

PRIME MINISTER

Future of BNOC

It was left at E Committee this morning that E(DL) Committee should look at the options for disposing of BNOC assets again on Thursday. But you also suggested that there might be a preliminary meeting of some of the key Ministers. I think you had in mind, in particular, that Mr. Nott should have his say.

Mr. Howell and Mr. Nott have this afternoon discussed this. They have agreed that a possible way forward would be for Mr. Howell to make a statement before the Recess which would say the following:

- (i) BNOC is far too big and must be slimmed down at the very least.
- (ii) All its upstream assets will be transferred to a subsidiary.
- (iii) The sixth round licenses are confirmed.
- (iv) The Government will consider urgently what assets should be sold off from the subsidiary.

This approach has the advantage of enabling Mr. Howell to say something about the future of BNOC and thereby ending the uncertainty; it means that the sixth round of licenses goes ahead and thus avoids the alleged disturbance of North Sea exploration; and it keeps all the options open on the sale of assets. Either the whole subsidiary could be sold off, which is of course BP's preferred option; alternatively, some of the subsidiary's assets could be sold; a further possibility is that the subsidiary could be "privatised" with shares being sold partly to private investors, partly to the oil companies, and some possibly retained by HMG.

This approach will not immediately meet the Chancellor's need because it does not spell out what assets will be sold. However

it is worth considering. E(DL) will consider, and report back to you.

TL

17 July 1979