

*by Mr. Haskins  
with [unclear]*

Prime Minister 2

Mr. Haskins is coming  
to discuss this with  
you on Wednesday.  
I will ask Ken Bennet,  
who is joining the meeting,  
for comments. 2

PRIME MINISTER

BNOC

I shall shortly be bringing forward to colleagues my proposals for the future of BNOC. But in the meantime it may be helpful to you to have an outline of my thinking. 9/11

The key issues are:

- i) to separate out the BNOC's existing activities between its trading operations (which we have already decided to retain) and its North Sea production operations and to settle the framework within which this should be done;
- ii) to enable the general public to achieve a wide interest in these North Sea assets as well as providing support for the PSBR.

On the first issue I attach at Annex A, a provisional draft of a paper to colleagues. The central feature is the retention of 100% control of BNOC's trading activities and the separation off of the upstream operation as a largely free-standing commercial enterprise in which Government would retain at least 25% of the equity.

On the second issue, I strongly believe that we have a major opportunity here not merely to raise substantial sums to help the PSBR but also to carry forward significantly the course of popular capitalism.

There are various ways in which this might be done and these are being considered with merchant banking advice. But the essential and immediate point is whether we as a Government are determined in principle to achieve this. I hope I can persuade you of the valuable long-term political impact on our society which a policy of this kind could have. It does not, of course, go as far as the North Sea equity idea floated by Samuel Brittan (copy attached) but it certainly carries us a long way forward in that direction.

← Finally, alongside decisions on the future structure of the Corporation I need to strengthen the Board and adapt it to its future role. Utiger has now taken over as Chairman, and I should like to add a full-time Deputy Chairman before long in addition to the part-time Deputy Chairman Lord Croham. For this post I have in mind David Montagu, with a view to his taking over from Utiger next summer. I also have in mind to appoint a full-time member with executive responsibility for the offshore operations, and would like Matt Linning (formerly in charge of BP's Forties Field development) to take this on. I would like to strengthen the part-time membership, in the first place by adding Alcan Copisarow (formerly of McKinsey's); to reappoint Ian Clark as a full-time member for a normal term, and possibly to make one other Board appointment from the Corporation's present executive management.

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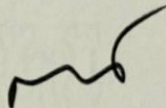
I shall aim to secure the Board's help, and particularly their technical help, in working out the proposals for the Corporation's future, and I am keeping in close touch with Utiger for this purpose.

Generally I should add that the preparation of the necessary legislation to give effect to our plans is a matter of urgency. It will be a complicated and difficult exercise and we need to settle the framework as soon as possible.

I am copying to the Chancellor of the Exchequer. Officials of Treasury and of CPRS have joined in discussions with mine about the proposals in Annex A but it is not an agreed paper, and as I have said there are aspects which I am considering further before consulting colleagues. Should you feel that we are on the right lines on the wider-ownership aspect then I would also value Cabinet Office and Treasury co-operation in carrying through and presenting our plans to the public in the most effective way.

SECRETARY OF STATE  
8 NOVEMBER 1979

JA.  
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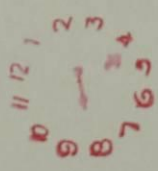
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GOVERNMENT OF CANADA  
SECRETARIAT OF THE TREASURY

1-8 NOV 1979



BNOC : FUTURE STRUCTURE AND PRIVATE SECTOR PARTICIPATION

1. Colleagues agreed at E Committee on 11 September, that following the decision not to proceed for the time being with BNOC asset disposals, I would bring forward proposals for private sector participation in BNOC's upstream operations.
  
2. This paper sets out the broad approach which I propose to adopt towards such participation. It deals with questions of policy concerning structural relationships between the Government, BNOC's trading operation and its upstream operation. Once these are settled, detailed privatisation plans can be prepared and a start made to prepare legislation for introduction later this session.

Structural relationships

3. My main objectives in a structural re-organisation are:-
  - a. to ensure maximum security of national oil supplies by the best method available;
  
  - b. to achieve the widest possible spread of ownership by the British public in BNOC's upstream operations, bearing in mind effects on the PSBR (See Annex 1);
  
  - c. to ensure the continued development of a major British oil company on the UK Continental Shelf, based on BNOC's upstream operations;
  
  - d. to reduce the public sector.



These objectives require separation of the two operations so that the Government may retain 100% control of the trading side, while relinquishing a part of its stake in the upstream side. The former - BNO (Trading) - will be the existing public corporation; the latter - BNO (Operating) - almost certainly a Companies Act company, in which any public sector stake would be held by the public corporation. (NB. I give these names for sake of convenience. BNO (Operating) might more suitably be given quite a different name e.g. British Oil Exploration and Development Co. Ltd). The dividend from this stake could materially assist the public corporation to maintain proper financial viability - despite the relatively high risk nature of its trading operations.

Size of public sector stake in BNO (Operating)

4. I believe there is clear advantage - both in terms of our political commitment to the nation and to ensure commercial and operational efficiency - in BNO (Operating) being a free-standing commercial company unequivocally under private sector management and control. Abnegation of public sector control will also bring substantial benefits to the PSBR in the year of disposal from the proceeds of privatisation although as Annex 1 shows there would be some losses to the PSBR in later years.

5. A public stake of 51% or more would permit Government intervention in the company's management and so would be inconsistent with this approach, and a deterrent to private sector investment. I do not believe a BP-type formula on the lines of the Bradbury/Bridges letters would alter this position since it is the long history of non-intervention rather than these letters in themselves which engenders investor

confidence in BP.

6. I therefore favour retention of a lesser stake. A minimum 25% stake would be needed to block changes in the Memorandum or Articles of Association of the Company. This would enable us to ensure that the company maintains, as a primary objective, exploitation of the UKCS, and thus would remain as a major British presence here. I therefore recommend that at this stage we retain a 25% stake : it will be open to us to dispose of the balance at a later stage if we so decide.

Government powers over BNOC (Trading) and BNOC (Operating)

7. The rationale for retaining BNOC (Trading) is to be able to improve the UK's security of oil supplies, and the emphasis should be concentrated on this. Accordingly I recommend that the initial activities of BNOC (Trading) should be essentially those of an oil trader, and holder of the public sector stake in BNOC (Operating). Any extension of these activities, upstream or downstream, should not take place without my prior consent, and the powers of consent currently afforded by the Petroleum and Submarine Pipe-lines Act 1975 should be widened accordingly. (NB. Colleagues will also wish to note at Annex 2 certain EEC considerations I have also taken into account in this connection).

8. I also recommend that we should take powers to control BNOC (Trading)'s transactions in shares in the upstream subsidiary, both to ensure that without the consent of Government its holding does not fall below 25% and that it does not repurchase shares but has the powers to take up rights issues.

9. These changes apart, I see no reason to change the Government's



relationship with BNOC (Trading) from that prescribed in the 1975 Act, except to sever the connection with the National Oil Account, to abolish the statutory advisory duty and perhaps to remove the statutory obligation to have two Civil Service Members. (I suggest that this should be a discretionary rather than mandatory matter, according to the merits of the case).

10. I do not consider we should retain powers over BNOC (Operating) except indirectly through the exercise by BNOC (Trading) of its rights as shareholder. A Government veto, or the right to appoint directors would be inconsistent with the commercial independence I envisage. But the Government would appoint the initial Board (prior to privatisation) and should ensure that any BNOC (Trading) appointees are subject to Government approval.

#### Scope of BNOC (Operating)'s operations

11. I see no reason to impose any constraints on the scope of this company's operations, apart from ensuring that its primary objective is exploitation of the UKCS. There will of course need to be oil options in favour of BNOC (Trading).

#### BNOC (Trading)'s access to BNOC (Operating)'s oil

12. The purpose of retaining full control over BNOC (Trading) is to maximise our ability to influence BNOC (Trading)'s disposal in the national interest. This points to retention by BNOC (Trading) of the maximum quantities of oil, and thus to rights over 100% of BNOC (Operating)'s UKCS oil. On the other hand a commercial role for BNOC (Operating) and successful privatisation demand ability to retain and

trade in crude oil and products.

13. If BNOC (Operating) was able to retain 49% of its own UKCS oil, like other companies, this would emphasize the private sector status of BNOC (Operating) and so increase its attractiveness to investors; it would allow some 3 to 4m tons per annum in the early 1980's out of the public sector net, which would be a reasonable basis for BNOC (Operating) to establish a crude oil downstream operation, but would cut overall amounts under control of the Government and BNOC (Trading) by that amount.

#### Conclusions and recommendations

14. I invite my colleagues to agree to the approach described in this paper, including specifically that

- (a) The public sector through BNOC (Trading) should retain a stake in BNOC (Operating) of ~~25%~~ 25%;
- (b) BNOC (Trading)'s functions should be those provided in the Petroleum and Submarine Pipe-lines Act 1975 , but my consent should be required for upstream operations and for any downstream operations other than crude oil trading;
- (c) BNOC (Operating) should not be subject to any constraints



except oil options to BNOC (Trading).

- (d) Government should have no special powers over BNOC (Operating) but should have the power to approve BNOC (Trading)'s appointees.

#### Legislative Implications

15. Legislation will be needed to implement the above proposals; and to reform the National Oil Account so that BNOC's connection with it is completely severed (although the account itself will be retained to handle royalty and licensing monies). I also intend to take the opportunity of such legislation to make some tidying-up amendments to the Petroleum and Submarine Pipe-lines Act 1975 which have been found to be necessary as a result of its operation in the last 4 years. [Include reference to Gas Storage provisions if current uncertainties are resolved in time]. A summary of the legislative provisions thus envisaged is given in Annex 3. I invite my colleagues to agree that these should form the basis of instructions to Parliamentary Counsel.

#### Timetable

16. I would hope to be in a position to introduce the legislation in February : it is likely, however, that its passage will not be completed until the end of the session. In the meantime work will be carried forward to prepare detailed plans for privatisation, with a view to proceeds being received in 1980/81 or as soon as possible thereafter.

#### Parliamentary Announcement

17. As soon as the route for privatisation has been settled I will make a statement to Parliament in terms agreed with my colleagues.

BNOG  
PSBR CONTRIBUTION OF ALTERNATIVE CASES

	80/1	81/2	£m outturn 82/3	83/4
1. BNOG STATUS QUO				
(a) Net financing (ie. net inflow from operations less capital requirements.	(122)	( 10)	20	74
(b) Dividend - amount kept within public sector .	34	58	60	61
(c) Tax (PRT) - amount kept within public sector.	35	138	291	359
(d) Privatisation.	-	-	-	-
TOTAL	(53)	186	371	494
2. BNOG (Operating) 51% PUBLICLY OWNED - COUNTED AS "PRIVATE SECTOR"				
(a) Net financing. (Public sector has no receipts from operations; capital expenditure not counted towards PSBR)	-	-	-	-
(b) Dividend - amount received by public sector.	17	29	30	30
(c) Tax (PRT) - amount received by public sector.	35	138	291	359
(d) Privatisation.	500	-	-	-
TOTAL	552	167	321	389
3. BNOG (Operating) 25% PUBLICLY OWNED - "PRIVATE SECTOR"				
(a) Net financing (as in 3 (a)).	-	-	-	-
(b) Dividend - amount received by public sector.	9	14	15	15
(c) Tax (PRT) - amount received by public sector.	35	138	291	359
(d) Privatisation.	750	-	-	-
TOTAL	794	152	306	374

NOTES. (i) In cases 2 and 3 it is assumed that capital expenditure is financed from private sector borrowing and does not count against the PSBR.



(ii) This table includes estimates of PRT payable during the period (on Ninian, Thistle, Dunlin, Murchison, Statfjord and Beatrice). It does not assume any provision for deferred PRT.

(iii) Dividend is assumed to be 50% of post tax profit : (this is excluded from line (a)).

(iv) Year-by-year breakdown based on the simplifying assumption that all the proceeds of privatisation are received in 1980/81.

EEC Implications

Article 90 of the Treaty of Rome confers on BNOC, as an undertaking entrusted with the operation of services of general economic interest, an exemption from certain of the competition provisions of the Treaty. On the other hand, Article 37 prevents the Government from using BNOC (as a body over which it may exercise powers of control) as a means of directly or indirectly influencing exports or imports between Member States so that (in theory at any rate) a transfer to BNOC (Operating) of upstream operations might even be advantageous in this respect. In any event, it has to be recognised that the activities of BNOC (Trading), with a diminished role, would be more easily scrutinised by EEC authorities, so any arrangements whereby it undertook non-trading activities or maintained control over BNOC (Operating) might help to mask the trading activities. The more restricted the scope of BNOC (Trading)'s activities the greater the risk of successful challenge of a policy for disposal which appeared to contravene the Community's requirements. On the other hand, EEC interest in BNOC (Trading) will in any case centre on the trading activities. It is a matter of judgement what real protection we can expect to achieve by masking the trading activities, and to what extent EEC considerations would in fact inhibit us from pursuing as fully as we might wish an oil disposal strategy directed towards ensuring our national security of supply.