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ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

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20 July 1979

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON S W 1

Prime Minister

*R
23/7*

Dear David,

DISPOSAL OF ASSETS BY BNO

At E(DL) yesterday the possibility was discussed that BNO might transfer its upstream assets to a wholly-owned subsidiary and then arrange for a sale of all the shares in that subsidiary to BP. In this way, it has been said, the pre-emption and other restrictive conditions on sale by which BNO is bound under various UKCS agreements would not have to be observed. This course has been described as the "corporate route".

Today I had a meeting with the Legal Adviser to BP and we went over the ground with lawyers from your Department. Treasury Counsel was also present. It turned out that Mr Pritchard (BP) has only advised his Chairman on a hypothetical basis and had not seen any of the documents that are relevant.

I was not persuaded by the BP arguments and I must confirm my earlier advice that the "corporate route" is not safe for HMG to adopt. In my view the only proper course is to negotiate for a sale under the terms of the UKCS agreements, with the object of getting all the necessary consents. Treasury Counsel and your lawyers agree.

I will enlarge on this at our meeting on 23 June and at the meeting of "E" Committee on 24 June but I thought it as well to give you advance notice of the position.

This is copied to the Prime Minister, all members of "E" Committee, the Financial Secretary (Treasury), the Lord Advocate and Sir John Hunt.

*Yours etc.
Michael.*

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