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Qa 05094

To: MR LANKESTER

From: J R IBBS

BNOC: Private Sector Participation

1. At Monday's meeting of E Committee Ministers are due to discuss a memorandum by the Secretary of State for Energy on "BNOC: Private Sector Participation" (E(80)80). In this Mr Howell asks the agreement of colleagues (i) to a sale of revenue interests in BNOC to the private sector and (ii) to a public statement on the Government's intentions with regard to BNOC.

2. For all the reasons set out in Mr Downey's minute to you of 11 July <sup>attached</sup> the CPRS would support Mr Howell that privatisation in BNOC should not go further than a revenue interest scheme.

3. The CPRS would further support Mr Howell that a decision should not be taken at this time on the size of the flotation. Mr Howell points to the technical points still requiring resolution; in addition the size of the sale should depend on a judgement at the time of issue of the balance between the strength of political commitment on the one hand and what would almost certainly prove a more expensive way of financing the PSBR than conventional methods on the other.

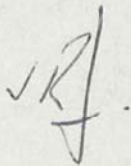
4. Mr Howell's memorandum also invites colleagues' agreement to legislation which would allow for a possible sale of equity interests in BNOC at a future date. Whilst the CPRS appreciates the political judgements that might have led Mr Howell to seek such legislation, the enabling powers would seem to invite the criticism that the revenue interest scheme is no more than a stop-gap measure; this, the CPRS believes, would make it more, rather than less, difficult to present the scheme publicly with conviction. It is difficult over the longer term to envisage oil becoming any less of an important commodity than it is now and thus such enabling powers would seem to be inserted purely for presentational reasons. Doubtless from time to time short-term surpluses of oil will occur and

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the existence of the enabling powers could invite political pressure for them to be used. In short, unless the political considerations are overriding, the CPRS believes Mr Howell could be creating a rod for his own back.

5. The CPRS also differs from Mr Howell in his belief that a public statement is required before the Recess. It would seem dangerous to start a public debate until the size of the issue had been agreed and all the technical points resolved. Mr Howell has already made three public statements on the future of BNOC and it is arguable that the next statement should present in some detail the Government's precise intentions. There seems to be no particular public pressure for an announcement at present and the revenue interest scheme seems to have been well trailed in the press. Nevertheless, if it is thought that a general statement is required at this time a written rather than an oral statement would avoid supplementary questions on the Government's detailed intentions.

6. I am sending a copy of this minute to Sir Robert Armstrong.



1 August 1980