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

PRIME MINISTER

BNOC : FUTURE STRUCTURE AND DISPOSAL OF ASSETS

In his minute of 18th July David Howell put forward a number of proposals on the related questions of disposal of BNOC assets and the future of BNOC itself.

2. I can understand David Howell's wish to clarify elements of UKCS policy and BNOC's future without damaging delay but I do not believe that we can make any sensible statement on the future of BNOC unless and until we have taken decisions on the question of disposal of BNOC assets. Any statement made before such decisions have been made would beg more questions than it answered. It is my intention to ensure that this afternoon's discussion at E(DL) puts us in a position to take decisions at next week's E Committee.

3. I share David Howell's view that BNOC's crude oil trading role should be retained together with its participation crude oil options because I believe they are vital to our security of supply, particularly since we are, through membership of the Community, prevented from interfering with exports of UKCS oil and because there are already indications that certain other major oil producing countries such as Kuwait, Nigeria and Iran are showing an increasing tendency to want to trade with state oil corporations rather than with multi-national oil companies.

4. I also agree that the confirmation of the Sixth Round Licences award should be announced as soon as possible so that UKCS momentum



is not lost. As David Howell says, the inclusion of BNOG's Sixth Round licences in any disposal of assets to BP would complicate matters considerably, and, moreover, as the Attorney General pointed out in his letter of 10th July would also have legal difficulties. In any event, I have doubts whether BNOG's licences should be vested in one company. Would this not further aggravate the already difficult situation on depressed exploration activity? Cannot the Sixth Round be announced with BNOG as partners and, if decisions are subsequently taken to dispose of their Sixth Round licence interest, these could presumably be disposed of by an open licensing round giving their Sixth Round partners first refusal. I very much doubt whether BNOG's Sixth Round interests should form any part of a sale to BP.

5. However, I see a number of difficulties with the other main proposals. I have real doubts about whether the setting up of an upstream subsidiary for BNOG's assets is a necessary first step to either a total takeover by BP or any lesser disposal of their assets. I shall be exploring the legal doubts about this route this afternoon with the Attorney General but from my point of view this route would not reduce the PSBR unless BNOG control of the subsidiary was given up entirely. Moreover, setting up one subsidiary would not facilitate the selling off of BNOG's assets piecemeal: indeed it would effectively foreclose this option.

6. I note that the proposal to dispense with BNOG's statutory advisory role will entail additional departmental manpower and related public expenditure. Whilst there is a possibility that the outcome of our considerations could be the retention of a substantial part of BNOG's upstream interests, it would not seem sensible to cut ourselves off from BNOG's advice, particularly since such advice would be based on first-hand experience of UKCS activities.



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7. I also note that David Howell wishes to point up the possibility of a Seventh Round of licensing. I think this is something that we should look at separately outside these discussions in E(DL) once David Howell has put forward his proposed minute on the subject.

8. I am copying this minute to members of E and E(DL) and to Sir John Hunt.

A handwritten signature in black ink, appearing to be "G.H.".

(G.H.)

19 July, 1979

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