425 MON977 OILD

OIIC

P

MORE

REUTER MONITOR 1448

TAKEOVER PANEL TO REVIEW GOVERNMENT'S BRITTOIL GOLDEN SHARE
LONDON, DEC 18 - THE TAKEOVER PANEL IS TO REVIEW THE INTERPRETATION OF THE U.K. GOVERNMENT'S SPECIAL "GOLDEN SHARE" IN BRITTOIL PLC (BTOL.L), WHICH IS UNDER OFFER BY BRITISH PETROLEUM CO PLC (BP.L).
"THE IMPLICATIONS UNDER THE TAKEOVER CODE OF THE SPECIAL SHARE REMAIN TO BE ESTABLISHED, PARTICULARLY AS REGARDS THE ACCEPTANCE CONDITION (OF THE BP OFFER)," THE PANEL SAID IN A STATEMENT.
A PANEL SPOKESMAN TOLD REUTERS IT WOULD MEET EARLY NEXT WEEK "WITH ALL THE INTERESTED PARTIES" TO REVIEW THE INTERPRETATION OF THE GOLDEN SHARE.
18-DEC-1425 MON986 OILD

OIIH

P

CONTINUED ON - OIII

REUTER MONITOR 1448

TAKEOVER PANEL #2 LONDON
"THE GOLDEN SHARE RAISES A QUESTION UNDER THE CODE," THE SPOKESMAN SAID, ADDING THIS WAS THE FIRST TIME THE PANEL WOULD BE CONVENED TO EXAMINE THE GOLDEN SHARE, UNDER WHICH THE GOVERNMENT CAN BLOCK A BID IT VIEWS WITH DISFAVOUR.
BP EARLIER LAUNCHED A FULL 450P BID FOR BRITTOIL VALUING THE COMPANY AT 2.27 BILLION STG. THE GOVERNMENT SHORTLY AFTERWARD SAID IT WOULD BLOCK THE BP, AND ANY OTHER, BID FOR BRITTOIL.
BP LATER SAID IT HAD RAISED ITS SHAREHOLDING IN BRITTOIL TO 29.9 PCT FROM 24.9 PCT, NUDGING THE 30 PCT MARK AT WHICH IT IS LEGALLY BOUND TO MAKE A FULL BID.

OIII

18-DEC-1453 MON996 OILD
CONTINUED FROM - OIIH

P

MORE

REUTER MONITOR 1448

CONFIDENTIAL

FROM: D J L MOORE
 DATE: 18 DECEMBER 1987

CHANCELLOR

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

Miss Wheldon TSOL

BRITOIL

I attach copies of our statement and of the notice put out by BP this morning.

2. We are not offering supplementary briefing to press enquirers. But inevitably there will be questions. I suggest the following line.

What are "present circumstances"? Would your attitude change later?

- the Government sees no reason in present circumstances to change the status quo. What might be the attitude on some later occasion is entirely hypothetical.

[We should not refer to the importance of maintaining independent UK operators in the North Sea. To do so, could make any later change of tack difficult.]

What of other Special Shares?

- hypothetical question. The circumstances of Special Share companies and the reasons for Special Shares vary.

Handwritten notes in red ink:
 Froms
 Central
 Write, 2x, 2x
 Sample
 for Moore's suggested line
 for ph...
 questions?
 20
 19/12

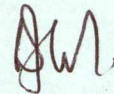
Why was there no guidance on Britoil before today?

- needed to consider carefully the possibility of bids and to wait for the situation to clarify, as it has today with the BP announcement.

Is the Government "blocking the bid"?

X | - the Special Share does not stop bidders acquiring Britoil shares. It can be used to stop any bidder gaining control of the Britoil Board - see our statement.

Note that the Takeover Panel could stop the bid because of the Government's statement. Normally they let a bid go ahead only if control can be established. That is a matter between the Takeover Panel and BP.



D J L MOORE

CONFIDENTIAL

British Petroleum announced today its intention to make a full takeover bid for the shares of Britoil plc.

In present circumstances the Government intends to use its Special Share in Britoil to prevent any bidder from gaining control of the Britoil Board.

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

FOR IMMEDIATE RELEASE
December 18, 1987

THE BRITISH PETROLEUM COMPANY p.l.c. ('BP')

Offer for
BRITOIL plc ('Britoil')

The Board of BP announces the terms of an offer ("the Offer") for the whole of the issued ordinary share capital of Britoil not already owned by the BP Group. BP hopes that Britoil's Directors will recognise the merits of the Offer and will recommend it to their shareholders.

BP is being advised by J. Henry Schroder Wagg & Co. Limited ("Schroders").

The Offer

The Offer will be as follows:

For each Ordinary Share of 10p in Britoil ("Britoil Ordinary Share")	450p in cash
--	--------------

The Offer values the issued ordinary share capital of Britoil at approximately £2,270 million. The Offer price represents a 140 per cent premium to 187p, Britoil's middle market quotation as derived from The Stock Exchange Daily Official List on December 7, 1987, the day before BP acquired its 14.9 per cent stake in Britoil.

Reasons for the Offer

BP regards the North Sea as an area of strategic importance with excellent long term potential. It has a proven and successful track record and is committed to continuing an extensive exploration and development programme.

BP Exploration's strategy is an active exploration programme supported by selective acquisitions to generate further development opportunities for application of BP's worldwide technical and commercial skills.

Britoil's exploration and production portfolio complements and strengthens BP's position in the North Sea. The merger of the two companies will enable the development of valuable national resources in the most effective manner.

Information on the BP Group

BP is the largest UK company, the second largest in Europe and one of the largest in the world (on the basis of 1986 group turnover). At the end of 1986 about 128,000 people were employed by BP Group companies in over 70 countries.

The BP Group is engaged in all aspects of the petroleum industry, principally:

- o oil and gas exploration, development and production
- o oil supply, trading, refining and marketing

These activities accounted for more than 75 per cent of the BP Group's fixed assets at December 31, 1986 and generated more than 85 per cent of the operating profit of the BP Group (measured on a replacement cost basis) in each of the five financial years to December 31, 1986.

The BP Group also has substantial interests in chemicals, nutrition and minerals and is involved in a range of other activities.

In the year to December 31, 1986, the BP Group achieved sales of £27,171 million and profit after taxation but before extraordinary items of £817 million. Shareholders' interest at that date amounted to £9,972 million. The BP Group's unaudited results for the nine months ended September 30, 1987 showed profit after taxation of £1,131 million and shareholders' interest of £10,385 million. Earlier this year the BP Group acquired the 45 per cent shareholding in The Standard Oil Company which it did not already own for approximately £4.7 billion. In October 1987, BP raised approximately £1.5 billion by the issue of 459 million new BP Shares as part of a public share offering on behalf of HM Treasury of a total of 2,194 million BP Shares.

Information on the Britoil Group

The Britoil Group's principal activities are the exploration, development and production of oil and gas reserves onshore and offshore UK and internationally. In the year to December 31, 1986, profit after taxation amounted to £33 million. Shareholders' interest at that date amounted to £755 million. Britoil reported interim after-tax profits of £71 million for the six months to June 30, 1987.

Management and employees

BP will ensure that the rights, including pension rights, of all employees of Britoil and its subsidiaries will be fully safeguarded.

General

The Offer, which will comply with the rules and regulations of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited and the City Code on Take-overs and Mergers ("the Code"), will also be subject to the terms and conditions set out in the Appendix to this announcement. Attention is drawn particularly to the statement concerning the implications for the Special Rights Preference Share of £1 in Britoil ("Special Share") owned by HM Government.

The Offer will also extend to any Britoil Ordinary Shares allotted during the Offer period on the exercise of options or of subscription rights under the Britoil share option or profit sharing schemes. Appropriate proposals will be made in due course to holders of unexercised options or subscription rights.

The BP Group currently owns 125.4 million Britoil Ordinary Shares (representing 24.9 per cent of the issued ordinary share capital of Britoil). 75 million shares were purchased through the market on December 8, 1987, at a price of 300p per share and 50.4 million shares were purchased through the market on December 17, 1987 at a price of 450p.

Britoil's middle market quotation as derived from The Stock Exchange Daily Official List on December 16, 1987 was 398p.

BP has noted the various statements made in recent days of the interest in Britoil held by Atlantic Richfield Company ("ARCO").

Schroders on behalf of BP, will be despatching the formal Offer Documents, as required by the Code, within 28 days.

Press Enquiries

BP

Press Office -	01-920 7110
R. Kennedy	01-920 6543

Schroders

W.M. Samuel	01-382 6414
D.N.D. Netherton	01-382 6357

7/92/01C0

APPENDIX

FURTHER TERMS AND CONDITIONS OF THE OFFER

1. The Offer

(a) Terms

The Britoil Ordinary Shares are to be acquired by BP free from all liens, charges and encumbrances, and together with all rights attaching thereto, including the right to all dividends or other distributions declared, made or paid after December 17, 1987.

The Offer will be subject to additional terms in compliance with the requirements of The City Code on Take-overs and Mergers and will be governed by English law.

(b) Conditions

The Offer is subject to the following conditions:-

- (i) valid acceptances being received (and not, where permitted, withdrawn) by 3.00 pm on the first closing date of the Offer (or such later time(s) and/or date(s) as BP may decide), in respect of not less than 90 per cent (or such less percentage as BP may decide) of the Britoil Ordinary Shares to which the Offer relates, provided that this condition will not be satisfied unless BP has acquired or contracted to acquire (either pursuant to the Offer or otherwise) Britoil Ordinary Shares carrying over 50 per cent of the voting rights which are exercisable at a general meeting of Britoil, excluding any votes attributable to the Special Share but including for this purpose and to the extent (if any) required by the Panel on Take-overs and Mergers any votes which could arise on the exercise of options capable of exercise under Britoil's employee share option schemes or the issue of Britoil Ordinary Shares pursuant to Britoil's Profit Sharing Scheme during the Offer period (as defined by the City Code on Take-overs and Mergers), and for this purpose the expression "Britoil Ordinary Shares to which the Offer relates" used above shall mean the aggregate of (a) the Britoil Ordinary Shares allotted at

the date of the Offer and (b) the Britoil Ordinary Shares allotted after that date but on or before the first closing date of the Offer or such later date or dates as the Board of BP may decide but excluding Britoil Ordinary Shares which at the date of the Offer are held by BP or by its associates (within the meaning of section 430E of the Companies Act 1985 as amended);

(ii) the Office of Fair Trading indicating, in terms satisfactory to BP, that the Secretary of State for Trade and Industry does not intend to refer the proposed acquisition by BP of Britoil or any matters arising therefrom to the Monopolies and Mergers Commission;

(iii) no government or governmental, supranational or trade agency or regulatory body or any court having, prior to the date when the Offer becomes otherwise unconditional, instituted or threatened any action, suit or investigation or proposed, enacted or made any statute or regulation or order or done anything that might (a) restrain, prohibit or otherwise challenge or interfere with the proposed acquisition, (b) result in a delay in the ability of BP, or render BP unable, to acquire some or all of the Britoil ordinary shares, (c) require the divestiture by BP or any of its subsidiaries or Britoil or any of its subsidiaries of all or any portion of their businesses, assets or property or impose any limitation on the ability of any of them to conduct their business and own their assets or properties, (d) impose limitations on the ability of BP to acquire or hold or to exercise effectively all rights of ownership of Britoil ordinary shares, or (e) otherwise adversely affect BP or Britoil or any of their respective subsidiaries;

(iv) all authorisations, orders, grants, consents, permissions and approvals (including any consent of the Secretary of State for Energy) necessary or expedient for or in respect of the proposed acquisition of Britoil by BP being obtained from appropriate governments, governmental, supranational or trade agencies and regulatory bodies, and such authorisations, orders, grants,

consents, permissions and approvals remaining in full force and effect and all necessary filings having been made and all necessary waiting periods having expired or been terminated;

- (v) BP being satisfied that none of the oil and gas interests held by Britoil and its subsidiaries under licences, leases and other rights in the United Kingdom, the United Kingdom Continental Shelf or elsewhere will be adversely affected by the proposed acquisition, that such licences, leases and other rights are in full force and effect and that no person intends to revoke any of the same;
- (vi) there being no provision of any agreement or other instrument to which Britoil or any of its subsidiaries is a party or by or to which any such company or any of its assets may be bound or be subject, whereunder, if the Offer becomes unconditional, any assets of Britoil or any of its subsidiaries could fall to be disposed of other than in the ordinary course of business;
- (vii) there being no provision of any agreement or other instrument to which Britoil or any of its subsidiaries is a party or by or to which any such company or any of its assets may be bound or be subject, which would or may, as a consequence of the acquisition, result in (a) any moneys borrowed by Britoil or any of its subsidiaries becoming or being capable of being declared repayable immediately or earlier than the repayment date stated in such agreement, or (b) any such agreement being terminated or modified or any action being taken thereunder as a consequence of the proposed acquisition of Britoil by BP or otherwise, or (c) the business of Britoil or any of its subsidiaries with any firm or company being adversely affected;
- (viii) since December 31, 1986 and other than as disclosed in Britoil's latest published Annual Report and Accounts and interim statement for the half year ended June 30, 1987, there having been no material adverse alteration in the financial or trading position of Britoil or any of its subsidiaries and no material litigation or arbitration

proceedings having been instituted or threatened against Britoil or any of its subsidiaries;

(ix) neither Britoil nor any subsidiary of Britoil having, since December 31, 1986 and other than as disclosed in Britoil's latest published Annual Report and Accounts and interim statement for the half year ended June 30, 1987 or in the announcement referred to in paragraph (x) below, (a) issued or authorised or proposed the issue of additional shares of any class, or securities convertible into, or rights, warrants or options to subscribe for or to acquire, any such shares or convertible securities, (b) declared, paid or made or proposed to declare, pay or make any dividend or distribution, (c) authorised or proposed or announced its intention to propose any merger or acquisition, or any disposal or transfer of assets or shares or any change in its capitalisation, (d) entered into any agreement with respect to any of the transactions or events referred to in this paragraph, or (e) entered into any contract otherwise than in the ordinary course of business; and

(x) the agreement in principle between Britoil and ARCO announced on December 11, 1987 relating to the acquisition by Britoil of oil and gas exploration assets from ARCO or any other agreement between Britoil and ARCO relating to the acquisition or disposal of assets or liabilities by either of them or their respective subsidiaries from one to the other of them or any of their respective subsidiaries (or any modification or variation of any thereof) being terminated, cancelled or otherwise not implemented at no cost to Britoil and its subsidiaries or otherwise on terms satisfactory to BP.

BP reserves the right to waive all the above conditions, other than condition (i) either in whole or in part. Condition (i) is subject to the requirements of the Panel on Take-overs and Mergers, by which BP will be bound. The implications of the Special Share for the application of the requirements of the Code concerning particularly the acceptance condition have yet to be established. BP is in consultation with The Panel.

If any reference of the Offer is made to the Monopolies and Mergers Commission on or before 3.00 pm on the first closing date of the Offer or the date when the Offer becomes unconditional as to acceptances (whichever is the later), the Offer will lapse.



FROM: J M G TAYLOR
DATE: 18 DECEMBER 1987

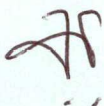
cc Sir P Middleton

NOTE FOR THE RECORD

CONVERSATION WITH SIR PETER WALTERS (BP): BRITOIL

At the conclusion of the conversation about KIO recorded separately, Sir Peter Walters said that he would like to discuss another issue with the Chancellor when circumstances permitted. He had in mind a "what happens if" discussion.

2. The Chancellor said that his actions were, of course, fettered by legal requirements. He would seek legal advice about whether a discussion of this sort were possible.


J M G TAYLOR

SECRET



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

CH/EXCHEQUER	
REG.	18 DEC 1987
ACTION	DJL MOORE
COPIES TO	FST, Su P Middleton
	Mr Monck
	Mrs Brown
	Ms Leahy

18 December 1987

Dear Alex

BRITOIIL'S GOLDEN SHARE

The Prime Minister had a short meeting this morning with the Chancellor of the Exchequer about the forthcoming bid by BP for Britoil.

The Chancellor said that BP had just informed the Treasury that they would be announcing a full bid for Britoil at 0930 today. BP probably saw the acquisition of Britoil as a cheap way of acquiring access to crude oil. They would no doubt regard any issue of shares in connection with the takeover as a helpful dilution of KIO's holding in BP.

The Chancellor noted that the Government's reaction in this case would be taken as giving guidance on the use of golden shares generally. Since this was the first time that any golden share would have been put to the test he intended to conduct an urgent review of policy regarding golden shares, both those that were timeless, like the BP share, and those limited in time. The review would cover devices, such as the 15 per cent limit on individual shareholdings, which had a similar effect to golden shares. The Chancellor added in connection with KIO's holding in BP that he would be considered with the Foreign Secretary whether he should summon the Kuwaiti Ambassador to ask him about KIO's future intentions regarding BP.

His preliminary judgment, which would need testing in the forthcoming review, was that with strategically important companies, such as Rolls Royce and British Aerospace, the Government should retain the golden share indefinitely and be ready to use it to prevent unwelcome takeovers. Where there was no such strategic interest, the Government should set a time limit for retention of the golden share. This would mean time limiting golden shares in companies, like Britoil, where there was no strategic interest but where the existing share was not time limited. This line of argument, which the Chancellor emphasised would need confirmation by the review and Ministers' collective consideration, suggested that a time limit should be placed on the Britoil golden share since there was no strategic reason for maintaining the independence of Britoil.

SECRET

The Chancellor concluded by saying that he proposed to issue a statement soon after 0930 saying that the Treasury would make their position clear on the exercise of the golden share later that day. Subject to further consideration, the later statement would say that the Treasury were proposing to exercise the golden share in present circumstances. The implication would be that the share would be used to prevent both the BP and the ARCO bids. The statement would need to be approved by the lawyers.

The Prime Minister said that she agreed that the Chancellor should make statements today as he suggested.

Yours truly

Nigel Wicks

(N. L. WICKS)

Alex Allan, Esq.,
HM Treasury.

SECRET



FROM: J M G TAYLOR

DATE: 21 December 1987

674/1

MR ILETT

cc PS/Financial Secretary
Sir P Middleton
Mr Monck
Mr D J L Moore
Mrs Lomax
Mrs M E Brown
Ms Leahy
Mr Neilson

PS/Governor - B/E
Mr Plenderleith - B/E

BP SUPPORT SCHEME: ANNOUNCEMENT OF RESULTS

At the meeting on 18 December it was agreed to aim for a Written Answer on 11 January as a means of announcing the results of the BP support scheme.

2. The Chancellor has reflected further on this. He has asked that officials should explore the possibility of, instead, making an announcement on the previous Friday, 8 January.

3. I should be most grateful for advice.

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

J M G TAYLOR

CONFIDENTIAL

FROM: N J ILETT

DATE: 23 December 1987

CHANCELLOR

cc: Financial Secretary
Sir P Middleton
Mr Monck
Mrs Lomax
Mr Moore
Mr R I G Allen
Mrs Brown
Ms Leahy

Handwritten notes in red ink:
[I think I will give you shares for some days in] *Ch*
~~6 months~~

Ch
You plan to hold a meeting on this o.r.

Handwritten notes in red ink:
Thanks. I should like a draft of an announcement without the number of shares in front for holding o.r. 2. This is with the statement that has been to reduce the Govt's hold in BP for 31/12/87 x 20.

BP SUPPORT : ANNOUNCEMENT OF RESULTS

Mr Taylor's minute of 21 December asks for advice on the possibility that the announcement of results could be made on Friday 8 January, rather than to Parliament on Monday 11 January.

2. The key dates are:

6 January, 15.30 hours (Wednesday) - all acceptances to be handed in. 11.00 hours, deadline for bargains of 50,000+ shares if payment is to be made on the same day

8 January (Friday), afternoon, possible announcement to the Press.

11 January (Monday) Parliament returns

12 January (Tuesday) - priority written PQ from Mr Darling MP (Labour) asking for a statement on the number of the BP shares purchased by 6 January is due for answer.

13 January (Wednesday) - 5 business days will have elapsed since the close of the offer, which triggers the Companies Act requirement to disclose ownership of more than 5% of BP stock, if that is the position. [To the extent that stock in this quantity comes into the Bank before 6 January, this deadline will move forward, but we doubt that the Bank will receive large amounts of stock before 5/6 January]

Handwritten notes in red ink:
WITH the (31-x) 20
sold 200v
a total of 1.5bn
or y plan
on share.

14 January (Thursday) - Treasury First Order PQs. There are four hostile PQs asking for details of the BP outcome, of which No.26 is the only one marked as likely to be reached.

3. The Bank is likely to know the extent of institutional takeup on Wednesday evening, 6 January. But up to 100m shares may be in the hands of small investors, so the time needed to process applications will depend critically on volume. The Bank may not, therefore, be able to give a reasonably accurate estimate of total takeup until by Friday, 8 January; though it would expect to be pretty close to a reasonable figure by Sunday evening, 10 January. (The exact figure will take longer because of the need to reconcile errors, check doubtful documentation etc.) Whether an 8 January announcement would make sense could therefore only be determined at the time.

4. Press interest will obviously be acute, and the outcome will be market sensitive. That points to a statement as soon as a sufficiently accurate figure is available, even if that has to be qualified; but also to keeping quiet until there is something of substance to say. As explained, whether Friday evening, 8 January will be possible will depend on events. 08.00 am Monday morning, 11 January will probably be possible and would suit the markets. But it might be criticised as anticipating the statement to Parliament which you will have to make in any event. You ought in principle to answer Mr Darling's priority written PQ promptly on 12 January; if the takeup is large a Companies Act announcement will be necessary on 13 January, maybe on 12 January; and there are the oral PQs on 14 January. This points to a written statement on 11 January in response to a question from somebody more acceptable than Mr Darling, assuming that you can resist any calls for an oral statement.

5. There is no need to take final decisions until 6/7 January.

M.

N J ILETT

PANEL ON TAKE-OVERS AND MERGERS

P.O. Box No. 226 The Stock Exchange Building London EC2P 2JX

Telephone 01-382 9026
(6 lines)**THE BRITISH PETROLEUM COMPANY PLC ("BP")/
BRITTOIL PLC ("BRITTOIL")**

The full Panel met on 22 December to consider the implications for the purposes of the Code of the existence of the Special Share in the share capital of Britoil in the context of BP's proposed offer for the issued ordinary shares of Britoil announced on 18 December. The question for decision was the appropriate form of the acceptance condition.

The Panel decided that, under the Code, BP should be able to proceed with the offer for the ordinary shares of Britoil on the terms of the acceptance condition contained in BP's announcement: that is excluding any votes attributable to the Special Share. To do otherwise would deprive the ordinary shareholders of the opportunity to consider the BP offer on its merits.

The Panel would emphasise that its decision in no way bears on the separate question of whether, and if so how, H M Treasury should exercise the rights of the Special Share. Such considerations are not within the province of the Panel.

The circumstances of the case were highly unusual and were also well publicised in advance of the Panel hearing. The reasons for the decision are therefore set out in some detail. The hearing was attended by BP and Britoil and their advisers. Atlantic Richfield Co as an active purchaser of Britoil shares was, exceptionally, given the opportunity to attend but chose not to do so.

THE ISSUE

The share capital of Britoil consists of ordinary shares carrying the entire economic interest in Britoil and one vote each in general meetings. H M Treasury holds the Special Share, the significance of which is its voting power. Although in normal circumstances the Special Share does not carry voting rights, it carries a majority of the voting rights on a poll at general meetings of shareholders of Britoil in the event of any person offering to acquire more than 50% of the ordinary shares, as well as on certain other events. Accordingly, even if BP were to acquire under its offer more than 50% of the ordinary shares, and if H M Treasury were to exercise its rights in relation to the Special Share, BP would not be in a position to exercise the degree of control that is normally associated with the ownership of more than 50% of the voting shares.

The central issue was the appropriate acceptance condition for the offer, which determines the number of shares an offeror must acquire before its offer can succeed. The relevant requirement of Rule 10 of the Code is that, in the case of an offer which, if accepted in full, would give the offeror over 50% of the voting rights, the offer must not be capable of becoming unconditional unless the offeror in fact acquires shares carrying over 50% of the voting rights. Rule 10 is set out in full as an Appendix to this statement.

Rule 9 of the Code, generally, requires that a person who acquires 30% or more of the voting rights of a company must make a general offer to the holders of all other voting equity shares. Such an offer must be subject to a similar acceptance condition. The implications for the purposes of Rule 9 therefore also fell to be considered. The relevant parts of Rule 9 are also set out in full in the Appendix to this statement.

The issue for the Panel was how to apply these Rules to a situation where there is a Special Share, as in Britoil.

THE FUNCTIONS OF THE PANEL

The Panel emphasises that, as is clear from the Code, it is not concerned with the question of whether an offer price represents the appropriate price for the shares in question: this is a matter for the company itself and its shareholders. Nor is the Panel concerned with those wider questions of public interest which are the concern of the Government. The Panel's duty is to provide an orderly framework within which the shareholders can decide upon whether to accept an offer for their shares on the basis of full and equal information and on the basis that they are treated fairly and equally.

It is the Special Share which gave rise to the issue before the Panel. The task of the Panel is, however, to have regard to the interests of ordinary shareholders in the context of the proposed offer. H M Treasury, as holder of the Special Share, did not attend the hearing: they acknowledged that the issue was one for the Panel to determine, but did not wish to express any view as to what decision should be reached.

THE PURPOSE OF THE RELEVANT RULES AND BACKGROUND TO THE ISSUE

The Code is founded on certain General Principles, which are reflected in the Rules, and the Code frequently has to be applied to meet new situations. This is why the Code places specific emphasis on applying the spirit of the Code to situations not explicitly covered by the Rules. It is on this basis that the Panel approached its consideration of Rule 10.

The purpose of Rule 10 is straightforward. It seeks to secure that, where a person attempts to take over a company, the premium necessary to obtain control must be paid. This can only be said to have been achieved if over 50% of the voting shares are acquired. In this way the majority of voting shareholders express their view as to the appropriate price. In addition, shareholders are entitled to be certain that, if they accept an offer, the offeror will only acquire their shares in the event that he acquires over 50% of the voting rights and legal control

accordingly passes. Once this position has been reached, the Code protects other shareholders who had not previously decided to accept the offer by requiring the offeror in a normal case to leave the offer open for a further 14 days. The acceptance condition under Rule 9 is designed to secure the same result with regard to a mandatory offer as Rule 10 provides for a voluntary offer.

All the parties appreciated that Britoil's Special Share gave rise to difficulty in the application of Rules 9 and 10. Britoil's advisers took the view that any hearing to resolve the issue prior to the announcement of an offer would be inappropriate, since it would involve a formal ventilation of matters affecting a bid for Britoil which might never materialise. BP, in its offer announcement, expressly recognised the need for a decision by the full Panel. The acceptance condition in their offer, which effectively takes no account of the Special Share, was expressed to be subject to the requirements of the Panel. So the market was informed of BP's intentions, but also of the question which needed to be resolved. BP had announced their offer on 18 December, and the hearing was immediately convened for the earliest date which would enable the parties to make submissions.

THE PANEL'S DECISION

The Panel approached the position in the context of the rights of the Special Share. The Articles of Britoil provide that in certain eventualities H M Treasury may exercise control over Britoil. One of the situations in which such control would become exercisable was expressly stated to be upon an offer being made for Britoil's ordinary shares. So such an offer is fully consistent with the continued existence of the Special Share and the exercise of the rights conferred thereby. The Panel therefore approached its consideration of the case on the basis that the existence of the Special Share does not prevent shareholders from receiving and considering an offer for their shares.

The Panel considered that a literal application of Rule 10 would be inappropriate. It would have the effect that the BP offer would not fall within the ambit of the Rule at all, since, if accepted in full, it would not lead to BP holding shares carrying over 50% of the voting rights of Britoil. The existence of the Special Share would preclude this outcome. This would be so despite the fact that BP were offering for all the ordinary shares. ~~But~~^{Thus}, on a literal reading, the criterion of the Rule could not be achieved and shareholders would lack proper protection. The Panel took the view that such an approach would be unacceptable and that it should interpret the Rule in accordance with commonsense and fairness to all involved.

Once the Panel had rejected a literal approach, there were two possibilities open to it. It could either permit the offer to go ahead with the condition incorporated in its offer by BP (which ignores the Special Share) or the Panel could require BP to make its offer subject to H M Treasury requiring Britoil to redeem the Special Share. The imposition of the latter condition would have the effect that the ordinary shareholders would not be able to consider an offer for their shares until such time in the future as H M Treasury required redemption of the Special Share. The Panel did not consider it right that shareholders should be deprived of this opportunity, and considered that it was fair to all the ordinary shareholders that they should have the opportunity of considering the BP bid on its merits without a condition of a kind which BP could not itself fulfil being imposed.

Britoil did not urge the Panel to take any particular approach, and expressed their own concern that the imposition of a normal acceptance condition with a further condition requiring redemption of the Special Share might have the effect of denying the shareholders an opportunity to realise their shares in early 1988 at the current offer price.

Britoil did however very helpfully set out for the consideration of the Panel a number of concerns they would have if the bid were to proceed in accordance with BP's offer announcement. These

related to the question whether shareholders in Britoil would receive a proper premium for control of their shares and the uncertainty, for minority shareholders who decline to accept the offer, as to the future management of the company given the existence of the Special Share.

As to the proper premium, BP informed the Panel that in formulating its offer it had made no discount for the existence of the Special Share from the premium for control which they would otherwise have offered. Britoil contended by contrast that there would be uncertainty as to whether shareholders were receiving a full premium for control whilst the Special Share remains in existence. The Panel considered that it would be wrong to prevent the shareholders from being entitled to consider whether, in their judgment, they were receiving an adequate premium for parting with control of the shares of their company. It is the shareholders who should evaluate the rival arguments of the parties.

Britoil also suggested that shareholders could be protected by requiring BP not to make its offer unconditional as to acceptances unless holders of 90% of the shares offered for had accepted. The Panel did not consider that this was appropriate. It would give a veto to a small percentage of shareholders. The Panel, whilst appreciating that shareholders would require careful advice as to the elements of uncertainty to which Britoil had drawn attention, considered that there may always be uncertainties affecting the future of a company which shareholders have to take into account in deciding whether to accept an offer. Although the Special Share is unusual in character, it is an aspect of the affairs of the company on which shareholders are essentially called upon to make their own judgment.

The Panel was confirmed in its view that the conditions of BP's offer should be framed so as to ignore the Special Share because of the difficulties that would otherwise arise in the case of a mandatory bid. If the Special Share was included, a mandatory bid in accordance with Rule 9 would be ineffective, because a

purchaser might acquire 30% or more of the ordinary shares in Britoil without the possibility of a full offer succeeding. This would be wholly contrary to the principle underlying Rule 9.

The Panel also considers it would follow from its decision that, in the event of any mandatory bid for Britoil becoming required by reason of the acquisition by any purchaser of 30% or more of the ordinary shares, it would be appropriate for the acceptance condition to such a mandatory bid similarly to exclude any votes attributable to the Special Share.

The Panel is aware that there are a number of other companies in which Special Shares exist. The Panel wishes to make it plain that the present decision would only be treated as a precedent in regard to a Special Share in companies whose Articles conferred a Special Share in equivalent terms to that in the case of Britoil and would consider any issues which arose out of other Special Shares as and when occasion arose.

23 December 1987

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APPENDIX

G1

SECTION G. THE VOLUNTARY OFFER AND ITS TERMS

RULE 10. THE ACCEPTANCE CONDITION

- 10 It must be a condition of any offer for voting equity share capital which, if accepted in full, would result in the offeror holding shares carrying over 50% of the voting rights of the offeree company that:—
- (a) the offer will not become or be declared unconditional as to acceptances unless the offeror has acquired or agreed to acquire (either pursuant to the offer or otherwise) shares carrying over 50% of the voting rights attributable to the equity share capital; and
 - (b) the offer will not become or be declared unconditional as to acceptances unless the offeror has acquired or agreed to acquire (either pursuant to the offer or otherwise) shares carrying over 50% of the voting rights.

F1

SECTION F. THE MANDATORY OFFER AND ITS TERMS

RULE 9

9.1 WHEN IT IS REQUIRED AND WHO IS PRIMARILY RESPONSIBLE FOR MAKING IT

Except with the consent of the Panel, where:--

- (a) any person acquires, whether by a series of transactions over a period of time or not, shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30% or more of the voting rights of a company, or
- (b) any person who, together with persons acting in concert with him, holds not less than 30% but not more than 50% of the voting rights and such person, or any person acting in concert with him, acquires in any period of 12 months additional shares carrying more than 2% of the voting rights,

such person shall extend offers, on the basis set out in Rules 9.3, 9.4 and 9.5, to the holders of any class of equity capital whether voting or non-voting and also to the holders of any class of voting non-equity share capital in which such person or persons acting in concert with him hold shares. Offers for different classes of equity capital must be comparable; the Panel should be consulted in advance in such cases.

RULE 9 CONTINUED

9.3 CONDITIONS AND CONSENTS

- (a) Offers made under this Rule must be conditional upon the offeror having received acceptances in respect of shares which, together with shares acquired or agreed to be acquired before or during the offer, will result in the offeror and any persons acting in concert with it holding shares carrying more than 50% of the voting rights.
- (b) Other than as set out in (a) above, offers under this Rule must be unconditional (but see also Rule 9.4).
- (c) Except with the consent of the Panel, no acquisition of shares which would give rise to a requirement for an offer under this Rule may be made if the making or implementation of such offer would or might be dependent on the passing of a resolution at any meeting of shareholders of the offeror or upon any other conditions, consents or arrangements.

RESTRICTED

ppp

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*cc PPS
PS/FST
Su P Middleton
Mr Anon
Mr Manick
Mr Moore
Mr Lanna
Mr ...
Mr ...
Mr ...*

RESTRICTED
FM KUWAIT
TO DESKBY 230900Z FCO
TELNO 459
OF 230700Z DECEMBER 87

YOUR TELNOS 225 AND 226: **KUWAITI PURCHASE OF BP SHARES** *Mr Burt (o.c.)
Mr ... (o.c.)*

1. **MR MELLOR RAISED KUWAITI PURCHASES OF BP SHARES WITH BOTH FAHD AL RASHID, DIRECTOR GENERAL OF THE KUWAITI INVESTMENT AUTHORITY, AND SHAIKH ALI KHALIFA, THE KUWAITI OIL MINISTER.** (HE ALSO MENTIONED THE TOPIC BRIEFLY TO THE CROWN PRINCE AND PRIME MINISTER). HE SAID THAT HE WAS ENQUIRING **SIMPLY OUT OF INTEREST:** THE PRIME MINISTER HAD WELCOMED THE KUWAIT INVESTMENT OFFICE'S (KIO) PURCHASE OF BP SHARES. BP THEMSELVES, HOWEVER, WERE CURIOUS ABOUT KIO'S INTENTIONS AND OBJECTIVES AND CONCERNED ABOUT THE DESTABILIZING EFFECT OF ANY SUDDEN LARGE SCALE SELLING OPERATION.

2. FAHD AL RASHID STRESSED (AS HE DID TO ME SEPARATELY) THAT THIS WAS A PURELY COMMERCIAL MOVE BY KIO. THEY BELIEVED BP TO BE AN EXCEPTIONALLY STRONG, RESOURCE-RICH COMPANY. THEIR SHARES WERE CURRENTLY AVAILABLE AT AN EXCELLENT PRICE. IT WAS SIMPLY TOO GOOD AN OPPORTUNITY TO MISS. HE DID NOT EXPECT KIO TO GO ABOVE A 20 PER CENT HOLDING. THIS WAS NOT A UNIQUE OPERATION. THEY HAD HELD SHARES IN DAIMLER BENZ FOR FIFTEEN YEARS (SEMI-COLON) A LARGER HOLDING THAN THEY CURRENTLY POSSESSED IN BP.

3. FAHD AL RASHID ALSO EMPHASISED THAT THIS WAS A LONG TERM INVESTMENT. THERE WAS NO CHANCE OF THEIR SUDDENLY SELLING LARGE QUANTITIES OF BP SHARES. KIO HAD A REPUTATION TO PROTECT, AND GIVEN THEIR NUMEROUS OTHER SHAREHOLDINGS, A DESTABILISATION OF THE MARKET WOULD BE AS DAMAGING TO THEM AS TO BP.

4. SHAIKH ALI KHALIFA TOOK A SIMILAR LINE. BP PERFORMANCE HAD IMPROVED DRAMATICALLY UNDER WALTERS AND THEY REPRESENTED AN EXCELLENT LONG-TERM INVESTMENT. HE THOUGHT KIO MIGHT PUSH THEIR PURCHASES TO SLIGHTLY OVER 20 PER CENT: BUT THEY HAD NO AMBITIONS TO CONTROL THE COMPANY AND NO INTEREST IN ANY MANAGEMENT ROLE. KIO WERE ALSO BUYING SIGNIFICANT HOLDINGS IN OTHER LARGE AND SUCCESSFUL COMPANIES. IT WAS INCONCEIVABLE THAT ANY OF THESE PORTFOLIOS WOULD BE DUMPED SUDDENLY.

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5. COULD MIERS OR MAUD PLEASE BRIEF CAZALET OF BP (WHO CALLED ON MR MELLOR LAST WEEK). HE WILL BE IN HIS OFFICE ON 23 DECEMBER BUT NOT THEREAFTER.

HINCHCLIFFE

YYYY

DISTRIBUTION

47

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ADDITIONAL 5

SIR G LITTLER TRSY
MR D J L MOORE TRSY
MR LOEHNIS BANK OF ENGLAND

MR AINLEY, BANK OF ENGLAND
MR GREGSON, D/ENERGY

NNNN



PMP

Ch.

Britoil/ARCO ; BP/KIO

PE have now spoken to market sources.

2. The latest known position is that:

(i) ARCO have some 21.6% of Britoil: they are understood to have done some small buying today;

(ii) KIO have 18.3% of BP. They are also thought to have done some buying today.

25
5/1



Ch.

① Britoil

You have the key pps. on this
- Mr Manck's note of 23/12 to PEM.

You have seen most of the other
Britoil pps. already.

② BP: K10.

Two new pps. here: P5 / Mr Parkinson's
letter of 29/12 to me; and
Khwhit telno. 459, which reports
Mr Mellor's visit. Both are flagged.
Mr Moore will provide a further note
on Monday a.m.

JF 31/12

Return for your
meeting this
afternoon.



Ch.

Britoil.

[Handwritten signature in red ink]

I have fixed a meeting for 3.00 pm.
in Noll on 4 January.

2. When we spoke this morning I forgot to
mention Mr Manck's note of 23/12,
attached. This arrived here too late for
the last pre-Xmas box, so you have
not seen it before. I think it can
serve as the main paper for the
meeting (I have discussed this with
Mr Manck, who agrees).

3. Mr Manck tells me that the paper
was shown to Sir PEM in draft: he was
content with it.

4. I have deliberately fixed the meeting for
the afternoon so that officials can provide

Supplementary briefing if anything occurs
over the next few days.

df
30/12

(c) to decide, if Arco (or another company favoured by the Britoil board) acquire a majority of the Britoil shares, whether to call an EGM in order to replace the existing board, or at least those members of it judged unlikely to maintain Britoil's independence, with named replacements. The alternative would be to wait for the AGM (normally April but perhaps as late as July). If the complete board were to be replaced, at least seven suitable names would need to be identified. Urgent work is needed on this since we might want or be forced to move before the AGM. I have asked D/En for suitable names.

One natural step in reaching the decisions in (b) and (c) will be to ask Sir Philip Shelbourne about his own position and his assessment of other Broad members'. We shall of course need to prepare carefully for this. Individual meetings with other Board members would follow.

"Independence"

4. "Independence" has been used above, and is also used in the paper, to describe the situation in which the Government succeeds in preventing the bidder or the majority shareholder from gaining control of the Board. The term was also in some of the formulations used by the Chancellor in Parliament in 1982 when he was Energy Secretary (see Annex C), though his most general formula was that the Government wanted to be able "to prevent any unacceptable change in the future control of the company, whatever the nationality of the parties involved".

5. The meaning given by the paper to "independence" is that the relationship between Britoil and the majority shareholder should be at arm's length (in terms of pricing, competition etc) and that the Britoil Board would not behave like a wholly owned subsidiary of the majority shareholder (or indeed of the holder of 100 per cent of the ordinary equity) in that it would not necessarily choose what was in the majority owner's interest if another commercial proposition seemed preferable from the point of view of the Britoil company.

6. This is a fairly restricted definition of independence and it is not perhaps as obvious as the paper assumes that the present Britoil Board would want to be independent in this sense of BP but not of Arco. Although the joint Britoil/Arco statement will be overtaken if Arco launch a new and bigger bid, the statement includes a reference, attributed to the Britoil Board, to "continuing independence". However this assumed that Arco will own no more than 49.9 per cent of Britoil shares and the proposition may no longer be attractive to them.

7. The importance to Ministers of maintaining Britoil's independence may well depend at least in part on the identity and intentions of the majority shareholder. Since Ministers may be prepared to accept a more fudged relationship in one case than another, it may be preferable to avoid highlighting the word independence in public statements, though the concept is of course inherent in preventing a majority shareholder from gaining control of the Britoil Board.

Redemption of the Special Share

8. The wording of the statement last Friday deliberately kept open the possibility of eventual redemption of the share. This would remove the Government's ability to ensure that a majority shareholder of Britoil does not gain control of the Board. It would therefore be very difficult to redeem the Special Share at a later stage without accepting or at least implying that the Government attached less importance to independence in future than it had done in the past or does now. (This applies more acutely to Britoil than to several other privatised companies where a 15 per cent maximum shareholding by any individual is written into the articles and would be a serious obstacle to a bidder even without a special share.) There is no easy answer to this. At the same time it will be important to avoid any new statement that pre-empts decisions on Special Shares in general.

Timetable

9. We have heard that BP plans to issue its offer document on 8 January with an offer period of three weeks.

Next Steps

10. This timetable would allow more thorough analysis of the options in the light of Ministers' objectives in reaching their decision to prevent any bidder gaining control of the Britoil Board and of the possible outcomes of the bids by BP and any other company. It may also allow us to reach decisions on the line to take initially with the Britoil Board, and perhaps later with the successful bidding company in parallel with the review of special shares as a whole. Meanwhile the Chancellor may like to consider whether he wishes to consult his colleagues and, if so, what we can do to prepare for that. In particular we might consult D/En at official level: they have to approve the re-assignment of North Sea ^{licence} income, but this will probably not help us. It would in any case be helpful to have an early discussion on objectives and tactics.



N MONCK

BRITTOIL : POSSIBLE OUTCOMES FOLLOWING THE TAKEOVER PANEL'S DECISION TO ALLOW BP'S TAKEOVER BID

The Takeover Panel has decided to allow BP's bid for Britoil shares to go ahead. Other bidders with or without the Britoil Board's backing may now emerge. In particular there is speculation that Arco may bid with Britoil's support. BP currently own 29.9 per cent of the ordinary shares. It has been reported that by 23 December Arco had 20.4 per cent.

2. This minute sets out the possible outcomes. It also tries to describe some of the pressures, how they might be coped with and how the result would fit with the Government's stance so far on Britoil.

3. The attitude of the Britoil Board would be crucial in any of the outcomes. A list of the Directors is attached at Annex A. We have asked Department of Energy to give us more background on them. Whatever the result the Board would have the normal fiduciary duty to act bona fide in what it believes to be the best interests of the company - in effect all the shareholders present and future. The Board could not be dominated by the political interests of the Special Shareholder but equally the existence of the Special Share would mean that it could not be forced to identify the interests of the company with those of the holder of the majority (or even of the ordinary shares 100 per cent). In any situation the Board would need to consider the independent commercial interests of Britoil rather than those of the majority or 100 per cent shareholder or indeed the Special Shareholder. It would have no obligation to provide any shareholder with information about the day to day running of the company or its commercial secrets.

4. There are a number of possibilities.

BP, or any other bidder which the Britoil Board opposes, succeeds in its bid

5. In this case although BP would own a majority of the shares, it would be unable to exercise the rights of a majority shareholder because the Special Share could allow a Board,

independent of BP, to control the running of the Company.

6. To achieve this the Government would first need to establish that members of the Britoil Board were prepared (a) to stay in office and (b) to consider the independent commercial interests of the company, and not run it effectively as a subsidiary of BP (or any other hostile bidder) as far as this was consistent with the duties of the Directors as set out in paragraph 3.

7. In theory then the Board would be in the same position as it is in now. In practice however it would face special pressures and it would be sensible for the Treasury to have an informal link with at least one of the Directors to ensure that the Board was remaining independent minded. This would not be the same as having a Government Director and would not involve information on the day to day running of the business being passed over. It would therefore be perfectly proper.

8. Maintaining independence as a practical matter could be difficult. Over time the Directors could be worn down by the problems associated with such an unusual situation or they might not feel willing to carry on working for the benefit of the successful bidder. They might also fear that the Government would set a time limit on the Special Share. They would then tend to become more accommodating to BP or to look for employment elsewhere. Employees might also be affected by the uncertainty and move. All this would of course be damaging to the Company.

9. These problems might be exacerbated if a time limit on the Special Share was announced - the Chief Executive in particular might feel threatened. But some of the Britoil Board might be prepared to sit it out particularly if they were approaching retirement.

10. Filling vacant Directors positions with good people with the right experience who were prepared to maintain it as an independent company could be difficult. Department of Energy are trying to come up with acceptable candidates.

11. In this situation BP would be likely to want to come to some agreement with the Government on how the Special Share might be used, what influence if any they should have day to day on the running of the company etc. It would probably be possible to resist this in the short term although this position might not be sustainable if the problems described above became severe and the management of the company became so weak that it needed to be supported by BP. This problem would obviously get greater the larger the BP shareholding. BP have already repeatedly indicated willingness to talk to the Government about a suitable working relationship.

12. If BP obtained 90% of Britoil's shares, it could use normal Companies Act provisions within a few months to force the minority ordinary shareholders to sell out to it. As a practical matter, for the reasons set out above, it might then have become particularly difficult for the Directors to run Britoil as an independent company. It might not however be impossible - if there were various courses of action open to the Company including one which suited BP the Board need not always take the one which suited BP. There would be scope for different views. For example BP have proposed building a gas gathering pipeline but there are rival plans and Department of Energy are likely to allow only one to go ahead. Britoil, so far, has supported a scheme put forward by Marathon. Britoil might judge, even with BP as a 100% shareholder, that is it should carry on with its existing policy.

13. For a time the relationship between BP and Britoil could be presented as consistent with the Government's stance but the situation could get strained very quickly. It might also lead to a high level of Government intervention in a public way. In the meantime the management of the Company would be likely to suffer from the uncertainty.

Bids are allowed and Arco, or another predator with Britoil's support, succeeds

14. This is likely to be the most difficult outcome for the Government as the existing Britoil Board could not be relied on to maintain the running of the company independent of the bidder.

15. To ensure this independence was maintained the Government would have to replace the Britoil Board (or some of them) with other Directors that could be relied on to take an independent outlook. We would have to move quickly - possibly as soon as the bidder obtained 51% of the Company, certainly not later than the next AGM (due in April 1988 but capable of three months' postponement). The earliest 51 per cent could be obtained would be towards the end of January. We would then need to nominate a minimum of 7 Directors. It would obviously be difficult to get good, experienced people on board by then but Department of Energy are trying to identify possible candidates as a matter of urgency.

16. Again the higher the shareholding of the successful bidder the more difficult is the Government's position. The risk of the Board being suborned by the bidder or of the management of the company suffering would be as significant in this situation as if BP had succeeded in their bid.

17. Eventually some sort of agreement on the use of the Special Share and the successful bidders role in the management of the company might have to be agreed. This result could be considered as consistent with the Government's stance on Britoil's independence but it would involve even greater Government intervention and publicity than in the other outcome.

18. One of the reasons for ensuring the independence of the Britoil Board at an early stage is that there may be a technical problem in calling an EGM to change the Board when there is a 100% shareholder. We would however hope to persuade a Court to rule in our favour if it came to this and in any case we are advised by Counsel that we could recapture the Board or an AGM. We would of course still have our powers to block any general resolutions at AGMs or EGMs.

19. Whatever the outcome the Government could come under pressure to expand on how it would intend to use the Special Share to maintain the independence of the Board. Indeed, it is already under such pressure. Sir Philip Shelbourne has asked for clarification and put forward some specific questions. Possible answers for internal use are therefore attached at Annex B.

PE1, HM Treasury

23 December 1987

Britoil Directors

Sir Phillip Shelbourne, 62, Chairman
Ex-Chairman Samuel Montagu

David Walker, 52, Chief Executive
Joined Britoil in 1985 after 25 years with BP

Malcolm Ford, 61, Managing Director
Technical and UK region
Joined BNOC after 28 years with Shell

Jeremy Evans, 50, Executive Director
Administration, supply and trading
Ex-Deputy Director of the OSO

Bob Speirs, 50, Executive Director
Finance, Accounting and US region
ex BNOC and Texaco

Non Executive Directors

Sir Henry Chilver, 60, VC Cranfield Institute of Technology

Sir Kenneth Corfield, 62, Director of Midland Bank plc

Sir Archie Lamb, 65, Board Member British Shipbuilders
Ex-Foreign Office

Jack Lofthouse, 69, retired Director of ICI

Ralph Quartano, 59, Chief Executive of Pos Tel Investment

Larry Tindale, 65, Deputy Chairman of Investors in Industry
Vice President of BIM

Michael Kelly, 58, Ex-executive director of Britoil for
exploration and European region
Joined BNOC in 1976 from Burmah

THE GOVERNMENT'S USE OF ITS SPECIAL SHARE

The Government will come under increasing pressure to indicate how it will use its Special Share. This note suggests how in practice the Government would use the share. This might best be illustrated by outlining how the Government might answer the questions as to its behaviour put in Sir Philip Shelbourne's letter of 21 December to Sir Peter Middleton. (The answers set out below are in some cases not those that would be given publicly, even assuming that the Government was prepared to answer detailed questions of this kind, which to date it has not been.)

(a) **By reference to what factors will the Treasury exercise its voting powers?**

The Government would expect the Board to meet its normal fiduciary duty to act bona fide in what it considers to be the best interests of the company, in effect all the shareholders present and future. In particular, the Government would expect the Board to consider the independent commercial interests of Britoil, rather than those of the majority or 100% shareholders (or of the Special Share holder).

(a)(i) **Will it expect to be consulted as to changes on the Board requested by BP if the BP offer becomes unconditional, in that it will have the power to undo whatever BP and the Board may agree?**

The Government would want to assure itself that the Board was acting independently of its majority shareholders. To this end the Government would use the powers of its Special Share to ensure the appointment of directors who would manage the company accordingly. It would seek to ensure this by itself initiating discussions with the Britoil directors.

(a)(ii) Will it at times expect to exercise any influence of any sort over decision-making in the ordinary day-to-day management of Britoil affairs?

No, providing the Board was managing the company in its best interests. If the Board was not, in the Government's view, acting independently of the majority shareholder, then the Government would use its powers to replace the Board; even in those circumstances, the Government would not intervene directly in day-to-day management.

(a)(iii) Will it expect to exercise any such influence as regards any major policy decisions concerning, for instance, substantial disposals, substantial acquisition, major borrowings or as regards decisions bearing on the Company's involvement in the North Sea and its commitment to Scotland or as regards other specific matters?

No, see the answer to (a)(ii)

Handwritten note: (see sketch) correct: we will have influence on acquisitions or disposals we will affect value

(a)(iv) Will it expect to exercise any influence where the interests of Britoil and BP, as one of Britoil's principal competitors, are in conflict as regards a possible transaction before the Britoil Board?

No. If the Board was acting independently of the majority shareholder it would be acting ~~acting~~ in the commercial interest of the company as a whole. Commercial relationships with the majority shareholders should be on an arms length basis.

(a)(v) If the answer to either questions (ii) or (iii) above is 'yes', by what mechanism does the Government envisage the influence being exercised in terms of communications between the Board and the Treasury and vice-versa?

The answers to questions (ii) and (iii) were 'No'; this question, therefore, falls away. *NO/No*

(a)(vi) **Will the Treasury expect to appoint any Government Directors?**

The Government would not appoint its own representatives to the Board. But it would want to be sure that the Board was acting independently; and would use its powers to appoint directors accordingly. In practice, the Treasury would wish to have an informal link with at least one of the directors so that it would be told if the Board was no longer acting and thinking independently.

(b) **By reference to what factors will the Treasury make a decision to redeem the Special Share?**

The Government currently has no plans to redeem its special share. In practice, a number of factors could influence its decision in the future. These could include the difficulty of finding competent Board members working to run the company independently; the lapse of the special share in Enterprise Oil; the implications for development of the North Sea of any restructuring of the oil sector; and the recommendations of the forthcoming policy review on the use of special shares.

31 MARCH 1982

(Mr Lawson)

A number of questions were asked about the special share. Attention was drawn to the power under the articles for the Government's special share to be redeemed. The hon. Member for Dunfermline (Mr Douglas) asked at what price the share would be redeemed. The articles clearly show that the share will be redeemed at par—the nominal price. If the shares are £1 each, they will be redeemed at £1. However, we have no intention of having the share redeemed. The power is included because it is customary for articles of association to cover a range of contingencies. Those who are acquainted with articles of association will be aware of that. I give an undertaking to the House that not only do the Government have no intention of having the share redeemed, but that they have every intention of retaining it. If circumstances arise—I cannot envisage any—in which the Government feel that it is right that the share should be redeemed, we shall come to the House first. I give that undertaking freely, because it is the Government's intention to retain the special share.

Dr. J. Dickson Mabon: Is it not true that under the Bill in its present form the Secretary of State, whoever it may be—probably not the right hon. Gentleman—can dispose of the share without parliamentary consent? The undertaking is, therefore, nonsense. It does not mean a damned thing.

Mr. Lawson: That is an unwise and improper suggestion. I hope that the right hon. Gentleman, who was a former Minister, will withdraw it. When a Minister of State gives an undertaking at the Dispatch Box, it means something. To say that it means nothing is wrong. There are many occasions where Ministers make such statements.

It is true that redemption will not require parliamentary consent. I do not suggest otherwise. However, if the Government of the day at any time feel that circumstances have changed and that the share should be redeemed, the House will be informed before redemption takes place. More importantly, we have no intention of having the share redeemed. The whole point of the share is that it is held, and retained.

Mr. Merlyn Rees: I accept the Minister's word. There may be other arguments to deploy, but I want to be clear that he is giving the undertaking on behalf of the Government.

Mr. Lawson: I give that undertaking on behalf of the Government.

The hon. Member for Dunfermline asked whether the articles had been approved by the Stock Exchange council. The answer is "Yes, they have". I should not put before the House articles of association, and an important proposition, which had not been cleared by the Stock Exchange council. This is not the first time that the hon. Gentleman has suggested that this is a terrible proposal. He will recall that although the power is slightly different, in Amersham International Ltd. there is a special share which has special powers. I was not aware that that put off investors. *[Interruption.]* It is not on all fours—*[Interruption.]*

Mr. Douglas rose—

Mr. Lawson: I shall now reply to the main point of the right hon. Member for Leeds, South on how the system is meant to work, the share and the rights attached to it, and why articles 70 and 71 have been included.

We have three key considerations and objectives in mind. We wanted to create effective safeguards which would enable the Government to prevent any unacceptable change in the future control of the company, whatever the nationality of the parties involved. That deals also with the issue raised by the hon. Member for Dundee, East. It is important to protect the character of Britoil as an independent company, responsible for its own management and business strategy.

The second point that lies behind the Government's thinking in devising this form is that it is essential, in the Government's opinion, that the special rights should not provide an opportunity for backdoor interference in the affairs of the company. I think that I made it clear on Second reading—I certainly did so in Committee—that the Government do not intend to use their rights as a shareholder to intervene in Britoil's commercial decisions, except in the specific safeguard circumstances.

The Government do not expect to vote with their shareholding—that is the whole of their shareholding, leaving aside the special share—in opposition to resolutions supported by a majority of the board, although they will retain the right to do so. We have tried to construct safeguards that will operate as reserve powers. They will come into force only in the event of an attempt to take over voting control of the company, control of the board or of its compositions, or to alter the safeguards or any other key articles of the company.

5.30 pm

The powers are passive. They will need to be triggered by outside events beyond the Government's control before they can be brought into play. In practice, it is highly unlikely that they will ever need to be brought into play. The very existence of these powers will act as the most formidable deterrent to anyone who tries to take over control of the board, of the company or of the majority of its shares, and who the Government consider to be unacceptable.

It is possible that at some future date the Government will seek to reduce their shareholding below 49 per cent. It is important to make it clear that the powers will remain however much the ordinary shareholding is reduced. That is why the safeguards are attached entirely to the single special share with a nominal value of £1 fully paid, which is held by the Government and which is separate from the rest of the shareholding.

Mr. Douglas: Is that right?

Mr. Lawson: The hon. Gentleman is not fully acquainted with Stock Exchange terminology.

The safeguards will remain fully active even if the Government have no other shareholding. It is right that there should be safeguards. There is concern on both sides of the House about the ownership of Britoil and its future ownership. The provisions that we are discussing meet that anxiety. They meet the will of the House on Britoil's crucial independence. We have given, as has BNOC and its advisers, considerable thought to the articles to ensure that they are an effective means of protecting Britoil's independence against unacceptable changes in control. Therefore, I commend the articles to the House.

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

01 211 6402

CH/EXCHEQUER	
REC.	31 DEC 1987 ✓ 31/12
ACTION	MR D MOORE
COPIES TO	FST SIR P. MIDDLETON
	MR MOCK MRS BROWN
	MR LEAHY

Jonathan Taylor Esq
Private Secretary to the
Chancellor
HM Treasury
Parliament Street
LONDON SW1

29 December 1987

Dear Jonathan,

My Secretary of State has seen Sir Peter Walter's letter of 17 December to the Chancellor. He has asked me to write to you to express his concern about the KIO's increasing shareholding in BP. He has noted that KIO appears to accept no limit on the shareholding which it might acquire. He believes that if the shareholding continues to increase there will be a need for Ministers to consider the Government's position carefully: it could be necessary for KIO to be told that whilst investment in the UK was welcomed the possibility of it taking control of a major company was not. The Secretary of State believes that, whilst the circumstances are rather different, the public will not readily understand why the Government was ready to intervene to protect Britoil but could be prepared to let such a significant company as BP fall to overseas control.

I am copying this to Tony Galsworthy in Sir Geoffrey Howe's office.

Yours sincerely,

Stuart Brown

PP S HADDRILL
Principal Private Secretary

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*PrAm meeting please
for tomorrow 9.1
pm*



FROM: J M G TAYLOR
DATE: 31 December 1987

MR ILETT

cc Financial Secretary
Sir P Middleton
Mr Monck
Mrs Lomax
Mr Moore
Mr R I G Allen
Mrs Brown
Ms Leahy

BP SUPPORT: ANNOUNCEMENT OF RESULTS

The Chancellor was grateful for your minute of 23 December.

2. He would like a draft of the announcement (without, of course, the numbers) to be prepared in time for his meeting next week. He has commented that this should probably conclude with the statement that the net effect has been to reduce the Government's holding in BP from 31 per cent to X per cent, with the (31 - X) per cent sold raising a total of £Y billion, or X pence per share.

J M G TAYLOR