



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

1 August 1980

The Rt. Hon. David Howell, MP.,
Secretary of State for Energy

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Dear Secretary of State,

DISPOSAL OF BGC ASSETS

I have seen your letter of 24 July to Keith Joseph explaining the outcome of your discussions with Sir Denis Rooke, and your resulting doubts about proceeds from the disposal of BGC assets this financial year. I have also seen Michael Havers' letter of 29 July.

I am not, of course, surprised at your conclusion that the oil asset subsidiary route will not bring in proceeds this financial year, especially now that you have established that the Corporation are not well disposed to the idea. It is clear from the discussion at E(DL) that this outcome was expected by all parties, and that the only realistic way of raising your contribution to this year's asset disposals target was by a sale of BGC's share in the Wytch Farm oil field. You recognise in your second paragraph that, despite the outright opposition from BGC, this nevertheless was a course which might be justified if we could be sure that the sale of Wytch Farm would produce money this year. The position on the asset disposals programme so far leads me strongly to reiterate the position we have consistently taken on Wytch Farm, that we must go for proceeds this year if at all possible. For reasons I discuss below, I do not at this stage share the degree of doubt you have about this outcome, and there is no question that we can abandon the proposal at this stage.

The position on the asset disposals programme as a whole is largely as it was reported to the E(DL) meeting on 24 June, though if anything with rather reduce prospects from the candidates available to us. Our latest estimate of the proceeds from the "fairly firm" options is now around some £450m, compared with a target of £630m; and the candidates, apart from your own, in the "other possibilities" category are no more certain than they then were. It remains my opinion that we should regard it as of major concern if we were to fall short on our asset disposals exercise this year.

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It is not only a question of the benefit to the PSBR from the individual proceeds, but a question of confidence in the Government's ability and determination to carry through our strategy. Without Wyitch Farm, the prospects of achieving this target are severely limited.

I recognise that BGC's opposition is an unfortunate aspect of this proposal, but it is not a new one. We have always known that the Corporation would oppose the sale of the Wyitch Farm oil field. You have repeatedly been invited to pursue this possibility, more recently coupled with your own preferred course of selling equity in an oil field subsidiary. Now that BGC's opposition to the latter course has been added to the already severe doubts whether it could have brought in proceeds in 1980-81, we are left with Wyitch Farm. I do not accept that it is impossible to bring proceeds in this financial year from the sale of Wyitch Farm, and I do not believe that the Corporation's opposition is sufficient reason not to pursue it, with the greatly reduced prospect for the asset disposals target that this would bring.

Certainly, the timetable will be tight. But Michael Havers' letter confirms my own feeling that the difficulties are not as great as you suggest in your letter. I note his view that you may be able to form a view favourable to the disposal of Wyitch Farm without amending the Gas Act 1972. Naturally you will have to go through the consultation procedure and the process of coming to a judgement about the effects of a sale on the proper discharge of the Corporation's duties which you outline in your third paragraph. But unless the view you are then able to come to is inconsistent with section 7(2) of the Act, I do not see that the process of consultation and laying a direction would place a serious constraint on your ability to achieve the sale of Wyitch Farm this year.

I was also glad to see Michael Havers' firm conclusion that your ability to direct a BGC sale of Wyitch Farm would not be constrained by the Budget. I recognise the apparent similarities to the BP share sale that led you to consult the Law Officers on this point, but I can only agree with the Attorney that this does not seem a real problem here. This clearly removes one of the main timing difficulties you had foreseen.

Once you have demonstrated your determination to direct the Corporation by laying the necessary instrument before the House, you should be able to achieve a degree of co-operation from BGC in setting negotiations in hand, even before the direction takes effect. Nor could I accept that, once under direction from yourself, it would be right for us to suppose that BGC would - or would wish to - frustrate our objective.

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We are, of course, to discuss these matters in E Committee next week. If your own worries about the available time are not to be reinforced, it is imperative that you undertake the necessary consultations and preparations before we return in the autumn, so that the direction - if BGC remain intransigent - can be laid as soon as possible when the House returns.

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.

R. Tolmie (Private Secretary)

for

GEOFFREY HOWE

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