

THE WHITE HOUSE  
WASHINGTON

November 19, 1987

MEMORANDUM FOR JOHN C. TUCK  
DEPUTY ASSISTANT TO THE PRESIDENT AND  
EXECUTIVE ASSISTANT TO THE CHIEF OF STAFF

FROM: ARTHUR B. CULVAHOUSE, JR.  
COUNSEL TO THE PRESIDENT

SUBJECT: Response to Goldman, Sachs Letter re BP Offering

As you requested, I reviewed the draft letter from Senator Baker to John Weinberg. Attached is a revised draft for Senator Baker's signature which treads more lightly on the issues of the wisdom of the British government's decision and the White House role in this matter.

Thank you for bringing this to my attention.

Attachment

*Adrian  
Go smooth  
for HHS  
actual sig  
and re thread  
the original  
Thanks*

*Be*

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December 8, 1987

Dear John:

This is a belated response to your October 28 letter on the British Petroleum offering. I very much appreciate your keeping me informed of developments in this matter and, in particular, sharing with me a comprehensive statement of the position of your firm, Morgan Stanley & Company, Incorporated, and Shearson Lehman American Express. As I told you, we conferred with the British government on this subject and urged them to consider your arguments.

While the price floor established in connection with the offering obviously was of some benefit, I recognize that you and the other U.S.-based underwriters nonetheless incurred significant losses.

I appreciate all of the support and advice you have given over the last month. Again, thank you for keeping me apprised of developments in this matter.

Sincerely,

Howard H. Baker, Jr.  
Chief of Staff to the President

Mr. John L. Weinberg  
Senior Partner  
Goldman, Sachs & Company  
85 Broad Street  
New York, New York 10004

HHB/ABC/JCT/LRC/CAD/pt (pc2-12COS)

cc: Lorraine Camarano, 61 OEOB

November 15, 1987

DRAFT

HHB to John Weinberg

Dear John:

This is a belated response to your October 28 letter on the British Petroleum offering.

As I told you, we ~~went to some extraordinary lengths to get~~ <sup>strongly urged</sup> the British government to consider postponing the offering. Unfortunately, they did not heed our warnings or ~~respond fully to our entreaties~~ <sup>our entreaties did not receive a completely favorable response</sup>. The price floor they established obviously was of some benefit, but it certainly did not protect you and the other underwriters from suffering material losses.

I appreciate all of the support and advice you have given over the last month. I am sorry that we were not fully successful in convincing ~~the~~ <sup>our</sup> British <sup>friends</sup> of the merits of this case.

Sincerely,

HHB

624551  
Goldman, Sachs & Co. | 85 Broad Street | New York, New York 10004  
Tel: 212-902-8555

John L. Weinberg  
Senior Partner

Goldman  
Sachs


October 28, 1987

The Honorable Howard H. Baker, Jr.  
Chief of Staff  
The White House  
1600 Pennsylvania Avenue, N.W.  
Washington, DC 20500

Dear Howard:

I thought you would want to be kept informed on the British Petroleum matter. Therefore, I am sending you, on behalf of our co-managers in the BP financing project, Morgan Stanley & Co. Incorporated, Salomon Brothers Inc. and Shearson Lehman American Express, a copy of the letter which we sent to Sir Peter Middleton of H.M. Treasury. This covers our position fairly comprehensively.

Sincerely yours,



October 28, 1987

Sir Peter Middleton, K.C.B.  
Permanent Secretary  
H.M. Treasury  
Treasury Chambers  
Parliament Street  
London SW1P 3AG

Dear Sir Peter,

We understand that consultations are occurring between the U.K. underwriters, H.M. Treasury and the Bank of England regarding the feasibility of proceeding with the sale of British Petroleum shares. We further understand these discussions have come as a result of the U.K. underwriters' request that the offering be delayed due to the material adverse changes that have occurred in the world financial markets. As managers of the U.S. portion of this proposed issue and as advisors to H.M. Treasury and to British Petroleum, we feel obliged to advise you regarding the market ramifications of proceeding with this transaction from a U.S. and international perspective. In addition, we have noted recent comments of H.M. Treasury regarding U.S. underwriting practices and include in this letter a statement of clarification.

We strongly believe that any decision regarding proceeding with the proposed offering should be made with the full consideration of the overall global economic environment and conditions in each international market. The fact that the managers of all of the international syndicates were willing to rely on discussions between H.M. Treasury, the Bank of England and the U.K. underwriters has always been premised upon the belief that the consultations would reflect the conditions of all relevant markets.

We remain extremely concerned about the state of the global markets and the impact that this transaction will have on an already fragile financial system worldwide. Our concern is not only related to the unprecedented market volatility and the fact that stock prices have retreated in historical proportions across all markets, but also to our inability to distribute any BP shares into the market at any price. All of this supports our belief that this issue will cause a further disruption to world markets. In particular, we remain concerned as to the impact on the London market and the reputation of the City of London, including the regard in which it is held by the international financial community. The inability of the international underwriters to place shares in this climate will guarantee extensive reflow to the most liquid, home market, depressing the price of BP and the market. Within the U.K. there will be selling by the subunderwriters of both fully and partly paid BP shares since they will be heavily overweighted in BP. The significant overhang of available supply of partly paid shares will act to depress further the price and the overall market. In addition subunderwriters will also sell other shares in their portfolios as they raise funds to pay for their subunderwriting. This damage to the London market will likely reverberate into the other principal world markets. The 5.3% decline this morning of the London market and the further drop in BP shares in expectation of the offer proceeding as well as the collapse of the dollar (despite extensive Central Bank intervention) heighten our concerns that London could play a leading role in a further decline in worldwide markets.

Many considerations must be taken into account in whether this transaction should proceed. There are ramifications with regard to the future success of the privatisation programme and importantly the image of BP amongst global investors and the long-term impediment to BP's capital raising efforts. At current prices a 37% stake in BP could be accumulated by a predator for approximately £770 million posing a significant risk to the independence of the company. In addition, since the first £1.20 instalment has declined 71% to £0.35 there is significant risk of default on the second instalment. At this price level there will be limited liquidity in the partly paid shares and they will attract primarily speculative buyers rather than long term holders.

We would like to make clear to H.M. Treasury that practical and legal limitations in the United States preclude any capability to subunderwrite an issue prior to the effectiveness of a Registration Statement. Since the Registration Statement relating to the U.S. portion of the BP offering will not be effective until Friday, October 30, there is presently, and was on October 15, no legal or feasible mechanism for the U.S. lead-managers to place the shares with investors through a subunderwriting or other mechanisms. From the outset, we have made the U.S. regulatory aspects and underwriting practices clear to H.M. Treasury and all other parties to the transaction. Clearly all parties must acknowledge full awareness of the U.S. strictures as they are reflected in the structure and documentation relating to this transaction.

We believe that between the execution of the Underwriting Agreement and the date hereof that there have been serious and widespread adverse changes in U.K., U.S. and other international financial and economic conditions. Based on our experience in U.S. and international capital markets, we believe that, and in the opinion of our legal counsel, there have been adverse changes of such unprecedented magnitude and severity as to make the Offers and the Fixed Price Offer not a proper underwriting risk.

We believe that it is incumbent upon us to point out the widespread negative ramifications inherent to proceeding with this transaction to H.M. Treasury and BP. We most recommend strongly that H.M. Treasury postpone the contemplated offering.

Yours sincerely,

Goldman, Sachs & Co.  
Morgan Stanley & Co. Incorporated  
Salomon Brothers Inc  
Shearson Lehman Brothers Inc.

cc: The Governor, The Bank of England  
Sir Peter Walters, The British Petroleum Company p.l.c.  
Michael Richardson Esq., N.M. Rothschild & Sons Limited