

E(79) 6th Meeting

COPY NO

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held
at 10 Downing Street on
TUESDAY 24 JULY 1979 at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP
Secretary of State for Defence
(Items 2-4)

The Rt Hon George Younger MP
Secretary of State for Scotland
(Item 2)

Mr Nigel Lawson MP
Financial Secretary
Treasury
(Item 1)

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
(Item 2)

Revised 27 July 1979

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The Rt Hon Patrick Jenkin MP
Secretary of State for
Social Services
(Items 2-4)

The Rt Hon Angus Maude MP
Paymaster General
(Item 4)

The Rt Hon Norman Fowler MP
Minister of Transport
(Item 4)

Mr Paul Channon MP
Minister of State
Civil Service Department
(Item 2)

The Rt Hon Mark Carlisle QC MP
Secretary of State for
Education and Science
(Items 2-4)

The Rt Hon Sir Michael Havers QC MP
Attorney General
(Item 1)

Mr Neil Marten MP
Minister of State, Foreign and
Commonwealth Office and Minister
for Overseas Development
(Item 1)

Sir Kenneth Berrill
Head of Central Policy Review Staff

SECRETARIAT

Sir John Hunt
Mr P Le Cheminant
Mr P Mountfield
Mr G D Miles
Dr N B W Thompson
Mr A S D Whybrow

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1. FUTURE OF BNOC

Previous reference: E(79) 5th Meeting, Item 6.

THE COMMITTEE resumed its discussion of the future of the British National Oil Corporation (BNOC), and of the scale of disposals of oil assets in the North Sea in 1979-80. It had before it the earlier papers E(79) 20, 21, 22 and E(DL)(79) 6, together with a minute from the Secretary of State for Energy dated 18 July, containing modified proposals for the future of BNOC; a minute from the Chancellor of the Exchequer dated 19 July commenting on this; a minute from the Chancellor of the Exchequer dated 20 July reporting discussions in E(DL); a minute dated 20 July from the Attorney General, giving legal advice on the method of sale of BNOC assets; a minute dated 20 July from the Secretary of State for Energy about future offshore licensing, to which was attached the draft of a Parliamentary answer which he proposed to give later that week; and a minute dated 23 July from the Secretary of State for Energy covering a draft of the statement he proposed making to Parliament on Thursday 26 July about oil policy generally.

THE CHANCELLOR OF THE EXCHEQUER said that it had become clear, in discussions in E(DL) and between Ministers informally, that there were two interlocking sets of issues concerned with the future of BNOC and with the scale of disposal of its assets. In his Budget speech he had announced that public assets to the extent of £1 billion would be disposed of during 1979-80. To maintain credibility it was important to meet this objective. Some £270 million was in hand already, including about £100 million from the National Enterprise Board, £80 million from various miscellaneous sources, £70 million from the New Towns Corporations, and £50 million from the Radio Chemical Centre Ltd, (Amersham) (TRC) (subject in the last case to confirmation and to the approval of the necessary legislation). To bridge the rest of the gap, three different proposals had been made. First it might be possible to sell all or most of BNOC's upstream assets to BP in a single package. Next, it would be possible as in his original proposal, to sell about £600 million worth of BP shares, together with smaller scale disposals of assets of around £200 million by BNOC and possibly the British Gas Corporation (BGC). Finally, a compromise had emerged, under which fewer BP shares would be sold, and the scale of disposals of BNOC (and possibly BGC) assets would be increased. The package sale to BP would be on such a scale that the company would need to make a rights issue to finance it. If the Government did not take up its option under this issue, its holding

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would fall to about 42 per cent. Moreover, to proceed as BP had suggested, through the purchase of shares in a subsidiary company in which BNOG's assets would be vested, would override the interests of other partners in the oil fields concerned. It might be possible to dispose of their objections by negotiation, but there were 35 or more companies involved and this would take time. BP now shared this view. The objections to the second option, a sale of BP shares worth £600 million, had been voiced at the previous meeting. The third option would require the sale of about 8 per cent of the BP shares at a price of about £350 million, leaving the Government with the same holding as it would retain under the first option. It would be necessary to look to BNOG, and probably to BGC as well, to find assets to yield the remaining £400 million. This would leave BNOG as a realistic operation, without prejudging the eventual introduction of private capital into the Corporation's remaining activities. It was the course he advocated. But an early decision was needed, if the BP shares were to be sold, as the Bank of England had advised, with payment by two instalments, both falling within the present financial year.

THE ATTORNEY GENERAL said that he had discussed with representatives of BP the possibility of a block sale by means of shares in a subsidiary company. This was the course which the company would normally have chosen to follow themselves. The company agreed that it involved a risk of challenge from any one or all of the other partners in the fields concerned, who might apply to the courts for an injunction to stop the sale. This was a risk which BP might have been prepared to accept on their own account, but which the Government could not afford to run. It would be preferable to seek to negotiate separately with each of the companies involved, and to persuade them to forego their contractual rights under the present agreements.

THE SECRETARY OF STATE FOR ENERGY said that the Chairman of BP had that morning suggested a further alternative, under which the company would seek to buy out the existing rights of the other licensees. This would of course be reflected in the purchase price.

In discussion, there was general agreement that BNOG's activities should be curtailed. There was no case for retaining its advisory role to Government, nor its membership of the operating committees of fields in which it had no equity stake. But the access to oil which it derived from its participation agreements was in present circumstances important and should be retained for

the time being. Some of its upstream equity interests should be sold in the present year as part of the disposal operation. No final decisions need be reached at this stage about the remainder, given that it was impracticable to proceed with the package sale to BP. The possibility of a sale by the British Gas Corporation (BGC) of its onshore oil field at Wytch Farm should not be ruled out at this point. BNOG was over-committed to exploration, and should be directed to dispose of some of its interests under earlier license rounds.

In further discussion, it was argued that it was now important to proceed with the allocation of sixth round licenses in order to maintain momentum in the North Sea. It might also be desirable to make an announcement about the Government's intentions in the seventh round. However, the scale of seventh round licensing raised important questions of depletion policy which the Committee had not yet considered. It might therefore be preferable to defer decisions on the seventh round, provided it were made to clear publicly that it would proceed in due course.

In further discussion, it was argued that it would be important, to maintain the credibility of the Government's overall financial policy, to proceed with sales totalling £1,000 million in the current financial year. However, it might prove possible to find other public sector assets, both in Government Departments and in the nationalised industries and other public corporations, which could be sold quickly to yield additional sums. All Departments should be asked to co-operate in the search for such assets, particularly in order to avoid the need for sale of BP shares, at least on the scale originally proposed.

THE PRIME MINISTER, summing up the discussion, said that the Committee had now agreed about the future role to be played by BNOG. It should lose its statutory role as adviser to Government, and should give up its automatic membership of the operating committees of those fields in which it was not an equity partner. It should retain its trading role, under which it had access to 51 per cent of oil produced from the North Sea fields, subject to buy back arrangements. BNOG's upstream assets should be reduced, though no final decisions need be taken at this stage on the scale of disposals. BNOG should be directed to dispose of some minor exploration obligations under earlier licensing rounds, for the best price possible. It had already been decided to remove BNOG's exemption from Petroleum Revenue Tax (PRT). BNOG should

would fall to about 42 per cent. Moreover, to proceed as BP had suggested, through the purchase of shares in a subsidiary company in which BNOC's assets would be vested, would override the interests of other partners in the oil fields concerned. It might be possible to dispose of their objections by negotiation, but there were 55 or more companies involved and this would take time. BP now shared this view. The objections to the second option, a sale of BP shares worth £600 million, had been voiced at the previous meeting. The third option would require the sale of about 8 per cent of the BP shares at a price of about £350 million, leaving the Government with the same holding as it would retain under the first option. It would be necessary to look to BNOC, and probably to BGC as well, to find assets to yield the remaining £400 million. This would leave BNOC as a realistic operation, without prejudging the eventual introduction of private capital into the Corporation's remaining activities. It was the course he advocated. But an early decision was needed, if the BP shares were to be sold, as the Bank of England had advised, with payment by two instalments, both falling within the present financial year.

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lose its privileged access to the National Oil account for investment capital. There was no objection in principle to the creation of a subsidiary company to which some or all of BNOc's assets might be transferred, though it did not seem essential to do so immediately. The sixth round licenses in the North Sea should be allocated on the basis already provisionally determined. BNOc should be extricated from its involvement in these licenses once they had been issued. No decision should be taken about the extent, nature or timing of a seventh round licensing until the Committee had considered future oil depletion policy on the basis of a further paper from the Secretary of State for Energy and no answer should be given to question on this issue until decisions had been reached. The Secretary of State should circulate a fresh version of his proposed Parliamentary statement as quickly as possible for clearance by colleagues: it could refer, if necessary, to the fact that a seventh round of licensing was in preparation but could give no details. The Committee noted that it was not practicable to proceed with a block sale of all BNOc's upstream assets to BP. The Secretary of State for Energy should, in consultation with BNOc and BGC and with BP, arrange for sales of assets by BNOc and BGC which would yield a net £400 million in 1979-80. In doing so, he should either arrange for BP to buy out the rights of BNOc's other partners, allowing for this in the purchase price, or seek to persuade the other partners that they should forego their rights. If BP were not willing to purchase all the assets required, the remaining purchasers must be British companies. No public announcement of this intention should be made at the present stage. The Financial Secretary, Treasury, should arrange for all Government Departments to review their property holdings, and those of nationalised industries and other authorities for which they were responsible, to see whether additional realisations could be made during 1979-80. The Committee would meet again in the third week of September to review progress in the sale of oil assets, and the possibility of other sales by other Government Departments and Agencies. At that time the Committee would decide whether, and if so how many, BP shares should be sold to make good any shortfall in the overall target. No overt preparations for the sale of BP shares should be undertaken meanwhile.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion, and invited the Secretary of State for Energy and the Financial Secretary, Treasury to be guided accordingly.

2. REVIEW OF THE DISPERSAL PROGRAMME

The Committee considered a memorandum by the Lord President of the Council (E(79) 26) covering a report by officials and recommending a major reduction in the size of the Civil Service dispersal programme.

THE LORD PRESIDENT OF THE COUNCIL said that in 1974 the previous Administration had announced a dispersal programme involving some 30,000 Civil Service headquarters posts. Moves involving 5,000 posts had been completed. The remaining dispersal programme was very expensive (over £250 million up to the end of 1983-84) and offered dubious benefits in terms of the future efficiency of the Service. The Government had announced on 11 June that it was reviewing the remainder of the programme. The review had been conducted by officials whose report included a set of costed options. Option 1 comprised the five moves which the Ministers responsible wished to see continued - the Manpower Services Commission to Sheffield, the Export Credits Guarantee Department to Cardiff and the Council for Small Industries in Rural Areas to Salisbury, all of which were in progress, plus the moves of the Stationery Office Laboratory to Norwich and of 90 Customs and Excise posts to Southend. Option 2 comprised in addition to the moves in Option 1, the use of offices now under construction at Bootle for up to 2,300 staff and at East Kilbride for 650 staff. The Home Secretary and the Secretary of State for the Environment were prepared to send 150 and 100 staff respectively to Bootle, and the offices at East Kilbride were earmarked under the current dispersal programme for the Overseas Development Administration. Option 3 gave two additional packages of moves which might be considered on regional grounds. The first package gave 3,000 extra posts split equally between Merseyside and Glasgow. The second gave, in addition to these, a further 1,550 posts to Glasgow and 3,000 to the North East. Option 4 represented the existing programme modified only by the cancellation of the move of the Laboratory of the Government Chemists from London to West Cumbria, and by the dispersal to Glasgow of posts from within London in substitution for the 4,000 Ministry of Defence posts due to go there from locations other than London under the previous Administration's plans. On grounds of Government efficiency and reducing manpower, he recommended the Committee to choose Option 1, though

he recognised that regional considerations might lead the Committee to decide on Option 2 or Option 3. Whatever the decision, it would need to be announced to Parliament. It was important that the announcement should be made before the Summer Recess, since as long as it was delayed work on the existing programme would continue at the cost of £800,000 a month.

In discussion, it was strongly argued that both on political and on regional policy grounds it was essential that the agreed dispersal package should include a substantial element for Scotland. The Scottish element in Option 3i would be a reduction from the previous Administration's plans but this could be justified on the grounds that they had taken a misguided decision to disperse some 4,000 posts to Glasgow from outside London, and that the present Administration had reversed this decision. It was essential for the package to contain at least 2,000 posts, of which 650 should go to the building now under construction at East Kilbride, and the remainder to Glasgow. Within Glasgow, the St Enoch's site was more important than the Anderston site, and should have priority as the dispersal location.

In further discussion, it was argued that the claims of Wales had not been given sufficient weight. Cardiff seemed to have been rejected as a dispersal location because it had a lower unemployment rate than Merseyside or Glasgow, but the proposed offices at the St Mellon's site would draw some of their staff from the hinterland of Cardiff where unemployment was high. The proposed dispersal of Ministry of Defence staff to this site was also the most cost-effective dispersal in the programme. Cardiff was less than 2 hours by train from London and was conveniently close to the existing Ministry of Defence establishment at Bath. It was also argued that the problems of Merseyside demanded attention. The Crown Office nearing completion at Bootle could be used for dispersal at relatively low cost. Scotland might be the most sensitive area politically as far as dispersal was concerned, but the likely reaction in the North East and North West of England to the cancellation of plans to disperse work there should not be underestimated. On the other hand it was pointed out that the public expenditure cuts agreed by the Cabinet implied a dispersal programme no greater than Option 2 plus the Scottish element of Option 3i. If the Committee wished to go further than this there would be a need to consider making offsetting savings.

In continued discussion, it was argued that in going beyond Option 1 the Committee need only decide what numbers of staff were to disperse and where to. There was no need to identify dispersing Departments. Against this it was strongly argued that an announcement which did not identify dispersing Departments would only add to the existing uncertainties.

THE PRIME MINISTER, summing up the discussion, said that the Committee had agreed that the five moves described in Option 1 of E(79) 26 should go ahead. They had also agreed that there should be a significant dispersal to Scotland. As to Bootle they agreed that 150 Home Office and 100 Department of the Environment staff should be dispersed there as already agreed by their respective Secretaries of State. The Committee would also be content for up to an additional 2,050 staff to be dispersed to Bootle if their Department agreed. They had sympathy with the view that at least 2,000 posts should be dispersed to Scotland, the favoured sites being East Kilbride and Glasgow St Enoch's. The Lord President of the Council should chair a meeting of the Secretaries of State for Defence, the Environment and Scotland, together with the Chief Secretary, Treasury and the Ministers of State for the Civil Service Department, and Foreign and Commonwealth Office, to reach agreement on the size and composition of the dispersal packages for Scotland and Bootle, and to agree a final statement of the Government's dispersal policy for announcement to Parliament on Thursday 26 July. This statement would need to specify which Departments would be dispersing to which locations, and the numbers of staff involved, though it need not necessarily specify which blocks of work would be moved. The Lord President of the Council should report back to her before Thursday with the Group's conclusions and an agreed draft statement.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Lord President of the Council and the other Ministers concerned to be guided accordingly.

3. THE NEXT PAY ROUND

The Committee had before them a memorandum by the Secretary of State for the Home Department (E(79) 27) about the timing of major pay claims over the next year, the problems which these could involve, and the Government's options for dealing with them.

THE HOME SECRETARY said that the Annexes to the memorandum, which had been prepared by officials in the Departments concerned, showed the timing of the various pay settlement dates, and discussed for a number of key services the likely industrial climate and the contingency planning which the Government had in hand. Contingency plans were currently being reviewed in the light of experience over the past year, and he would bring forward in September any suggestions for amendments. He felt there was a need in addition for a rather broader look at contingency arrangements for dealing with the possibility of disruption of a more widespread nature, divorced from the normal processes of collective bargaining, and perhaps stimulated by severe local concentrations of unemployment. He would arrange for this work to be carried forward by officials, and would report to colleagues on this also in due course.

In discussion it was noted that results during the pay round would depend very much on the extent to which there was public understanding of the consequences of high pay settlements for employment. It would be important for all Ministers to hammer this message home whenever opportunity arose.

On particular points in the paper, the Committee felt that the possible uses of volunteers in minimising the consequences of strikes should not be underestimated, although it was noted that discussions were already in hand about how volunteers could be used in the case of the Health Service, and "compassionate" services generally. Supplies of coal to power stations were being improved as rapidly as circumstances allowed. Strategic stockpiles of food had been depleted in some respects in past shortages and discussions had recently been taking place in the public expenditure context about how quickly they should be replenished.

THE PRIME MINISTER, summing up a short discussion, said that the co-operation of all Ministers would be needed in getting the Government's message over to the public. The Secretary of State for Industry had today circulated proposals as to how this effort might be co-ordinated, and in the light of that letter she would circulate appropriate instructions. The Committee had noted the action the Secretary of State for the Home Department had in hand on contingency planning and that he would report to the Committee during September. It was important that every effort should be made to ensure adequate supplies of coal to the power stations and the Secretary of State for Energy should keep her in touch with the progress being made.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion.

4. STRATEGY

The Committee considered notes by the Central Policy Review Staff (CPRS) (E(79) 24) and by the Secretaries (E(79) 28), to which was attached a paper by the Special Adviser to the Prime Minister, on the Government's Economic Strategy. The Committee also had before them a note by the Secretaries (E(79) 25), to which was attached a note by the Central Policy Review Staff, on the role of the institutional investors.

THE PRIME MINISTER recalled that she had invited a number of Ministerial colleagues to make suggestions for improving the supply side of the national economy. A large number of proposals had been forthcoming and these had been summarised and classified by the Central Policy Review Staff in paper (E(79) 24). A complementary paper (E(79) 28) by her Special Adviser, Mr John Hoskyns, had provided a further analysis and had suggested a way in which the work could be taken further. The third paper, a note by the CPRS on the role of the institutional investor (E(79) 25), had been circulated at her suggestion as background to the Committee's discussion.

In discussion, there was general support for the proposal that, as a first priority, further work should concentrate on those topics identified by the Prime Minister's Special Adviser in appendix A to his memorandum. It was argued however that rather than to organise further work in four groups each responsible for one subject area, it would be preferable for each topic to be the responsibility of the lead department which the CPRS had identified. It was important that each lead department should consult from an early stage with all others whose interests were involved. Work on a number of topics was already well advanced and interdepartmental machinery was already in existence. A small ministerial Steering Committee should however be set up to co-ordinate as required the interdepartmental work and to report back to the Committee in due course.

THE PRIME MINISTER, summing up the discussion, said that the Committee were agreed that the work on the Government's economic strategy should be pushed forward energetically. They endorsed the priority topics identified by her Special Adviser in his memorandum. In each case the lead department - as indicated in E(79) 24 - would be responsible for organising further studies

in consultation with other interested departments and the CPRS. They should report in the first instance to a Steering Committee to be chaired by the Chancellor of the Exchequer, with the Secretaries of State for Industry and for the Environment, her Special Adviser and the Head of the CPRS as members. The Steering Committee should aim to present a first report for the Committee's consideration by the end of September, and before the Party Conference.

Work should also proceed on the other suggestions which Ministers had made, with those departments identified by the CPRS in the lead. Reports on these should be made by the Steering Committee from time to time as appropriate. In particular, the Committee should consider early in the new year any proposals brought forward by the Steering Committee which might be relevant to the next Finance Bill.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Ministers concerned to be guided accordingly.

Cabinet Office

24 July 1979

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PRIME MINISTER

ENOC: FUTURE STRUCTURE AND DISPOSAL OF ASSETS

Following our discussion at E Committee yesterday, we are again going to return at E(DL) tomorrow to the difficult ENOC issue, and in particular to the two questions of disposal of assets to meet the Chancellor's target for realisations in 1979/80 and the future structure of ENOC itself. I shall of course be reporting to E(DL) my proposals for resolving these problems, having regard to yesterday's discussion, but I thought you should know how I believe we could proceed in a way which reconciles our various common- and absolutely vital-objectives.

First I think that we can agree that whichever way we go a first step has to be to form an upstream subsidiary in which the assets of ENOC are vested. This is a vital preliminary step either to a total BP take-over or to any lesser strategy for keeping assets in British hands. Could I therefore suggest that we take this step now? It closes no options: indeed, it is an essential preliminary so that we can carry out quickly any decisions which we reach later about the best way to meet the Chancellor's target.

Second, as far as ENOC's structure is concerned there seems to be a general acceptance that

- a) at least for the time being the crude oil trading role should be retained, together with the participation options.
- b) ENOC's statutory duty to advise should be abolished (so that there will therefore be an immediate need to strengthen the Department's internal specialist advisory team instead).

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These are major steps and the quicker I can announce them the better the chances of avoiding serious dislocation in achieving our ultimate aims.

Third, the importance of confirming the first batch of 6th Round licences and pointing to the way to a seventh round, as soon as possible, has been recognised. Again the BP take-over possibility need not stop us doing this. I have spoken since yesterday to Sir David Steel and he agrees that rather than transfer all ENOC 6th round license interest to BP, which would be prolonged and tricky (even by the take-over route) we could deal with them case by case in a way which should satisfy the other licensees and does not delay our major purposes.

On this basis, therefore, it would be possible to proceed forthwith to a statement. This course would then enable us

- (i) to announce the outcome of the ENOC review and the directions we want to go;
- (ii) to let all the licence arrangements go forward;
- (iii) to keep the way fully open for detailed discussions as to how much we sell off;
- (iv) to give BP full time to prepare a properly organised take-over without an intervening hiatus; if that were the decision;
- (v) to give ourselves full and adequate time finally to work out and overcome possible legal snags which at present seem to block a more precipitate announcement.

Subject therefore to the discussion in E(DL) tomorrow I would like to recommend this approach to E Committee together with a draft statement to Parliament which I would aim to make on Thursday 26 July. If this is accepted then I would have to inform Lord Kearton and the members of the Corporation immediately in advance, of the content of the statement and an indication of the options we are considering

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for the upstream operation, though of course not mentioning the BP proposition. It is probable that he at least will wish to resign - he has as you know stayed on at my request beyond the 30 June, the date he suggested for his departure. I am therefore considering possible candidates for the job of caretaker Chairman until such time as the future disposal strategy, and role for ENOC's upstream side, is settled.

I have it in mind at the same time to make a statement about my plans for a further round of licensing (7th round), about which I will be minuting you separately.

CONCLUSION ..

The approach which I suggest here makes it possible to clarify at least some of the important elements of North Sea oil policy and the ENOC problem without further damaging delay, while leaving open for further consideration the best method of meeting the Chancellor's objective of raising substantial sums by means of disposals and doing so with minimum disruption to our overall policy.

I believe a statement on these lines will be seen as consistent with a proper and orderly conduct of our oil policy, while not prejudicing in any way future decisions on disposals, and will ensure that the Government's standing and credibility on these issues is not diminished in a way which they would ^{be} if we deferred any statement, or reached hasty decisions now.

I am copying to Members of E and E(DL), and to Sir John Hunt.

Secretary of State for Energy

18 July 1979

J.G.
→

1 copy. 3 D. 24/9/79
N.L. Hillier
& Balchin -



[Handwritten signature]

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Treasury Chambers, Parliament Street, SW1P 3AG

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19 JUL 1979
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cc Sir K. G. ...
Mr. Le ...
Mr. Mountfield
Mr. Miles
Mr. Whymon

PRIME MINISTER

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BNOC : FUTURE STRUCTURE AND DISPOSAL OF ASSETS

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In his minute of 18th July David Howell put forward a number of proposals on the related questions of disposal of BNOC assets and the future of BNOC itself.

2. I can understand David Howell's wish to clarify elements of UKCS policy and BNOC's future without damaging delay but I do not believe that we can make any sensible statement on the future of BNOC unless and until we have taken decisions on the question of disposal of BNOC assets. Any statement made before such decisions have been made would beg more questions than it answered. It is my intention to ensure that this afternoon's discussion at R(DL) puts us in a position to take decisions at next week's E Committee.

3. I share David Howell's view that BNOC's crude oil trading role should be retained together with its participation crude oil options because I believe they are vital to our security of supply, particularly since we are, through membership of the Community, prevented from interfering with exports of UKCS oil and because there are already indications that certain other major oil producing countries such as Kuwait, Nigeria and Iran are showing an increasing tendency to want to trade with state oil corporations rather than with multi-national oil companies.

4. I also agree that the confirmation of the Sixth Round Licences award should be announced as soon as possible so that UKCS momentum



is not lost. As David Howell says, the inclusion of BNOG's Sixth Round licences in any disposal of assets to BP would complicate matters considerably, and, moreover, as the Attorney General pointed out in his letter of 10th July would also have legal difficulties. In any event, I have doubts whether BNOG's licences should be vested in one company. Would this not further aggravate the already difficult situation on depressed exploration activity? Cannot the Sixth Round be announced with BNOG as partners and, if decisions are subsequently taken to dispose of their Sixth Round licence interest, these could presumably be disposed of by an open licensing round giving their Sixth Round partners first refusal. I very much doubt whether BNOG's Sixth Round interests should form any part of a sale to BP.

5. However, I see a number of difficulties with the other main proposals. I have real doubts about whether the setting up of an upstream subsidiary for BNOG's assets is a necessary first step to either a total takeover by BP or any lesser disposal of their assets. I shall be exploring the legal doubts about this route this afternoon with the Attorney General but from my point of view this route would not reduce the PSBR unless BNOG control of the subsidiary was given up entirely. Moreover, setting up one subsidiary would not facilitate the selling off of BNOG's assets piecemeal: indeed it would effectively foreclose this option.

6. I note that the proposal to dispense with BNOG's statutory advisory role will entail additional departmental manpower and related public expenditure. Whilst there is a possibility that the outcome of our considerations could be the retention of a substantial part of BNOG's upstream interests, it would not seem sensible to cut ourselves off from BNOG's advice, particularly since such advice would be based on first-hand experience of UKCS activities.



7. I also note that David Howell wishes to point up the possibility of a Seventh Round of licensing. I think this is something that we should look at separately outside these discussions in E(DL) once David Howell has put forward his proposed minute on the subject.

8. I am copying this minute to members of E and E(DL) and to Sir John Hunt.

G.H.

(G.H.)

19 July, 1979



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000 GOVERNMENT OFFICE

A 2989
23/7/79
23 JUL 1979
FILING INSTRUCTIONS
FILE No. 510/11
copy to 70/12

cc Sir K Berrill
Mr Leath
Mr Mountfield
Mr Miles
Dr Thompson
D. 31/7/79
V. Hillier
K. Rowley
D. 26/7/79
V. Hillier
& Baldwin

PRIME MINISTERBNOG : FUTURE STRUCTURE AND DISPOSAL OF ASSETS

As you asked us, E(DL) considered this afresh last night in the light of further advice from the Attorney General. We also had before us the Secretary of State for Energy's minute to you of 18th July and my commentary of 19th July.

2. We reached no final decisions, which must of course be subject to further discussion in E on Tuesday, 24th July.

3. I need not recapitulate the whole discussion. Three major new points have emerged:

- (i) the Secretary of State for Energy would, as a first step, like to float off the up-stream assets of BNOG into a subsidiary company. (His minute of 18th July contains this suggestion). This would be a preliminary, either to his own initially-preferred course of selling shares to the general public; or alternatively, to the sale of some or all of the shares to BP;
- (ii) this is BP's preferred solution too. They believe that it would allow the transfer of assets to them to take place without giving the right of first refusal to the other partners in the field concerned;
- (iii) the Attorney General disagrees. He has only had a chance to consider very quickly the agreements



governing the seven prime targets for disposal. But it is already clear that there are entrenched rights, of first refusal and in some cases of absolute veto, which will have to be negotiated away with each individual partner. (There are some thirty-five companies involved in the present commercial fields in which BNOC has an interest.) He does not consider that the subsidiary company device would successfully avoid these obstacles. He considers that it could probably be challenged in the Courts, but is prepared to reconsider this advice in the light of discussions he will be having in the next day or two with BP lawyers.

The Sub-Committee therefore agreed:

- (a) to invite the Attorney General to conduct these talks with BP urgently and in strict confidence, and to report back to E on Tuesday;
and, subject to the views of E:
- (b) that there was no objection to the sixth round licensing going forward on the basis preferred by the Secretary of State for Energy and the Attorney General - i.e. with the initial involvement of BNOC, which would be renegotiated case by case once the licenses had been issued;
- (c) that the Secretary of State for Energy would have to make an announcement about these licenses, making it clear that the inclusion of BNOC did not imply that BNOC necessarily had a continued up-stream role, and that the whole question of its up-stream involvement was still under consideration; (he himself would like to go further, and to announce the outcome of the review, on the lines he suggests in his minute to you



of 18th July);

- (d) that BNOC should be invited to form a subsidiary company to which its up-stream assets should be transferred, and (possibly) that this intention should be announced at the time that the sixth round licensing decisions are announced;
- (e) that legislation be introduced in the next Session (in practice, as additional clauses added to the Industry Bill) to permit the Secretary of State for Energy to direct BNOC to dispose of its assets in this way (the Attorney General having advised that such legislation is essential);
- (f) that the main options on disposal remain:
- (i) the sale of all the up-stream assets of BNOC to BP; this option is only open if the Attorney General can remove the legal doubts about the subsidiary company route; or if it is a practical proposition to negotiate with all thirty-five licensees in time to complete the sale by 1st April; this course would require BP to make a large rights issue, and this in turn means either that HMG's holding would come down to about 42 per cent, or that it took up its share of the rights and thus fell short of the £1,000 million target;
- (ii) to dispose of part of the up-stream assets of BNOC (and possibly also of BCG's Wytch Farm field), leaving the remainder of the desired total to be found by a limited sale of BP shares; or
- (iii) to abandon as impracticable the sale of BNOC assets in the current year, and to make preparations for the early sale of up to £600 million worth of BP shares



5. I am sending copies of this minute to the Secretaries of State for Energy, Industry, Trade, Environment and Scotland; to the Lord Privy Seal; to the Attorney General; to the Chief Secretary and Financial Secretary, Treasury; and to Sir John Hunt.

[Approved by the
Chancellor of the
Exchequer and
signed in his absence]

M. E. Hall

(G.H.)

20 July, 1979


 ROYAL COURTS OF JUSTICE
 LONDON, WC2A 2LL

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0-405 7841 Extn

3201

20 July 1979

10/23/79

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

CABINET OFFICE
A 2982
23 JUL 1979
FILING INSTRUCTIONS
FILE No. 510/11

cc Sir K. Berrill
 Mr Leithenhardt
 D 2/1/11/11
 J. H. Kellie
 J. Baldwin
 23/7/79
 26/7/79

Dear David,

DISPOSAL OF ASSETS BY ENOC

At E(DL) yesterday the possibility was discussed that ENOC 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 ENOC 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.

FOLIO
36

CABINET OFFICE
A 3032
24 JUL 1979
FILING INSTRUCTIONS
FILE No. 98/2

cc Sir K Bevil
Mr Le Cheminant
Mr Mountfield
Mr Thompson
Mr Elint

PRIME MINISTER
DRAFT STATEMENT ON OIL POLICY

Ahead of 'E' I thought it would be helpful to circulate the draft of a Statement on Oil Policy, I have in mind for Thursday.

In my view to make this Statement at this particular moment, will make a major and immediate contribution to accelerating the North Sea and linked investment we so badly need, without unduly raising the Parliamentary temperature and without in any way foreclosing the options we shall wish to exercise on the financial side later in the year.

I am copying this minute to Members of 'E' Committee and to Sir John Hunt.

Secretary of State for Energy
23 July 1979

DH

DRAFT STATEMENT ON OIL POLICY

With permission, Mr Speaker, I will make a statement about the Government's oil policy and the British National Oil Corporation.

2. Over the last few weeks the Government has carefully reviewed the full range of the BNOC's activities. I have had several discussions with the Chairman and I have also met the BNOC Board. I pay tribute to the dedication and sense of public service of the Corporation's management and staff, which will I am sure continue.

3. As the House knows, the Government was elected with a commitment to devise policies which would stimulate again the exploration and production of our oil and gas resources, and to reduce the degree of State involvement in those activities. Consequently, the Government has concluded that BNOC should now play a substantially reduced role, and that the basis of the Corporation's ownership should be broadened.

4. The House will be aware that the BNOC is engaged in two distinct areas of activity. It is an oil trader on a very large scale, mainly by virtue of its right through participation agreements with other oil companies to purchase 51% of most of the oil produced on the UK Continental Shelf. And it is itself a substantial enterprise in the North Sea, with very extensive interests in exploration, development and production.

5. As far as the trading activity is concerned the Government has decided that the Corporation's access to oil through the participation options can still play a part in guaranteeing the UK's security of oil supply, and should be retained. Although in conditions of major supply shortfall I can take powers under the Energy Act 1976 to control and direct oil movements, in conditions of more limited shortage, such as we are now experiencing, BNOC's direct access to 'participation' oil, together with royalty oil, strengthens our position. I put it no higher than that since security of supply will also depend on maintaining economic pricing now that we have removed the price controls which we inherited. But in a changing and precarious world oil situation I believe that it is right for a Government body to retain this function.

6. As far as BNOC's exploration, development and production role is concerned, the Government has decided on a number of steps. The Corporation has been given or acquired far too many licence obligations, along with a number of privileges vis-a-vis other oil companies. These features are themselves a source of the instability and lack of confidence that have come to characterise the offshore oil exploration scene - which we must reverse. The Government has decided, therefore, that BNOC's preferred position in future licensing Rounds should be ended, and that its present over-extended exploration commitments should be reduced. The Government also intends to end its special access to Government finance through the National Oil Account. These changes follow the Chancellor's announcement that BNOC will be liable to PRT in common with other oil companies, and my announcement ending the previous policy of giving BNOC a first refusal whenever an interest was assigned between companies.

I have also decided that BNOC's statutory role as adviser to the Government should be removed, and that the Corporation should no longer exercise its right to a seat on every committee operating the North Sea fields. I shall be strengthening my Department's advisory resources so as to ensure that the Government is fully able to protect vital national interests without being dependent on outside advice.

7. The Government believes that BNOC's offshore assets and interests should be more widely owned. We are therefore considering

ways both in which assets can be disposed of to the private sector, and in which private capital can be introduced into the operation.

I shall give the House further details of these plans in due course.

8. Some of the changes I have outlined will require legislation which will be introduced later in the session.

9. The moves I have announced will in themselves encourage companies to explore more widely and to invest more confidently in development. We must encourage more investment both in drilling on already licensed territory and in deeper waters on the UKCS.

Our decision to examine with the industry the problems of the so-called marginal fields should also help here. In addition I am today confirming the first batch of awards of licences under the Sixth Round (and the announcement of further awards will follow shortly).

10. I am also today announcing the Government's plans for future licensing and details will be given in a written answer. These involve immediate preparation of a 7th Round of licensing and a new policy for the more rapid licensing of new territory in the longer term. I believe that all this will make a major contribution to

restored high exploration activity on the UKCS after the recent slow-down.

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restored high exploration activity on the UKCS after the recent
slow-down. 04

PRIME MINISTER

FUTURE OFFSHORE LICENSING

102-231

7

cc Sir K Berill
Mr Le Dominant
Mr Mountfield
D Thompson

CABINET OFFICE
A 2986
20 JUL 1979
FILING INSTRUCTIONS
FILE No. 76/2

The previous Administration's policies for the development of our offshore oil and gas resources have contributed to a substantial drop in the rate of exploration and drilling for prospects. The industry maintain, and I entirely concur with them on this, that a boost is needed in the rate of licensing, if it is to be encouraged to get on with the costly and difficult job of exploring for the reserves which are thought to lie as yet undiscovered on our Continental Shelf, and which we need to find now if we are to avoid a serious drop in production of indigenous oil and gas in the 1990's.

With this in mind, I have carried out a review of offshore licensing policy, and am now ready with proposals to implement our declared policy of restoring the momentum of exploration and encouraging the greater involvement of the private sector. From my discussions with the industry I believe that these proposals will be generally welcome.

The essential features are:

- (a) The rate of licensing should be roughly doubled so that about 100 blocks of UKCS territory are awarded every 18 months or so. (Each full block covers roughly 100 square miles). The remaining stock of blocks in the relatively shallow water depths (that is down to 1,000 feet or so) should sustain such a programme of awards for the next four or five years, until the industry is technically better prepared to undertake the thorough exploration of the deeper waters of our Continental Shelf where, hopefully, further reserves remain to be discovered.

- (b) Although the industry is not yet ready to undertake extensive exploration in deeper water, we should encourage it to make a start by offering a few deep water blocks to stimulate interest of the more forward looking companies and wider discussion of the special problems of deeper water operations.
- (c) The arrangements should include provision within rounds of licensing for companies to apply for blocks which have not been nominated in the normal way by my Department as available for application. In parts of our Shelf which are already explored, notably the North Sea, it should be to our advantage to allow companies to apply for blocks of their choice in addition to those nominated by my Department.
- (d) As a good proportion of the remaining undiscovered reserves are thought to lie in blocks already licensed one of the aims of the next round should be to encourage companies to explore their existing territory more thoroughly. Thus applicants' record and intentions in exploration of existing licences would be very important factors in the awards of future licences. So would their readiness to explore blocks of ours as well as their own choice.
- (e) BNOG (and BGC) should no longer have the preferred position of licences accorded by the previous Administration. This recommendation is entirely consistent with our policy objectives for BNOG.
- (f) As BNOG will no longer have a mandatory share in licences, we need to consider how we can offset at least some of the resulting reduction in the British share of licence territory. In particular,

we want to help the smaller British Companies. I believe that we can achieve this by informal discussion and the normal administration of licensing procedures under my powers. We would do this with care so as not to provoke allegations from overseas that I was using these powers in a discriminatory manner.

- (g) The arrangements should be drawn in such a way as to give the Government an option on half the oil found under new licences.

If you and our colleagues are generally content with these proposals I will announce them by Written Answer concurrently with my proposed Statement on BNOG next Thursday, 26 July. (A draft Question and Answer is attached). My Department will then be able to discuss the detailed conditions and arrangements for the next 7th licensing round with industry, the TUC and STUC, local authorities and environmental interests, as well as with Government Departments particularly those closely concerned in the choice of the blocks to be offered for licence, Scottish and Welsh Offices and the Defence and Fisheries Departments.

My Department will also prepare any necessary Regulations. These could be subject to negative resolution. My aim would be to announce the 7th round and invite applications around the end of the year with a view to issuing licences during the summer of 1980.

I am copying this minute to our colleagues in E Committee, to the Secretaries of State for Defence, Scotland and Wales, to the Attorney-General and to Sir John Hunt.

J.H.
2

Secretary of State for Energy
20 July 1979



Q: TO ASK THE SECRETARY OF STATE FOR ENERGY WHAT PROPOSALS HE HAS FOR FURTHER OFFSHORE PETROLEUM LICENSING

A: The Government has already declared its objective that exploration of the oil and gas resources of the UK Continental Shelf should go forward with increased momentum. This is necessary if we are to be able to develop new fields in the years ahead when production from existing fields starts to tail off. To this end I intend to get a new round of offshore licensing under way as soon as possible.

It is important that our offshore licensing system gives encouragement and stability to the industry, which has to invest in exploration and development effort, and safeguards the nation's essential interests in our resources. My Department has been reviewing licensing policies in the light of experience and changing circumstances, and I propose that the seventh and ensuing licensing rounds should be on the following basis.

(a) The rate of licensing should be around 100 blocks every 18 months or so - about double the rate of the 5th and 6th Rounds.

(b) Some blocks in deeper water should be included in the rounds.

It is important that we should start to explore deeper water territory on our Shelf and gain experience of the problems involved.

(c)

- (c) In parts of our Shelf which are already extensively explored, notably the North Sea, companies should be able to apply for blocks of their choice, in addition to their application for blocks nominated by my Department.
- (d) Since a good proportion of the remaining undiscovered reserves is thought to lie in territory already licensed, it is important that existing licence areas should be thoroughly explored. Applicants' record and intentions in the exploration of their existing licenced areas would be important factors in the award of future licences. So would their readiness to explore blocks of my Department's as well as their own choice. By removing the public corporations' first options on assignments of licence rights I have also given encouragement to exploration in existing licenced areas.
- (e) The public corporations will no longer have a preferred position or mandatory interest in future licences.
- (f) The arrangements should provide for the Government to have an option to purchase up to half the oil found under new licences.

I now propose to discuss my proposals for future licensing with management, unions and other organisations closely involved. In addition I will welcome the views of interested bodies outside the industry about which offshore areas might be licenced over the next few years and in particular their views on areas where they believe special care may be needed in the conduct of exploration and development for environmental or other reasons.

The Government believes that this new and more positive approach to licensing will result in a correspondingly positive response from the industry, larger and smaller companies alike, and will lead to greater exploration activity on our Continental Shelf.