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R. H. WOLFE  
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10 DOWNING STREET

From the Private Secretary

14 November 1979

Dear Sir,

BNOC

Your Secretary of State called on the Prime Minister this morning to discuss the future of BNOC. Sir Robert Armstrong and Sir Kenneth Berrill were also present. They had before them Mr. Howell's minute of 8 November.

Mr. Howell said that he would be grateful for the Prime Minister's reactions to his proposals on future structure and private sector participation in BNOC, as set out in the draft paper accompanying his minute. He also sought a steer on the question of how the widest possible ownership of shares in the proposed BNOC operating company might be achieved. On the latter, he felt there were major political arguments in favour of a free distribution of shares on the lines of the British Columbia precedent. The idea would be to give every elector in the country an equity stake in North Sea oil. This would be politically attractive, and help to encourage share ownership generally. A scheme of this kind would not be without its difficulties: for example, there would be the administrative costs of issuing shares on such a vast scale. Some people might not understand what they were getting, and means would have to be found to ensure that people who were on more than one electoral role did not receive shares twice over. But given the will, he was reasonably confident that such problems could be overcome. A scheme of free distribution would not of course help to reduce the PSBR; but it could be combined with a sale of one-third of the shares, with the Government retaining perhaps a stake of 25 per cent. In this way, the privatisation of BNOC would make a considerable contribution to getting the PSBR down and to spreading share ownership in the UK in a really radical manner.

The Prime Minister said that she was generally content with the proposed structure for BNOC. But she had serious doubts about Mr. Howell's proposals on privatisation. She did not think that the free distribution idea would be politically attractive. Too many people, if simply given shares in the North Sea, would not appreciate them. The small size of each shareholding - apparently £12 per head on Mr. Howell's proposals - was unlikely to act as a major encouragement to share ownership generally. The difficulties mentioned by Mr. Howell seemed to her to be very serious and, furthermore, the Government would need all the revenue it could obtain in the next three years if the size of the PSBR was not to be unmanageable.

/The Prime Minister

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The Prime Minister went on to say that her preference would be to sell two-thirds of the shares in the operating company; to spread the sale over a three year period in order to avoid the risk of selling all at once at an unjustifiably low price, and because the Government would need help with the PSBR not just in 1980/81; and to give preference to small applications so as to maximise the spread of the sale amongst potential shareholders.

Mr. Howell said that he was disappointed that the Prime Minister had not been able to go along with his proposals on wider ownership. But he took note of her views and would bring forward proposals to colleagues accordingly. Two points would need to be considered further. First, there was the question of whether the operating company would continue to count as part of the public sector if private shareholders were not to have a majority position until the third year. Although the figures would need to be looked at carefully, it seemed that from the point of view of the PSBR, it would be better if the company could be taken out of the public sector as soon as possible. Second, his Department would need to take advice on whether it was possible to announce a sale over three years in three equal instalments.

I am sending a copy of this letter to Tony Battishill (HM Treasury), Gerry Spence (Central Policy Review Staff) and Martin Vile (Cabinet Office).

*Rev. Mr.*

*Tim Lambert.*

W.J. Burroughs, Esq.,  
Department of Energy.