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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

BNOG: FUTURE STRATEGY

Memorandum by the Secretary of State for Energy

- 1 It was agreed at E(DL)3rd meeting that further consideration should be given to the proposed future strategy for BNOG which I set out in E(DL)(79)6.
- 2 In their discussion of our future policy for BNOG and, in particular, the possibility which I am pursuing with Sir David Steel of a whole or partial disposal of BNOG upstream interests to BP, I invite my colleagues to take account of the following considerations:
 - (1) If we were already in a situation where BP owned the assets on the UK Continental Shelf currently held by BNOG, this would be a very satisfactory situation, fully consistent with our political approach. But to get to this situation from the circumstances we find ourselves in carries serious risks for North Sea development and the Government (set out in detail in my paper E(79)21).
 - (2) My proposed strategy in E(DL)(79)6 envisages disposal of BNOG's interest in Viking and Statfjord, securing perhaps £80-£150 million. I believe that we could go somewhat further, say to £200 million or so, without rendering BNOG unviable as a continuing operation. If the necessary legislation is passed, most of this should be realised in 1979/80. I would also prepare for the privatisation of the remaining BNOG upstream operation.
 - (3) I do not believe that anything approaching the sale of BNOG's total assets could be ready for announcement before the Recess; with so much money at stake there are many factors which require detailed examination before we could commit ourselves to such a course.
 - (4) On the other hand it does not seem politically possible to defer an announcement. This would hold up our work on future licensing of UKCS territory, since the public

sector role would be unclear; and it would subject us to criticism for indecision and causing continued uncertainty.

- (5) The strategy I propose would not prejudice a move through selective disposals and increasing private involvement to a takeover by BP later on if my colleagues decided in favour of this course.
- (6) Wholesale and hurried disposal of BNOC assets would run the risk of causing dislocation since there would be a considerable period before new arrangements could be set in place. This would be compounded if there were Opposition threats to reverse the process.

RECOMMENDATION

3 I will be reporting orally on my discussions with Sir David Steel. Subject to that I invite my colleagues to agree that:

- (a) in order to end uncertainty and to restore momentum on the UK Continental Shelf we should announce our decisions on the future of BNOC before the Recess;
- (b) the strategy set out in my paper E(DL)(79)6 should be adopted including selective disposal of BNOC assets;
- (c) legislation should be introduced to enable us to dispose of BNOC assets and to facilitate privatisation in BNOC's upstream operations

- and to note that

- (d) more substantial sales of BNOC's assets on a more gradual timescale would not be precluded, if my colleagues wished to adopt this policy.

Department of Energy
13 July 1979

DARH