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Rt Hon Sir Geoffrey Howe MP
 Chancellor of the Exchequer
 HM Treasury
 Parliament Street
 London SW1

6 June 1979

Dear Sir,

DISPOSAL OF ASSETS

This letter is to fulfil some of the remits which flowed from yesterday's meeting of E(DL) and, in particular, on what contribution British Gas and BNOC can make to your needs.

But first may I say how glad I was to have a preliminary discussion with you last Monday, it was very helpful to me and I hope to you, to have reached agreement that -

- a) the taking of royalties in kind and £100m cut-back by British Gas would serve to reduce your requirement from disposal of assets from £1.2 bill. to "about £1.0 bill."
- b) in your Budget statement you would refer to "State industries" and not specifically and only to British Gas and BNOC as you originally had in mind.

Taking royalty in kind in the first half of 1980 should bring around £100 million in during the first quarter of 1980. You asked for a more precise estimate and my officials are pursuing this with yours. BNOC have a figure of £150 million - not my officials as the minutes of E(DL) state. My officials' quick estimate is £100-£120 million, much the same as that of yours. There are many uncertainties in this - value of the oil, timing of deliveries and of subsequent disposal. We will see whether greater precision can be obtained within the next day or two but I am not optimistic; in the meantime I suggest that you should bank on not more than £120 million.

Let me now turn to BNOC. You are, I know, most anxious to have the greatest possible assurances about the extent of possible disposals in 1979/80, but it is I am afraid just not within my power to give you any firm promises at this stage, or to say when this might be possible.

As you know we are pressing ahead with a review of BNOC, its role and functions. This is a highly sensitive matter and any changes will need to be looked at very carefully. As you and I know our oil supplies are vital for the success of our economic policies generally and the need to move with extreme caution on anything that might affect them. The results of my review will inevitably and rightly have to be considered by the Cabinet. Whatever the views I come to, I cannot be sure that they will be endorsed by my colleagues.

But this is not the only major uncertainty which prevents me from giving you absolutely firm assurances, despite my personal hope that we can indeed go this way. It is not too difficult to put some sort of book value* within a short period. We not only have to decide what form of disposal and/or private involvement we are aiming at as a matter of policy, but to recognise that all of the courses which we might pursue are of great complexity. We have to face the fact that what is proposed is a series of major business deals, and in the real world such deals can be delayed or fall through.

There is then the question, which we discussed, about our powers of direction on which the Law Officers/to be consulted. /were There is also a maze of legal and contractual rights which govern the relations between BNOC and their partners in the oil fields. Many of these will constrain the form and speed of disposal and the precise nature of them can only be unravelled case by case. Furthermore until we are in a position in due course to establish the extent of interest in whatever assets we are seeking to dispose of, we cannot make any worthwhile judgment about the price that might be obtained. Finally the tax position of would be purchasers could be very important. I do not imagine you would be attracted by a dispersal paid for by the tax payer through the use of tax allowances.

You may be interested to have the enclosed preliminary paper which was prepared here as background to the problems which I have mentioned. I do not necessarily go along with all that is said in it, but you may think it a useful contribution at this stage.

I am sure you understand that I am not seeking to put difficulties in the way - this is not the case at all. It is however essential that we should all be clear about the complexities of these problems and that they cannot be resolved easily or quickly.

* on BNOC's assets, but that is quite different from a sales value

I should mention that Lord Kearton has advised that BNO's interests in the Viking gas field and in the Statjord oil field (which is mainly on the Norwegian side of the UK/Norway median line) might be disposed of with the least damage to the Corporation's financial performance and to the Britoil loan agreement. Lord Kearton estimates that £120-£130 million might be realised from disposing of these two interests, but we cannot regard this estimate, any more than any other valuation, as giving more than the roughest indication of the price we might obtain in an actual sale. Nor is it clear at this point that these assets in particular deserve to be considered as top priority.

As far as the British Gas Corporation are concerned, Sir Denis Rooke has agreed to achieve further savings of £120m. thus raising his cash limit for 1979/80 to minus £449m. I attach a note setting out his detailed proposals to that end. I have told him that in consequence imposed disposal of assets is no longer an immediate issue, though I made it absolutely clear that the Government could give no total immunity for the future on this point.

D A R HOWELL

*Yours ever
David*

BRITISH GAS CORPORATION

CASH LIMIT 1979-80

PROPOSALS TO MEET NEW GOVERNMENT LIMIT

OF £449 MILLION (NET REPAYMENT)

	£m.	£m.
1. Original Limit according to Treasury Release		259
2. Less £22m. cut not agreed with Corporation	22	
3. Less effect of delay in price increases because of Price Commission	23	45
4. Original Limit from Corporation's standpoint		214
Proposals to provide additional cash (£235m.) to meet new limit imposed:-		
5. Additional cash from price increases:-		
<u>Non-Domestic effective from 1.9.79</u>		
	£m.	£m.
5.1 4.3p per therm increase to 24.0p in the commodity rate of the Non-Domestic Tariff (overall average increase 21%)	29	
5.2 4.3p per therm increase to 23.8p in the base line for the renewal of Special Contracts for firm gas (increase 22%)	21	
5.3 1.0p per therm increase (market limit) in the base line for the renewal of Interruptible Contracts (6%)	6	56
<u>Domestic Tariffs</u>		
5.4 No increase until April 1980		
6. Additional cash from internal sources:-		
6.1 Capital	40	
6.2 Revenue	103	
6.3 Working Capital	36	179
		235