

Ref: A09903

PRIME MINISTER

STATE INVOLVEMENT IN THE OIL INDUSTRY

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BACKGROUND

Play A

This paper by the Energy Secretary covers a lot of controversial ground. I have suggested, in my brief on the Financial Secretary's paper (Item 1) that you should touch on this at the present meeting only insofar as it affects the proposals to sell £200 million of BGC/BNOC assets in the current year. The remaining issues raised by the paper will need to be considered separately, either by E or E(EA), and it will be helpful to have your instructions on which you would prefer. Meanwhile, Sir Kenneth Berrill's note to you of 3 July, copied to all other Ministers, sets out the main points which need to be considered.

HANDLING

You might start the discussion yourself on the lines above. You could then ask the Energy Secretary to introduce his paper, asking him to concentrate the discussion at this stage on the damage which would be done by disposal of £200 million worth of assets.

That damage will be minimised if he is prepared to sell BGC's Wytch Farm on-shore oil field, for £100 million. This means standing up to a row with Sir Denis Rooke. (The trouble is that, at Budget time, he gave Rooke a half promise that his programmes would not be further affected at least this year). If he is not prepared to do this, then he has, on his own reckoning, got between £80 million and £150 million (with a 'central' estimate of £130 million), in hand from the sale of BNOC interests in Viking and Statfjord. (The Treasury paper says £100-£130 million). He offers to find the balance of the £200 million from somewhere else. Where would he find it? To whom would the assets be sold?

When? (It must be in the present year). Would BP be interested? What damage would these sales do to the oil policy objectives set out in his paper? (Provided BP were the purchaser, or possibly Shell, the damage in terms of effect on disposals of oil could be reduced - but equally a restricted sale might reduce the price obtainable).

You might then seek views from the Lord Privy Seal and from the Chancellor of the Exchequer or the Financial Secretary: Mr Howell's arguments may need probing if he is unclear about the additional assets he would sell (we understand he has a list in mind) or makes unspecified difficulties of the kind hinted at in his paper (paragraph 19). Just what are the political difficulties, and do they matter? Would retention of these interests in British hands damage the sale price (ie can British oil companies afford to buy them); what would they do with the oil? Would the disposal require legislation if Lord Kearton refused to co-operate? (The Attorney General thinks it may). If so, could it be introduced in time; or might it be tacked on to the Industry Bill or included in an omnibus bill? (See Mr Howell's letter of 3 July to the Financial Secretary).

CONCLUSIONS

I suggest you reserve conclusions on this paper until you sum up the end of the whole meeting - see brief on main paper.

M.H.

PP

JOHN HUNT

4 July 1979