PRIME MINISTER

MEETING WITH THE SECRETARY OF STATE FOR ENERGY

I understand you wish to discuss with Mr. Howell the possible role which Sir Frank McFadzean might play in reorganising BNOC. No doubt you will want to ask Mr. Howell what are his own ideas for BNOC's future development.

I understand that Department of Energy officials have now produced a draft paper which considers a number of options for BNOC ranging from abolition through to maintaining the status quo. Mr. Howell will be discussing this with his junior Ministers tomorrow morning before seeing you. I understand they are very divided on what should be done: Mr. Lamont favours something close to abolition, whereas Mr. Gray is for maintaining the status quo.

BNOC's activities fall under three main heads:

(i) Its share in the existing North Sea fields which is valued at between £600m and £900 m. These shares are all, with the exception of the Viking field, well under 50 per cent. They were taken over from NCB and from Burmah.

(ii) Its 51 per cent share of the Fifth and Sixth round licences.

(iii) Its trading in "participation" oil. BNOC now has access to 51 per cent of all oil from the North Sea.

As regards (i), Mr. Howell has been asked by the Chancellor to sell off approximately £300m of assets this year to help the PSBR. He has, I believe, accepted this in principle; and he is now working on the modalities.

One of the "middle" options which his Department are looking at is to sell off all of the North Sea assets, including the 51 per cent share in the Fifth and Sixth licensing rounds, but to

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continue the participation agreements. Whether it is worth continuing with the participation agreements rests heavily on one's assessment of how much real security of supply they offer to the UK. Sir Kenneth Berrill in his note at Flag A suggests that the participation arrangements do, if properly exploited, offer a good deal of security.

Another option would be to continue with the participation agreements, and keep at least some of the North Sea assets which should bring in a lot of revenue over the years and enable the Government to be more knowledgeable of the goings-on of the oil companies than if it got out altogether; but to jettison the shares in the latest licensing rounds, which are likely to involve very heavy capital expenditure before they produce any revenue.

TL

5 June 1979