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Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

PRIME MINISTER

BNOG : FUTURE STRUCTURE AND DISPOSAL OF ASSETS

As you asked us, E(DL) considered this afresh last night in the light of further advice from the Attorney General. We also had before us the Secretary of State for Energy's minute to you of 18th July and my commentary of 19th July.

Flags Brc

2. We reached no final decisions, which must of course be subject to further discussion in E on Tuesday, 24th July.
3. I need not recapitulate the whole discussion. Three major new points have emerged:
 - (i) the Secretary of State for Energy would, as a first step, like to float off the up-stream assets of BNOG into a subsidiary company. (His minute of 18th July contains this suggestion). This would be a preliminary, either to his own initially-preferred course of selling shares to the general public; or alternatively, to the sale of some or all of the shares to BP;
 - (ii) this is BP's preferred solution too. They believe that it would allow the transfer of assets to them to take place without giving the right of first refusal to the other partners in the field concerned;
 - (iii) the Attorney General disagrees. He has only had a chance to consider very quickly the agreements



governing the seven prime targets for disposal. But it is already clear that there are entrenched rights, of first refusal and in some cases of absolute veto, which will have to be negotiated away with each individual partner. (There are some thirty-five companies involved in the present commercial fields in which BNOC has an interest.) He does not consider that the subsidiary company device would successfully avoid these obstacles. He considers that it could probably be challenged in the Courts, but is prepared to reconsider this advice in the light of discussions he will be having in the next day or two with BP lawyers.

4. The Sub-Committee therefore agreed:
- (a) to invite the Attorney General to conduct these talks with BP urgently and in strict confidence, and to report back to E on Tuesday;
and, subject to the views of E:
 - (b) that there was no objection to the sixth round licensing going forward on the basis preferred by the Secretary of State for Energy and the Attorney General - i.e. with the initial involvement of BNOC, which would be renegotiated case by case once the licenses had been issued;
 - (c) that the Secretary of State for Energy would have to make an announcement about these licenses, making it clear that the inclusion of BNOC did not imply that BNOC necessarily had a continued up-stream role, and that the whole question of its up-stream involvement was still under consideration; (he himself would like to go further, and to announce the outcome of the review, on the lines he suggests in his minute to you



of 18th July);

- (d) that BNOG should be invited to form a subsidiary company to which its up-stream assets should be transferred, and (possibly) that this intention should be announced at the time that the sixth round licensing decisions are announced;
- (e) that legislation be introduced in the next Session (in practice, as additional clauses added to the Industry Bill) to permit the Secretary of State for Energy to direct BNOG to dispose of its assets in this way (the Attorney General having advised that such legislation is essential);
- (f) that the main options on disposal remain:
 - (i) the sale of all the up-stream assets of BNOG to BP; this option is only open if the Attorney General can remove the legal doubts about the subsidiary company route; or if it is a practical proposition to negotiate with all thirty-five licensees in time to complete the sale by 1st April; this course would require BP to make a large rights issue, and this in turn means either that HMG's holding would come down to about 42 per cent, or that it took up its share of the rights and thus fell short of the £1,000 million target;
 - (ii) to dispose of part of the up-stream assets of BNOG (and possibly also of BCG's Wytch Farm field), leaving the remainder of the desired total to be found by a limited sale of BP shares; or
 - (iii) to abandon as impracticable the sale of BNOG assets in the current year, and to make preparations for the early sale of up to £600 million worth of BP shares.

S E C R E T



5. I am sending copies of this minute to the Secretaries of State for Energy, Industry, Trade, Environment and Scotland; to the Lord Privy Seal; to the Attorney General; to the Chief Secretary and Financial Secretary, Treasury; and to Sir John Hunt.

[Approved by the
Chancellor of the
Exchequer and
signed in his absence]

M. E. Hall

(G.H.)

20 July, 1979

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