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Rt Hon Sir Keith Joseph Bt MP  
Ashdown House  
123 Victoria Street  
London SW1E 6RB

24 July 1980

Dear Secretary of State,

DISPOSAL OF BGC ASSETS

We agreed at E(DL)80 last month, that I should continue with discussions with BGC about the options for disposal of their oil assets. I accordingly asked Sir Denis Rooke to seek his Board's agreement that BGC should group their oil assets into a subsidiary company and sell a shareholding to the public as an alternative to the outright disposal of Wytch Farm. The BGC Board have now rejected this suggestion on the grounds that it would seriously impair the Corporation's performance of their duties and that it would not be in the Corporation's commercial interest. This was a predictable initial reaction. I am not prepared to accept it and indeed intend to pursue the matter further with the Corporation. I would expect them to co-operate after I have completed full consultation with them and our final decisions have been taken. It is clear however that, in the absence of BGC's full and immediate co-operation initially negotiations are bound to take some time and there is no possibility of producing income by this route before the end of the current financial year.

At the last meeting of E(DL) we contemplated the forced sale of Wytch Farm, on my Statutory Direction, if disposal of a shareholding in a subsidiary company proved impossible in the time required to produce money for the current year. I have in the light of BGC's attitude given further consideration to this possibility. If we proceed with the forced sale of Wytch Farm, it would be in the face of outright opposition from BGC, this nevertheless might be a course which we might be justified in running if we could be sure that the sale of Wytch Farm would produce money this year. I think it most unlikely however that a forced sale of Wytch Farm would in fact raise money in this financial year.

I am first obliged specifically and formally to consult BGC about my intention to dispose of Wytch Farm, and to satisfy myself in the outcome that the disposal will not impede or prevent the proper discharge of the Corporation's duties. BGC are bound to make a case against it. I will have to weigh that case and I may need further advice from the Attorney General at that stage. Even if it appears

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safe to issue a direction (without taking new legislation) it must be laid for 40 days not counting the Recess. It will thus take till December before BGC can seek bids for Wytch Farm ahead of negotiations with their field partner, British Petroleum, who have to be given up to 30 days to match any price. There might just be a chance of completing these negotiations by end of March, if all went smoothly. But I would rate it as very much an outside chance since we could hardly expect much co-operation from BGC or for them to be in a great hurry to end their role as operators of Wytch Farm.

Moreover, after November we shall be entering the Budget period. The Attorney General advised, in the context of the sale of BP shares last year, that the Government should be very careful not to seek to hide from potential purchasers anything which could have a bearing on their willingness to invest.

There is of course a difference between a sale of shares, either by flotation or by placement, and the sale by BGC of a specific asset pursuant to a statutory direction. Nevertheless I believe that we have to be sure that we could not be charged with concealing from a potential purchaser of BGC's Wytch Farm interest, information to which we were privy at the time of issuing a direction and up to completion of the sale, and which could have a bearing on the price to be offered for that asset. My officials are in contact with the Law Officers' Department on this issue. In the meantime, however, and bearing in mind the other factors mentioned above, I see a considerable risk that any sale of the Wytch Farm interest could not in any event take place before the Budget.

Furthermore if we proceeded with the forced sale of Wytch Farm, we would do so in an atmosphere of great acrimony with BGC. In the case of disposals of other nationalised industries we have been able to proceed with the support, grudging or otherwise, of the Board concerned. In the case of BGC, we would be imposing our decision unilaterally; we would have a major public row on our hands and our relations with BGC would inevitably be soured. BGC will also probably be able to enlist considerable political and press support against disposing of Wytch Farm by itself, as it is widely seen as something of a BGC success. In addition to their production activities there, they have an exploration team fully engaged in probing lower gas and oil bearing strata below the existing small field, which could well yield very much greater resources of oil and associated gas. Thus they are in mid operation. A wider divestment by introducing private capital into all their oil assets is much more likely to command support. We would also run the risk of forfeiting BGC's co-operation in achieving other important aims (such as on the gas-gathering line) which could have wide repercussions for a whole range of policies with implications for public expenditure.

I cannot therefore recommend that we proceed with the forced sale of Wytch Farm. While I fully recognise the Chancellor's concern on meeting the limits set for disposals this year, the forced sale of Wytch Farm

raises wide political issues and indeed the whole question of our future relationship with BGC. I must therefore ask that the disposal of BGC's assets should be discussed in E Committee rather than E(DL) which I do not think is the appropriate forum in which to discuss these wider issues.

I am sending a copy of this letter to the Prime Minister, Members of E and E(DL), the Attorney-General and Sir Robert Armstrong.

Yours sincerely,

R. D. WADE

pp. D A R HOWELL

(Approved by the Secretary of State  
and signed in his absence)

25 JUL 1957

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