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Energy

PRIME MINISTERBritish National Oil Corporation: Revenue Bonds Scheme  
(E(80) 95)

At their meeting on 4th August the Committee decided that, while they were sympathetic to the objectives of selling BNOC revenue bonds, they wished before coming to a final conclusion to consider a detailed report on the feasibility of the proposed scheme and on the case for enabling powers to provide for selling shares in BNOC. (E(80) 29th Meeting, Item 3). The Secretary of State for Energy now meets that remit in his memorandum E(80) 95.

2. Of the three schemes he discusses, he recommends Scheme A which is specifically aimed at the small investor. £500 million of revenue bonds would be sold by the Department of National Savings (DNS), probably in the second half of 1981. The maximum available to any one purchaser would be £2,000. The capital sum would be risk-free. There would be a floating rate of return linked to revenue from specified BNOC fields. The link would probably be with gross revenue to avoid the difficulties of variations in net revenue attributable to Government decisions on taxation of BNOC. Subject to further examination of the practicalities, the bonds would be tradeable on the Stock Exchange. This would give savers the opportunity of cashing their bonds at a better price than the guaranteed redemption price of par plus interest accumulated.

3. The alternative schemes which the Secretary of State rejects are Scheme B (the sale of a marketable stock to professional and institutional investors) and Scheme C (which attempts to combine a sale to both small and institutional investors). His main reasons for rejecting Scheme B are that it would probably attract investment by overseas residents (and so push up the exchange rate) and it would be competitive with gilts. His reasons for rejecting Scheme C are mainly that the small investor would be likely to be squeezed out and that this variant would present considerable practical difficulties.

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9. In discussion the Committee will wish to consider the following questions:-

(a) Should Scheme A be adopted?

It may be argued that there is little point in going ahead at all with schemes of this kind, which will not satisfy those who are looking for some more radical participation in BNOC and amount to little more than a new form of national savings bond. Critics could point to, and query, the administrative costs. Against this the proposals could be presented as a reasonable way of meeting the Government's political objective of giving the public at least the sense if not the formal reality of participating in the benefits of North Sea oil, consistently with the separate objective of shifting the emphasis of Government funding somewhat from the gilt-edged market to the small saver. If the Committee do conclude that there should be a new Scheme, it is likely that they will come down in favour of A rather than B or C.

(b) What are the next Steps?

If the Committee endorses the proposals, a good deal of further work will still be necessary on the details, and particularly on the question of marketability. Once that point is clear, however, it should be possible to announce the decision in general terms, and you will wish to decide when this should be. If, on the other hand, the conclusion is against introducing any of the schemes the Secretary of State for Energy will need to announce this too and to explain why the Government has decided to hold its hand on introducing private capital into BNOC.

(c) Should there be enabling powers for equity participation?

This is the question raised in paragraphs 10 and 11 of E(80) 95. Politics apart the Committee may well feel that there is no point in taking contentious enabling powers which, on present plans, will not be exercised.

CONCLUSIONS

10. You will wish to record conclusions on the following points:-

- (i) Whether Scheme A, or any of the variants, is endorsed and policy approval accordingly given for the necessary legislation to be prepared.



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- (ii) Any points on the handling of the manpower and administrative implications.
- (iii) The timing and general terms of an announcement, which will be necessary whether the proposals are endorsed or rejected.
- (iv) Whether or not enabling powers should be taken providing for equity participation in BNOC's activities at some later date.

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