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Ref: A09902

SECRET

PRIME MINISTER

Disposal of BNOC Assets to BP
(E(DL)(79) 7)

BACKGROUND

This proposal has been included at the request of the Financial Secretary, in order to give a possible alternative to the sale of BP shares (and to a lesser extent as a means of avoiding sales of BNOC assets to non-British companies). BP may well in any case prove to be the purchaser for Viking and Statfjord. The proposal here is to sell all BNOC's other major up-stream assets to them (at a price of perhaps £750 million). The advantage of this proposal would be to retain some Government control of the assets via BP, and to make sure that they did not pass into foreign hands. The disadvantages are that control through BP is less direct than through BNOC (indeed despite, or perhaps because of, the Government shareholding BP tend to be very independent of Government) and that it is much easier to secure control of North Sea oil supplies to the United Kingdom through BNOC than through BP without falling foul of the EEC Commission. It is also probable that, even if BP could afford the immediate cash outlay (which would involve a rights issue which Her Majesty's Government would presumably forego) BP's own shares would go down considerably in anticipation of the heavy capital outlay involved in developing these ex-BNOC fields.

(Item 2) Sir Kenneth Berrill points out, in his minute to you of 3rd July, some of the other disadvantages of this course. I understand that the Financial Secretary will not wish to pursue it, and Mr. Howell certainly does not propose it seriously.

HANDLING

2. You might begin by asking whether anyone wishes to pursue this option. If they do, then you could (with the briefest of introduction from the Secretary of State for Energy) consider the merits of the case: the problems include:-

(i) Would BP want the assets, and how might they be persuaded to buy them?

(ii) How would BP raise the money? If by a rights issue, what would the Government do?

(iii) How would the purchase look to other oil companies: would they complain that they were not been given a fair crack of the whip?

(iv) What would be the effect on BP's standing in the oil world? Will it look too much like an agent of Government in future?

(v) What is the case for retaining a rump BNOC, once all its major assets have been sold to BP? Will this not make the participation agreements look even more transparent, and thus weaken the control over oil disposals?

CONCLUSIONS

3. The most likely outcome is the agreement to drop this proposal. If not, you might revert to the point at the end of the meeting - see main brief.

John Hunt

4th July 1979