

From: The Rt. Hon. Sir Keith Joseph, Bt., MP.,



KJ/srg

21st June 1978

AK 22
AK 2 to deal

Dear Margaret,

I discussed our policy towards BNOC at a meeting last month with Tom King, Nick Ridley and the Research Department.

Tom explained that his line was intended to preserve our total flexibility, including keeping open the option of doing away with BNOC completely once we are in office. This flexibility is needed because it seems that there would be three problems involved in making a commitment before the election to scrap or sell off BNOC:

i) The participation agreements that give BNOC the option to purchase oil from other companies may be the only effective way currently available to us in which the British Government can retain some control over the destination of the oil, because of the Articles on freedom of competition in the Treaty of Rome. While this arrangement is (at best) a harmful irrelevance during normal periods, it would be of great importance during any period of shortage of oil, such as might still well occur after further fighting in the Middle East or internal disorder in major producing countries such as Saudi Arabia. This point holds regardless of whether we would in the event want to keep a disproportionate share of the oil. For even if we were not then to want to use all the oil ourselves, the right of freer access to our oil for our Community partners constitutes now and, a fortiori, would constitute in a crisis, a very important bargaining counter which we should not surrender unilaterally. The means of control of our oil raises enormously complex issues in international law. The advice Tom has received is inconclusive, necessarily so, since the matters at stake can only be resolved by the decision of an international legal body. The basic principles at issue do not, it would appear, lead to a simple conclusion one way or the other.

ii) Because of this, there is the political problem that Labour would find it easy to represent a pledge to sell off BNOC as damaging to the national interest - as well as to the benefit of the multinationals.

iii) Paradoxically a pledge to scrap or sell BNOC could throw the private oil industry into confusion, and damage investment. However much the companies may dislike BNOC's role, it is now built into their plans



and in some cases plays an important part in them. The viability of some companies' investments might actually be called into question if BNOC were to pull out without a satisfactory alternative. This of course, is not an argument against doing something about BNOC's current role. But it is one against making too clear-cut a public pledge without consultation of a kind which is difficult in Opposition.

To meet these problems, Tom's line is to attack the privileges that BNOC has been accorded and to pledge to remove them but to leave open the question of its survival in a much attenuated form. It would be relatively easy to dispense with the privileges, by ending its duty to offer the Secretary of State advice, and its access to the National Oil Account, requiring it to pay PRT and depriving it of exclusive licences. At the same time we could and should emphasise that our arrangements are designed to maximise the benefits from North Sea oil to the country by pledging to return the regulation functions to the Government. The ultimate fate of BNOC would then have to be decided once we are in office, when we could actually determine how much there is in the argument that BNOC is the only vehicle for retaining the necessary degree of British Government control. If inquiry revealed that this objective could be achieved in another way, we could move towards tackling the other two problems in order to totally dismantle BNOC. The political difficulties could be more easily coped with once we were in office and at the same time as we set about establishing the supervisory authority. The contractual difficulties would be best handled through negotiation. But it would be important in order to avoid disruption and some very damaging publicity in the run-up to the election to pledge that we would not intend to renege on BNOC's commitments where companies were unable to make satisfactory alternative arrangements.

It was suggested at the meeting that we should hold in reserve the possibility of issuing, in the days immediately before polling, a pledge to sell off all, or 49 per cent of BNOC to private shareholders. Tom was unhappy about the idea because he sees no way of establishing beyond doubt the legal aspects of the participation agreements before the election, and it would probably be inconceivable to sell BNOC while it still retained options to buy in oil from private sector companies whose status is obscure and likely to make any potential investor extremely wary. He also feels that selling BNOC as an entirety would ironically have the effect of perpetuating it in being, whereas his approach leaves the way open, after the review, to its total abolition. The Research Department will produce a paper exploring the possibility of having that pledge in reserve.



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I enclose a copy of an excellent article by Tom in a recent issue of the Sunday Telegraph.

*Yours
Keith*

The Rt. Hon. Margaret Thatcher, MP.,

c.c. Tom King, Esq., MP.,
Adam Ridley, Esq.,

22nd June 1978

I write to acknowledge your letter of 21st June to Mrs Thatcher about BNOC, which I will ensure she sees as soon as possible.

Richard Ryder
Private Office



The Rt Hon Sir Keith Joseph Bt MP



July 27th

Margaret

I don't want Assoc
sold in its entirety - I prefer
Gov's proposal to share
it & its proceeds
operates.

I had taken the
attached to request a very
positive reaction from
you. Keith has now
asked if you have
a comment(s).
no
participate
effort

What can I say
to him?

Aden

Sir Keith Joseph.

31st July, 1978

B.N.O.C.

To confirm our telephone conversation I have rechecked with Margaret whether she has any positive reaction to your letter of 21st June. Her written comments were, "I do not want B.N.O.C. sold in its entirety - I prefer Tom King's approach to shear it of its privileges and powers. I am very doubtful of the participation agreement."

I would think that the last sentence needs clarification. Tom or yourself may be able to supply it or one of you may wish to have a word with Margaret.

A.

Alan Butler
Parliamentary Private Secretary

The Rt Hon Sir Keith Joseph Bt MP

From: The Rt. Hon. Sir Keith Joseph, Bt., MP.,

AK 23



TALK MT

ACQ to deal

KJ/srg

21st June 1978

Issue
only response
by MT
& Min?
John M...
10/7

NFA

11/7
A-

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- ii) Because of this, there is the political problem that Labour would find it easy to represent a pledge to sell off BNOC as damaging to the national interest - as well as to the benefit of the multinationals.
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King

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