

Energy

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~~Mr. Layton~~ ^{MS} (Colr)

p.a.

27 December 1979

R. 28/12

The Rt Hon Norman St John Stevas MP
Chancellor of the Duchy of Lancaster
Privy Council Office
Whitehall SW1

Dear Chancellor of the Duchy,

PETROLEUM AND SUBMARINE PIPELINES BILL

As a result of the E Committee meeting on 12 December and further discussions under the chairmanship of the Prime Minister on 21 December, colleagues have now accepted my proposals for the restructuring of the British National Oil Corporation, endorsed the objective of introducing private capital into the reorganised Corporation and agreed to the drafting of the necessary legislation.

I am now writing to seek your authority to enable us to submit drafting instructions on the legislation to Parliamentary Counsel. The intention is that the Bill should be used both to meet our objectives in relation to BNOC and to secure other desirable amendments to the Petroleum and Submarine Pipelines Act 1975, and other legislation. A full summary of the measures to be covered is annexed.

No final decisions have yet been taken on the timing of the introduction of private capital into the reorganised BNOC and, in consultation with the Chancellor of the Exchequer, I shall be putting forward proposals on this to colleagues shortly. If, however, we are to retain the option of introducing at least some private capital during 1980/81 the Bill will have to be enacted this Session. This suggests that it should be prepared as soon as possible for early introduction, which will be necessary even with the use of the guillotine.

Some further consultations with other Departments will be needed on certain matters of detail before full and final instructions on the BNOC provisions can be given to Counsel. But draft instructions on many of the non-BNOC provisions are now ready to be sent to Counsel and we would expect to be in a position to send the remainder, as they become available, over the next few weeks. This piecemeal approach, although we would have preferred to avoid it, should work satisfactorily since the provisions on which instructions are still being drafted are not related to those on which instructions are ready.

I hope therefore you will agree that time can be made available for Parliamentary Counsel to start work immediately on those provisions which are ready and that he will be able to give high priority to drafting the BNOC provisions as and when they are ready.



Copies of this letter go to the Prime Minister, the Chancellor of the Exchequer, the Attorney General, and to Sir Robert Armstrong.

Yours sincerely,

W. J. Burroughs

for

D A R HOWELL

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

28 DEC 1979



BNOC RESTRUCTURING : SUMMARY OF LEGISLATIVE PROVISIONS REQUIRED

- (i) BNOC (Trading) is to be empowered :
- (a) to convert an existing subsidiary company into or create a new subsidiary company as BNOC (Operating);
 - (b) to provide BNOC (Operating) with the requisite powers (see paragraph 12);
 - (c) to transfer the relevant assets to BNOC (Operating);
 - (d) to dispose of some or all of its shares in BNOC (Operating) to outside investors;
 - (e) to transfer the proceeds from the sale of the shares to HMG (subject to determination of BNOC (Trading)'s future financial structure - (see paragraph (iii) below).
- (ii) The Secretary of State is to have power to ensure that BNOC (Trading) :-
- (a) performs the tasks specified in paragraph (i) above;
 - (b) maintains an appropriate shareholding in BNOC (Operating) - (see paragraph 9);
 - (c) in respect of companies in which by virtue of its shareholding it may appoint directors, to appoint only those directors which have the approval of the Secretary of State - (see paragraph 11);
 - (d) is not able to operate upstream or downstream without the Secretary of State's consent - (see paragraph 7).

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- (iii) BNOG (Trading) is to have its finances severed from the National Oil Account and other financial arrangements substituted. (Proposals which are summarized in Annex 5 will be cleared with Treasury and other interested colleagues).
- (iv) The obligation to appoint civil servant members of BNOG (Trading) is to be abolished.
- (v) BNOG (Trading)'s statutory advisory function is to be abolished.
- (vi) The scope of Section 2(4)(b) (constraints over the power of BNOG (Trading) to operate downstream without the consent of the Secretary of State) is to be clarified.

N.B. It may be necessary to make further legislative adjustments in connection with privatisation. The position will be clearer once more detailed proposals on this aspect have been settled.

AMENDMENTS AND ADDITIONS TO OFFSHORE PETROLEUM LEGISLATION

- (vii) Existing provisions of the Petroleum and Submarine Pipelines Act 1975 are to be amended to:-
- (a) extend the Secretary of State's powers regarding compulsory increase of pipeline capacity and acquisition of rights by third parties [and to simplify the procedure for the authorization of minor offshore pipelines;]
 - (b) modify the Secretary of State's powers to make regulations concerning the construction and safe operation of pipelines;
 - (c) make provision for receipts and payments in connection with petroleum licences; which are presently handled through the National Oil Account;

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Trading H. *June 11*

- (d) improve the arrangements for the calculation and payment of petroleum revenues to Northern Ireland and the Isle of Man;
 - (e) remove the Secretary of State's powers concerning payments to petroleum licence holders in respect of participation agreements;
 - (f) give the Secretary of State power to make royalty refunds in cash irrespective of whether royalty is collected in cash or kind;
 - (g) clarify certain of the arrangements for the calculation and payment of royalty and delivery of royalty in kind;
 - (h) simplify the method of calculating gas/oil equivalence;
 - (i) give the Secretary of State power to issue mutually agreed variations to development programme consents;
- (viii) The definition of Inland Waters in the Mineral Workings (offshore Installations) Act 1971 is to be clarified to remove doubt as to the Act's application to tidal inland waters.
- (ix) New provisions are to be made to :-
- (a) enable the Secretary of State to regulate the offshore storage of gas;
 - (b) enable UK civil and safety laws to be applied to all installations and their surrounding safety zones servicing petroleum fields which extend into sectors of the continental shelf appertaining to other States;

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extend the Secretary of State's powers relating to the establishment and operation of safety zones;

- (c) extend the Secretary of State's powers relating to the establishment and operation of safety zones;
- (d) extend the powers conferred on Constables in relation to installations to cover the area of the surrounding safety zones;
- (e) abolish the need to lay Statutory Instruments relating to the establishment of safety zones (they would still be subject to scrutiny by the Joint Committee on Statutory Instruments);
- (f) give powers for the revocation of Designation Orders for the purpose of consolidation.

PP3
Department of Energy
21 November 1979

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