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PRIME MINISTER

BGC: DISPOSAL OF OIL ASSETS

At 'E' Committee on 15th September I reported that the British Gas Corporation (BGC) had commissioned Lazards to advise on the disposal of a majority holding in their oil assets in a way consistent with statutory obligations. I said I would report further in October, on the basis of Lazards' report.

An interim report from Lazards was considered at a special meeting of the BGC Board on 3rd October. Lazards apparently envisage a scheme whereby 60% of all the Corporation's offshore and onshore oil interests retained in an existing company would be sold to the public. For marketing the operation, 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. They also identify other matters to be resolved ahead of a flotation, such as taxation liabilities, any pre-emptive rights of other companies, and the future exploration position for British Gas. (We shall clearly need to sort some of these matters out ourselves with BGC). Lazards have made considerable progress but have not yet devised a scheme in sufficient detail that could be put to the Board. The Board have therefore asked them to continue with their work.

It is encouraging that BGC are now adopting a constructive attitude to the disposal of their oil assets. If we can achieve the solution on the lines now being examined, I believe that it would achieve our objectives better than the forced disposal of Wytch Farm. It could raise around £200m as against the £100m for the disposal of Wytch Farm interests only. Moreover, the shares in the separated oil company could be sold to the public at large, whereas BP, as BGC's

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partners in the Wyitch Farm holding, have the right to match any offer for it.

Sir Denis Rooke has asked for my confirmation that we wish the Corporation to continue working along the lines indicated. I recommend that we should do so. I would, of course, keep up the pressure on EGC and, if a practicable scheme satisfactory to us is not endorsed by the Board at an early date, I would issue a direction to them to dispose of their Wyitch Farm holding.

I hope you can agree that we should proceed in this way and that I should inform Sir Denis Rooke accordingly.

I am copying this minute to our colleagues on E Committee and to Sir Robert Armstrong.

JH.  
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Secretary of State for Energy

8 October 1980

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