FINANCIAL SECRETARY TO THE TREASURY

PRIME MINISTER

BGC: DISPOSAL OF OIL ASSETS

Geoffrey Howe has asked me to comment on David Howell's proposals,
[attached] set out in his minute of 8 October to you, for the disposal of BGC's oil assets.

It might be helpful if I first outlined the prospects, as we see them now, for meeting the published disposals target in 1980-81 of £500m (in 1979 Survey prices). This is equivalent to £630m in outturn prices, taking into account the need to make good the net increase in the PSBR resulting from the unwinding of about £50m of last year's forward oil sales. (All figures henceforth in this minute are in outturn prices.)

Receipts to date and firm commitments amount to some £178m (comprising £40m from the sale of new town assets, £112m from NEB shareholdings, £22m from motorway service areas and £4m from the PSA).

Fairly firm items, excluding the balance from the sale of new town assets, amount to £231m (comprising approximately £175m from the Seventh Round of North Sea oil licensing, £38m from the British Sugar Corporation, £15m from the sale of Market Towers, and a further £3m from motorway service areas). These items, taken with the receipts to date and firm commitments, amount to some £409m, a long way short of the target of £630m.

The target for the sale of new town assets in the current year is £260m, of which £40m has been included in paragraph 3 above. This leaves a further £220m to come. Our experience last year demonstrated that there is a risk of substantial slippage with this category of disposals. The defeat in the Lords on the Local Government Planning and Land (No 2) Bill may be relevant here.

The only other possibilities for substantial receipts this financial year are the sale of British Aerospace and of Cable & Wireless. But the prospects for securing proceeds from those sources in this financial year are most uncertain and have to be discounted for this purpose.

This analysis suggests that there is no prospect of reaching the published target of £630m without some contribution this financial year from the disposal of BGC oil assets unless against past form the full contribution from new town assets is received. I accept that the sale of shares in the oil field subsidiary will not raise money this financial year. But there is a reasonable chance, though no guarantee, of selling BGC's share in the Wytch Farm oilfield in time to secure receipts this year. This would enable the published disposals target to be reached. Without proceeds from the sale of Wytch Farm, I now see no prospect of reaching that target.

So the position is that if we are willing to miss the disposals target for 1980-81, we can agree that David Howell should, as he proposes, tell the Corporation that they should produce a scheme for disposing of their offshore and onshore oil interests on the lines described in paragraph 2 of his minute. But if he is to do that it is essential in my view that the Corporation should be told now that proceeds from the disposal of their oil assets must be received in 1981-82; and that if they cannot float off to the public shares in the oilfield company in time for proceeds to be received in 1981-82, we will have to issue a directive for them to dispose of their Wytch Farm holding so that at least the proceeds from the sale of that can be received in 1981-82. I suggest this because of the enormously difficult public expenditure position in 1981-82.

Turning to David Howell's particular proposals I agree, subject to the points above, that the Board must endorse, at an early date, a practical scheme satisfactory to us. The date in question must, I think, be no later than the end of the first week in November. This in fact would be later than E envisaged since the Committee asked the Secretary of State "to conclude the discussions in time to ensure that, if a direction was required for the sale of Wytch Farm, it could be laid immediately after the summer Recess" (E(80)30th Meeting). If the Corporation do not come up with anything satisfactory by the first week in November, I think that we must issue a directive for them to dispose of their Wytch Farm holding as agreed by E on 6 August (E(80)30th Meeting).

I have the following three particular points on the proposals which Lazards put to the BGC Board:

i. Arrangements would need to be made to remit the proceeds of the sale to the Exchequer and not to leave them with BGC. The Corporation should not be allowed to use the "Reverse NLF" device whereby they lend money to the Exchequer. If satisfactory arrangements cannot be made under existing legislation, I suggest that suitable provision should be taken in the forthcoming Petroleum and Continental Shelf Bill.

ii. Lazards have suggested that only 60 per cent of the shares in the Company should be sold to the public. Certainly no lesser amount should be sold, but I think we ought to reserve judgement on whether more should be sold. On the figures given in paragraph 3 of David Howell's minute each additional 10 per cent of shares sold would raise some £30m, which would provide a useful contribution to reducing the PSBR in a very difficult year.

iii. I note that Lazards believe that an important factor in achieving an acceptable market price for the shares is the continuation of the proven management of British Gas under a contract with the Company. I accept this point, but this management contract would need to be freely negotiated on an arms length basis between the Corporation and the company to be privatised. Nor could the contract be for an indefinite period if the new company is to be completely independent of

BGC and outside its control and therefore legitimately in the private sector. An initial management contract for one or two years should be sufficient to get the privatised company underway. After that the Board of the independent company should be completely free to decide whether to continue with the management contract.

These last two considerations are important if we are to be able to claim convincingly - as I think we must in view of next year's PSBR prospects - that the proceeds of the sale can legitimately count as a PSBR reduction.

Subject to these points and your acceptance of the consequences for the disposals target for 1980-81, I am content for the Secretary of State to proceed as he suggests in his minute.

I am sending a copy of this minute to Geoffrey Howe, Members of E Committee and to Sir Robert Armstrong.

NL.

NIGEL LAWSON

16 October 1980