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Amithurish
To note ECEA's
conclusions.
ref. P.
26/6

THE PRIME MINISTER

PUBLIC PARTICIPATION IN BRITISH GAS

At E(DL) Sub-Committee on Tuesday we discussed possible means of obtaining a contribution from the British Gas Corporation (BGC) towards the target for public sector disposals in 1980-81. You will recall that the Chancellor announced a commitment to a target of £500 million of disposals at 1979 Survey Prices, which would be equivalent to £630 million at current prices. We had identified at earlier meetings major disposals from New Towns, NEB shareholdings, and Motorway Service Areas, together with a few minor items, which contributed about £400 million. In addition the sale of 7th Round North Sea licences is expected to produce about £100 million. Thus there remains a shortfall of about £130 million. Treasury Ministers argued that the only fairly reliable prospect to fill that gap was disposals of BGC interests in oil.

The Secretary of State for Energy, in his paper E(DL)(80)6, discussed possible options, ranging from the complete sale of BGC's interest in the Wytech Farm onshore oil field, to grouping all their oil interests in a separate company, and then selling a majority of the shares to the public, and

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placing the whole company outside the public sector. He argued that BGC were strongly attached to the Wytch Farm field, and that if he attempted to direct a sale, this would arouse their outright opposition and might delay the sale beyond the end of the financial year. It could also prejudice their co-operation in other policy areas, which could have very large implications for public expenditure. His preference was therefore to sell shares in a new company bringing together all BGC's oil interests. It was possible that this would not arouse their outright opposition, and it could yield around £200 million rather than the £90 million-£130 million in prospect from the sale of Wytch Farm alone. But he had to acknowledge that it was a more complicated route, and so it was not possible to give any assurance that the sale could be made in 1980-81 and so contribute to the disposals target.

The Sub-Committee sympathised with the Secretary of State in his wish to retain a co-operative attitude on the part of BGC. There was also some attraction in the creation of a substantial new independent oil company, because this would add to competition, and in time the sale of shares in it would yield more than the sale of Wytch Farm alone. Nevertheless, in view of the firm commitment to a disposal target for 1980-81, and the absence of other potential candidates to

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make up the shortfall, the Sub-Committee concluded that the Secretary of State for Energy should give strong precedence to achieving the necessary financial saving during the course of the year. It was agreed that he should discuss the option of a new oil company with BGC, but should do so with the aim of producing early income, and that he should make clear to BGC that failing this he would pursue the course of a forced disposal of Wytch Farm by issuing a Directive to the Corporation.

The Secretary of State for Energy agreed to report back to the Sub-Committee on his discussions with BGC before the end of July, and I undertook that I would report the Sub-Committee's conclusion to you.

I am sending copies of this minute to members of E, E(DL) and to Sir Robert Armstrong.

KJ

K J
26 June 1980

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