

Original in App'ts filing

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Energy

NOTE FOR THE RECORD

The following is a summary of the main points which arose during the Prime Minister's lunch with Sir Frank MacFadzean at Chequers on Friday, 8 June.

Chairmanship of BNOC

The Prime Minister asked Sir Frank if he would be interested in the Chairmanship of BNOC. Sir Frank replied that he would have great difficulty in accepting this appointment. It would mean his having to give up his Directorship of Shell - and also - he thought - his Directorships in the insurance business. When pressed, however, he made it clear that there were no circumstances in which he would accept the job.

The Prime Minister asked Sir Frank for some suggestions for this appointment. He offered two names: Mr. Monty Pennell of BP, and Mr. Ashley Rayburn of Rolls Royce.

CPRS

The Prime Minister also asked Sir Frank if he would be interested in becoming the Head of the CPRS. Again, Sir Frank made it clear that he was not interested. He did, however, indicate that he would be interested in advising the Prime Minister on industrial and energy matters in some role or other. The Prime Minister said that she would consider the possibility of asking him to become a personal adviser, perhaps on a part-time basis.

Future of BNOC

The Prime Minister expressed her doubts about BNOC. Sir Frank said that he could see no reason whatever for having a nationalised oil company. In his view, there was nothing which BNOC could do which could not be achieved by other means. In particular, he questioned the value of the participation agreements which, supposedly, gave the UK greater security of oil supplies. In fact, BNOC had entered into contracts with foreign customers for much of

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their participation oil. But even if they had not, in the absence of any refinery capacity, they were obliged to sell all of their participation oil back to the oil companies; and this meant that they had no effective control over the disposal of the refined oil.

The Oil Situation

Sir Frank said that the key to remedying the current oil shortage was Saudi Arabia. If they could only be persuaded to produce another million barrels per day, and unload this on the spot market, the current price spiral would immediately be eliminated. In his view, the Saudis did not sufficiently understand the implications of the current situation for the western economies and in turn for political stability in the world. This was not because they were basically unsympathetic, but because the west - in particular the Americans - had failed to maintain close enough contacts with them. The Prime Minister agreed that they appeared to be basically sympathetic, but pointed out that the Americans were in a weaker position vis a vis Saudi Arabia following the agreement between Egypt and Israel over Sinai. Nonetheless, it was indeed important for the west to establish closer contacts with the Saudis and persuade them of the consequences of their holding back supplies. There might well be a case for a European Head of Government to visit Riyadh after Strasbourg, and perhaps President Giscard would be the most appropriate.

Sir Frank also said that it was pointless to tell the oil companies to keep clear of the spot market. There would always be some secondary companies who would be willing to pay very high prices at the margin in a situation of shortage. The only way of getting the spot market price down was for the oil producers to increase their sales in this market significantly.

The Prime Minister went on to say that energy would be a key item on the agenda at Strasbourg, and she would value Sir Frank's advice on what the UK position should be. Sir Frank said that he would prepare a note on the current oil situation as he saw it, and he would be very glad to discuss this with the Prime Minister before she left for Strasbourg. He suggested that he might bring with him Messrs. Baxendale and Hart of Shell. The Prime Minister

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*This is a copy. The original
has been extracted and
closed, 40 years.*

said that she would try to arrange a private supper, to which she would also invite the Secretary of State for Energy.

Sale of Public Sector Assets

Sir Frank said that he was against selling off parts of nationalised industries. These would tend to be the more profitable ones and this would destroy management's morale; and there was always the prospect that they would be re-nationalised by a future Labour Government. In his view, the "BP solution" was a much better way forward.

As regards floating off shares in British Airways, he thought this was thoroughly feasible; but it would be a mistake to make too much haste. To do so would mean selling the shares at a discount to asset values because of relatively low current profitability; and this would be both politically and financially objectionable. Sales of BA shares should be made over a two to three year period.

British Aerospace

The Prime Minister asked Sir Frank about the Chairmanship of British Aerospace. Sir Frank replied that Lord Beswick would have to go. Lord Beswick was totally inadequate as a Chief Executive and the Americans who had negotiated the aircraft deals last year had told him that he (Lord Beswick) had been a hopeless negotiator. He carried no weight in the industry whatever.

The Bingham Report

*Paragraph deleted and closed, 40 years,
under a FOI Exemption.*

Wayland

29 September 2009

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Paragraph deleted and closed, 60 years,
under a FOI Exemption

Wayland

29 September 2009

The Prime Minister said that she saw nothing but disadvantage for the national interest if the involvement or otherwise of previous Governments were to become the subject of major controversy. Sir Frank said that he did not dissent from this, but he repeated that if the DPP were to proceed, he would have little option but to defend his colleagues. Even if the DPP did not prosecute, he doubted whether the issue of previous Governments' involvement would simply disappear.

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12 June 1979

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