

Ref: A02780

Energy

PRIME MINISTERBNOC: PRIVATE SECTOR PARTICIPATION

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E(80) 80

BACKGROUND

You will recall that you discussed this question with the Secretary of State for Energy and the Chancellor of the Exchequer on 14 July.

Mr Lankester's letter of that date recorded -

'It was agreed that the case for privatisation was now a good deal weaker than it had been when Ministers had considered the issue last summer, and there was a perfectly legitimate argument to be made that - in the highly volatile oil situation that the country now faced - it would be wiser to stick to the status quo. However, the Government had a political commitment to introduce some measure of privatisation. On balance, the best approach would be to go for the revenue interest scheme'.

2. The Secretary of State for Energy now sets out his proposals for this scheme in E(80) 80. Securities would be sold to the public who would receive dividends related to revenues and so to the price of oil and to the level of production from the fields. The securities would be repaid at par at some specified date. He proposes that at least £500 million should be offered to the widest possible spread of investors. There is already provision for legislation on BNOC in the next Session.

3. If this proposal were approved in principle, the Secretary of State recommends that officials from the Treasury, the Inland Revenue, the Bank of England and BNOC together with his own Department should work out more details. He and the Chancellor would then report further after the Recess on this. In the meantime he would like to announce the decision in principle before the Recess, although the Chancellor of the Exchequer has doubts about this.

4. Paragraph 5 of his paper explains that the proceeds of the sale would not reduce the Public Sector Borrowing Requirement - because the Government would be retaining control of BNOC as a whole - but would be another source of financing it, and an alternative to selling gilts or national savings. The Treasury's view is that in the longer term it would almost certainly be a more expensive form of financing the PSBR.

HANDLING

5. After the Secretary of State for Energy has introduced his paper, the Chancellor of the Exchequer will wish to comment on the financial implications. Of the other Ministers, the Secretaries of State for Scotland and for Industry will probably wish to speak.

6. The Government has already announced that it intends to introduce private capital into the operating of BNOC. The main questions which the Committee will wish to consider are -

i. Should that commitment stand in the light of more recent developments in the oil world?

ii. If so, is the present proposal an acceptable way of meeting it?

7. I suggest that the Committee should consider in particular paragraph 5 of the paper and the Treasury's view that this form of financing the PSBR would be more expensive than present methods. This is a point on which the Chancellor of the Exchequer, and other Ministers, will have to answer - to the Treasury and Civil Service Committee and others - if the scheme is to go ahead. Ministers will therefore need to be satisfied that they can point to convincing benefits to offset these costs. One difficulty is that it cannot be argued - as with other disposals - that the sales will lead to greater efficiency in the management of resources following the injection of private sector management. BNOC will remain within the public sector and will be fully subject to Government control. This might lead into the question whether the scheme does indeed fulfil the Government's commitment, or whether it is an unsatisfactory compromise.



8. If it is accepted that the scheme should be introduced, there will need to be a good deal of further work on it, as proposed by the Secretary of State for Energy. The Committee will wish to decide whether, as the Secretary of State recommends, there should be a short statement of general principle before the Recess or whether, as the Chancellor of the Exchequer would apparently prefer, this should wait until more detailed work has been done. If there is any risk that the more detailed work will lead to radical changes in thinking, that would seem to point strongly to deferring a statement.

CONCLUSIONS

9. In the light of the discussion, you will wish to record conclusions on -

1. Whether the Government should fulfil its commitment to introduce private capital into BNOC.
2. If so, whether the Secretary of State for Energy's proposals should be accepted in principle, subject to a further report after the Recess in the light of detailed proposals by officials.
3. Whether a statement in principle should be made before the Recess, as in the Annex to E(80) 80, or whether it should be postponed until the further detailed work has been completed.

ROBERT ARMSTRONG

1 August 1980