

CONFIDENTIAL

PRIME MINISTER

BNOC: FUTURE STRUCTURE AND PRIVATE SECTOR PARTICIPATION

It is essential that tomorrow we take the basic decisions on this.
If we don't:

- (a) there is a grave risk that we won't be able to get legislation through in time;
- (b) our whole political stance will be undermined;
- (c) early support for the PSBR will become impossible.

Nothing has changed my view that the plan I originally put forward and which was virtually agreed on 26 November is the right one.

Key points are:

- (i) We must retain 100% control over the crude oil trading operation in the interests of national security of supply;
- (ii) We must separate the highly political trading operation from the commercial upstream operation. If we don't there is no prospect of interesting the private investor on acceptable terms. This is quite different from the British Airways' position. In the BNOC case there is no way in which anyone could be convinced that the Government would not interfere if oil trading and upstream operations remain together.
- (iii) Again, unless the management is split we won't convince anyone that the Government will not interfere through a joint management with the North Sea company. I do not accept that splitting should cause management problems. We have also established that EEC considerations actually favour a separation.
- (iv) The impact on the PSBR of whatever we do is important - but it is obvious that benefits sooner mean revenue for the PSBR foregone later. All the financial signs seem to favour "sooner". We must not

forget the underlying issue - our policies of reducing the public sector.

Timing

Successful privatisation by whatever route is going to require legislation. If we cannot reach decisions now to proceed with this legislation we have no prospect of getting it through in time. Without early legislation privatisation and the benefits to the PSBR cannot be achieved. The later we get it the later the benefits and the longer severe political and managerial uncertainties remain. I ought now to be deciding on the new chairman or chairmen. But I cannot move with continuing uncertainty.

Failure to reach a decision must amount to a decision to keep the structure as it is now, thus frustrating our determination to denationalise BNOC and set up a new independent British Oil company. This would be seen by the party and the backbenchers as a major retreat from our publicly stated position.

Far from backing away from this central theme in our strategy at this moment, I think the arguments for starting now to bring capitalism to the people are stronger than ever. To proceed on the lines I suggest gives us ample time to consider and develop, at the appropriate pace, really imaginative schemes for a substantive widening of ownership, for example, along the British Columbian model, if we so decide.

I hope we will be able to agree on Friday to press ahead with restructuring and privatising BNOC on the lines proposed in my papers to E Committee and that we should set about preparing legislation at once.

Copies of this minute go to the Chancellor of the Exchequer, Lord Privy Seal, Secretary of State for Trade, Secretary of State for Industry, the Chief Secretary, Sir Kenneth Berrill and Sir Robert Armstrong. Secretary of State for Foreign Affairs, the Attorney General.

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